The Origins of the Asia Dollar Market 1968-1986: Regulatory competition and complementarity in Singapore and Hong Kong[1]

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Increased international capital mobility in the 1960s and 1970s created opportunities to diversify the geographical location of financial activity by separating the location of customers and services to maximise profits and minimise costs. The most dramatic example was the emergence of an offshore market in US dollar deposits and assets in London in the early 1960s that launched a new era of international finance. This example of financial innovation has been widely researched because of its lasting effects on the globalisation of international capital markets.[2] Less historical attention has been paid to the subsequent rise of a range of offshore financial centres (OFCs) in the 1970s, which sought to attract financial activity from established regulated markets to island locations with relatively little financial infrastructure ex ante. This phenomenon is usually attributed to regulatory competition (lower tax rates, less transparency, weaker supervision, lower capital requirements) that prompted regulatory arbitrage by increasingly mobile international capital.[3] This interpretation highlights the importance of state versus market incentives in the origination of offshore financial centres.[4] These centres

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[2] C.R. Schenk, 'The Origins of the Eurodollar Market in London, 1955-1963', *Explorations in Economic History*, 35, pp. 221-238, April 1998, G. Burn, *The re-emergence of global finance*, Palgrave, 2006. CE Altamura, *European Banks and the rise of International Finance: the post-Bretton Woods era*, Routledge, 2017.

[3] Bryant, *International Financial Intermediation*, Brookings Institution, 1987. E. Helleiner*, States and the Re-emergence of Global Finance*, 1994. Ethan B. Kapstein*. Governing the Global Economy: International Finance and the State*. Cambridge: Harvard University Press, 1994.

[4] Dorry, for example, emphasizes the role of influential individuals who took advantage of opportunities provided by the macroeconomic structure in the development of the OFC in Luxembourg. S. Dorry, 'The role of elites in the co-evolution of international financial markets and financial centres: the case of Luxembourg', *Competition and Change*, 20(1), 2016, pp. 21-36. Christensen and Hampton argue that the OFC in Jersey 'captured' the state because of the economic power of international finance in the territory. J. Christensen and M.P. Hampton, 'A legislature for hire: the capture of the state in Jersey's offshore finance centre', in M. Hampton and J. Abbott eds., *Offshore Finance Centres and Tax Havens: the rise of global capital*, Purdue University Press, 1999, pp. 166-91.

were often deliberately designed rather than emerging from major trading and investing economies in the way of historic US and European financial centres.

This paper addresses the emergence of an offshore market in US dollars in Singapore in the late 1960s. Since the 19th century, Singapore had hosted many local and international banks engaged in the commercial trade and finance for Southeast Asia, particularly the rubber and tin trade of the Malaysian peninsula, while also providing financial services for the wider southeast Asian region. But it had a key rival in Hong Kong, which had a much larger group of banks and associated services linked to the China trade from the 19th century. In 1965 Hong Kong hosted 43 foreign banks while Singapore hosted 15. In 1968, Hong Kong deposit banks' foreign assets ($900m) were more than four times those of Singapore ($200m).[5] The key historical question addressed in this article is why the offshore dollar market in Asia emerged first in Singapore and not in Hong Kong, which was the primary regional banking and financial centre at the time. Existing descriptions explain the market as an outcome of Singapore's interventionist and deliberate development planning as opposed to Hong Kong's laissez faire stance. But this characterisation neglects the contested nature of Hong Kong's position and the tensions between the interests of banks and states in the process. We also find new evidence that casts doubt on the premise that the market was originated by the Singapore government rather than by bankers. The regulatory competition between these two centres confirms the important role of state intervention rather than market forces as the market developed, but also that this intervention was uneven and sometimes confused. Finally, this case exposes how these early offshore centres created challenges for supervisors in established financial centres drawing on evidence from the Bank for International Settlements.

The historiography relies heavily on Prime Minister Lee Kwan Yew's recollections in his memoirs that stress the importance of Singapore's developmental state in launching the market. Thus, Bruner and Wang emphasise the importance of government advisers based on Lee's account.[6] Wang has noted the

[5] Schenk, *Hong Kong as an International Financial Centre*, pp. 125-30.
[6] C.M. Bruner, Re-imagining Offshore Finance: market-dominant small jurisdictions in a globalizing financial world, Oxford University Press, 2016.

important role of the state in the case of Singapore, but offers few details and focuses mainly on creating the IFC as part of development policy.[7] Palan takes a broader historical view and argues that the foundations in the British empire and links to the City of London were crucial. He also repeats Jao's assertion that Hong Kong was the first choice for locating the market but that in a 'perhaps surprising' decision they refused to lower their taxes to welcome the funds while Singapore was 'far more accommodating', but these contrasting stances are not explained.[8] On the role of the governments of the two territories, Woo identifies the Singapore state as more 'activist' than in Hong Kong, 'planning and guiding the development of its financial sector' through tax and other fiscal incentives as part of a broader economic development strategy.[9] But these accounts rely on recollections of participants and official published documents and are not primarily focussed on the detailed historical origins of the Singapore dollar market. Bhattacharya's more comprehensive study on the market's origins is based on interviews in 1976 and published before important regulatory changes in 1978 and 1986, but it does offer a more nuanced view of the early operations and confirms that contemporaries viewed Hong Kong as an alternative host.[10] Applying archival and oral history evidence first reveals that the location of the market was more contested and complicated and that, despite its laissez-faire reputation, the Hong Kong government also sought to guide the development of its financial sector.[11] Secondly, the evidence contradicts existing accounts of the Hong Kong government's stance and reveals it as more uncertain and inconsistent. It should be noted that research on Singapore is

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[7] Jiangyu Wang 'The Rise of Singapore as International Financial Centre: Political Will, Industrial Policy, and Rule of Law' in Jiaxing Hu, Matthias Vanhullebusch and Andrew Harding eds,. *Finance, Rule of Law and Development in Asia: Perspectives from Singapore, Hong Kong and Mainland China*, Brill, 2016, pp. 1-17.

[8] Palan, 'International Financial Centres', p. 171-2.

[9] J.J. Woo, *Singapore as an international financial centre: history, policy and politics*, Macmillan, 2016, Chapter 3.

[10] A.K. Bhattacharya, *The Asian Dollar Market: international offshore financing*, Praeger, 1977. The market is described by contemporary writers, but not analysed historically. See, e.g.Lee, Sheng-Yi, Financial Institutions and Markets in Singapore' in M.T. Skully ed., *Financial Institutions and Markets in Southeast Asia*, Macmillan, 1984. Pp. 226-295 and S.Y. Lee and Y.C. Jao, *Financial Structures and Monetary Policies in Southeast Asia*, Macmillan, 1982.

[11] For an analysis of the Hong Kong government's interventions in the financial markets see, Schenk, C.R., 'Negotiating Positive Non-Interventionism: Regulating Hong Kong's Finance Companies 1976-86', *China Quarterly* 2017.

hampered by the paucity of accessible official archives, but evidence has been collected from international agencies such as the International Monetary Fund, the Reserve Bank of New York and the Bank for International Settlements as well as from oral history records and bank archives. This is the first archive based study of the Asia-dollar market to document how these emerging states sought to take advantage of the rapid internationalisation of global capital markets.

An important element in the rise of OFCs is their relatively low tax and regulatory burden. Regulatory competition exists when there are multiple agencies with overlapping competencies; the action of one agency may then have externalities for another agency that prompt a reaction.[12] As we shall see in this case the externalities can be positive as well as negative – i.e. regulatory competition is not a zero-sum game. The classic regulatory competition theory was developed in the context of the state supply of public goods and this determined that such competition can result either in enhanced regulation or a deterioration in benefits to consumers.[13] Competition between financial regulators is most often viewed as a 'race to the bottom', prompting claims that offshore centres are destabilising and undesirable, whether by facilitating money laundering (weak supervision and disclosure), undermining financial stability (lower regulatory capital, weak supervision) or reducing the tax pool for established centres (lower tax burden).[14] Thus Rose and Spiegel confirmed empirically that 'OFCs are created to facilitate bad behaviour', although they may also improve competitiveness of financial services in neighbouring centres.[15]

There is a more optimistic literature that notes the increase in economic activity possible in tax havens, particularly in small or micro-states, which

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[12] F. Parisi, N. Schulz, J. Klick, 'Two dimensions of regulatory competition', *International Review of Law and Economics*, 26, 2006, pp. 56-66.

[13] The classic account is C. Tiebolt, 'A pure theory of local expenditures', *Journal of Political Economy*, 64(5), 1956, pp. 416-424. For a critical review see D. Geradin and J.A. McCahery, 'Regulatory co-opetition: transcending the regulatory competition debate' in J. Jordana and D. Levi-Faur eds, *The Politics of Regulation: institutions and regulatory reforms for the Age of Governance*, Edward Elgar, 2004, pp. 90-123

[14] Financial Stability Forum, Report of the Working Group on Offshore Centres, April 2000. In 2016 the so-called 'Panama Papers' leaked details of customers of a legal firm there.

[15] A.K. Rose and M.M. Spiegel, 'Offshore financial centres: parasites or symbionts?' *Economic Journal*, 117, 2007, pp. 1310-1335. P. 1311.

proliferated in the 1980s.[16] The OFCs are seen as a mode of development, exploiting higher taxes in large established centres although sometimes by co-opting the governments of these states to the needs of global finance. Palan, for example, describes tax havens as 'prostituting their sovereign rights' in the context of integrated capital markets in the last quarter of the twentieth century.[17] For him the links to the London Eurodollar market, the basis of law, political stability and regulatory independence facilitated the development of tax havens in British colonial territories.[18] Since Singapore and Hong Kong shared these characteristics, they offer a fresh insight into competition between centres with similar institutional heritage that offered similar regional and time zone advantages for banks active in the global Eurodollar market.

This paper examines the dollar market in Asia from three dimensions. The first section reveals new evidence on the market's origins in Singapore. The second section examines the response by the Hong Kong government and banks and shows that this decision was contested throughout the 1970s and into the 1980s. Finally, during the 1970s a range of new offshore centres emerged and the third section shows how Singapore and Hong Kong reacted to efforts to increase transparency in these new capital markets. We shall see that official regulators and supervisors in established financial markets were preoccupied by these concerns by the early 1980s, when they began to try to achieve what Genschel and Plumper have termed a 'cooperative turnaround' to enhance cross border prudential regulation.[19] Genschel and Plumper use the negotiation of standardised capital adequacy requirements among Bank for International Settlements member banks in the 1980s as an example of a successful 'race to the top', but they neglect the BIS' failed early efforts (described in this section) to bring off-shore centres into the fold.

[16] C.M. Bruner*, Re-imagining Offshore Finance: market-dominant small jurisdictions in a globalizing financial world*, Oxford University Press, 2016.
[17] R. Palan, 'Tax Havens and the Commercialization of State Sovereignty', *International Organization*, 56 (10), 2002. pp. 151-176. P. 172.
[18] R. Palan, 'International Financial Centres: the British-Empire, City-States and Commercially Oriented Politics, *Theoretical Inquiries in Law*, 11(1), 2010, pp. 148-75.
[19] P. Genschel and T. Plumper, 'Regulatory competition and international cooperation', *Journal of European Public Policy*, 4(4), 1997, pp. 626-642, p. 627.

Early Origins

The development of the offshore market was part of a wider re-orientation of the Singapore economy from the mid-1960s that included attracting foreign multinational corporations and developing oil refining capacity to diversify the economy. The territory was reeling from the abrupt political separation of Malaysia and Singapore in August 1965 that left Singapore estranged from its primary hinterland, although it remained closely linked to other southeast Asian markets.[20] In 1966 the end of the conflict between Indonesia and Malaysia opened up fresh opportunities in the region but at the same time, relations with Britain were strained by the decision in 1967 to remove British military presence from Singapore, which threatened an important source of economic activity in the newly independent state.[21] The devaluation of sterling in November 1967 further weakened the influence of the British government and Bank of England in Singapore. The loss of over 14% of the dollar value of sterling assets and the lack of advance notice given to commonwealth countries definitely strained relations. But the balance of power was shifted away from London in the Summer of 1968 when the British government was forced by its G10 partners to negotiate bilateral agreements with Singapore, Hong Kong and other holders of sterling that guaranteed the dollar value of their sterling foreign exchange reserves.[22] This was a low point in Singapore-London relations and London had few ways to influence Singapore's policy but many reasons to retain cordial relations. The 1960s was thus a period of change in the foundations of the sterling area monetary system of which Singapore was a part, as well as a turning point in Singapore's own political and economic fortunes.

As the existing accounts have established, individuals were clearly important for the inspiration that started the market in Singapore, but oral history suggests that the market probably started earlier and was driven by a banker rather than politicians or their advisers. According to Yap Siong Eu, then a regional consultant

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[20] Schenk, C.R. (2013) 'The dissolution of a monetary union: the case of Malaysia and Singapore 1963-1974'. *Journal of Imperial and Commonwealth History.* Lau, A., *A Moment of Anguish; Singapore in Malaysia and the Politics of Disengagement.* Singapore: Times Academic Press, 1998.

[21] P.L. Pham, *Ending 'East of Suez': The British Decision to Withdraw from Malaysia and Singapore 1964-1968,* Oxford, 2010.

[22] C.R. Schenk, *The Decline of Sterling; managing the retreat of an international currency 1945-1992*, Cambridge: Cambridge University Press, 2010.

with Bank of America, the Asia dollar market in Singapore was begun on a small scale by Dutch banker J. D. (Dick) van Oenen as early as 1963. He began with 'just a few million dollars, mainly from existing depositors of Bank of America units in Southeast Asia and I dare say most of the depositors were overseas Chinese', recalled Eu.[23] Van Oenen joined the Bank of America in the early 1960s, having trained as a foreign exchange clerk in India and Ceylon/Sri Lanka. Joseph Greene, later manager at Bank of America, described him as 'a de Gaulle figure' due to his tall stature and dynamism. [24] He quickly established Bank of America's leadership in Singapore, successfully bidding for government deposits by offering an attractive interest rate. The Bank of America's close links to the government were reinforced once van Oenen made a significant windfall on the 1967 sterling devaluation by running a sterling overdraft in London both on the bank's own account and on behalf of the government. As recalled by Greene, the 'Singapore government and ourselves made a killing in one day. This was the initial rapport with government'.[25] As well as proving the Bank of America's credentials, the devaluation of sterling by 14.3% in November 1967 encouraged the region's bankers and traders to switch to dollars instead of sterling as their preferred foreign currency. According to his own account, Van Oenen approached Financial Secretary Goh Keng Swee to allow the Bank of America to collect dollar deposits from Southeast Asia (for example from wealthy individuals and firms in Jakarta and Taiwan) into Singapore to fund local and regional lending.[26]

Most accounts of the origins of the market put more emphasis on the Dutch economist Albert Winsemius, chief economic advisor to the Singapore government, who guided Singapore's development planning from 1961 to 1983. In his memoirs, Prime Minister Lee Kwan Yew recalled the idea for developing Singapore as an international financial centre coming from Winsemius, who sought out van Oenen

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[23] Oral History, Yap Siong Eu. Accession number 00316/11. National Archives of Singapore.
[24] National Archives of Singapore, Oral History, Cassette 001466, Reel 2, interview with Joseph H. Greene of Bank of America 21 February 1994.
[25] National Archives of Singapore, Oral History, Cassette 001466, Reel 2, interview with Joseph H. Greene of Bank of America 21 February 1994.
[26] Oral History, Joseph Greene, Oral History, 21 February 1994, Reel 2. National Archives of Singapore. J.D. van Oenen, 'The Asian Dollar', The Banker, October 1970, p. 1096-7. By this time van Oenen was Vice President and Head of the International Financial Centre, Bank of America, London.

for advice.[27] In later interviews, Winsemius described how van Oenen 'took a globe and showed me a gap in the financial markets of the world' to show how Singapore could provide 24-hour banking between the closure of San Francisco and the opening of London and Zurich and thereby establish itself as a key international financial centre.[28] Whether originating with van Oenen or Winsemius, the motivations for the market were to channel regional savings into local investment and to diversify the Singapore economy by enhancing its international banking sector.

From 1 October 1968 the Singapore government allowed banks to apply to open special departments called 'Asian Currency Units' (ACUs) to accept non-resident currency deposits (initially up to $50 million). This became known as the Asia Dollar Market.[29] The goal was to isolate the offshore market from the domestic market, thereby attracting regional funds inward rather than channelling domestic savings outward. In an interview with *The Banker* in 1970, Hon Sui Sen (Goh's successor as Financial Secretary) explained the government's support of the Asia Dollar market as partly ideological and partly to promote regional development:

> 'I believe that money which suffers from ill treatment should be allowed a safe refuge just as persecuted religious minorities deserve a sanctuary. Hitherto, refuge has been provided in countries such as Switzerland and to this extent the capital is lost for economic development in the region. When it remains in Singapore, it will be available when suitable investment opportunities arise'.[30]

It is clear from this evidence that the Singapore authorities planned a distinctive off-shore market to integrate with the global Eurodollar market and to channel regional savings into regional (or even local) investment by allowing Singapore residents to access the market. They thus expected positive spill-over effects to domestic development from attracting international banks to the IFC.

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[27] Lee Kwan Yew, *From Third World to First: the Singapore Story 1956-2000*, Harper Collins, 2000. p. 89. Lee's account is quoted in other descriptions of the origins of the market, e.g. Wong, 'Rise of Singapore', p. 7, Bruner, *Re-imagining Offshore Finance*, p. 115-6.

[28] *UNDP and the making of Singapore's Public Service; lessons from Albert Winsemius*, United Nations Development Programme Global Centre for Public Service Excellence, 2015. P. 24-5

[29] The US followed this pattern with International Banking Facilities for offshore deposits and loans within US banks from December 1981.

[30] Interview with Hon Sui Sen, *The Banker*, October 1970, pp. 1078-83, p. 1078. Hon was Minister of Finance from August 1970 until October 1983.

Once established, further reforms supported its growth. The market became one of the main focuses of the new Monetary Authority of Singapore (MAS) that was established in 1971, and gradually lifted the barriers for resident individuals and companies to take part.[31] From 1972, the MAS removed the 20% reserve requirement on liabilities, along with stamp duty on certificates of deposit, and reduced the income tax on interest receipts from offshore loans from 40% to 10%. Deposits from wealthy individuals were encouraged by the low minimum deposit of US$5000. The authorities were very ambitious for the market, encouraging the development of bond issues and term loans by issuing bonds in 1972 through the Singapore Development Bank and the government.[32]

Further reforms followed to attract foreign banks. From April 1973, the MAS created a new category of licenced 'offshore banks' that could lend funds attracted from overseas to non-residents or to local industry when explicitly approved by the MAS. In 1965 Hong Kong had introduced a moratorium on new bank licences in the wake of a banking crisis that seemed to suggest that the colony had too many banks.[33] This led to a pent-up demand for opportunities for international banks in Asia that Singapore was able to meet. Seven banks were awarded special offshore licenses in Singapore; Barclays Bank International, Bankers' Trust, Continental Illinois, First National Bank in Dallas, Marine Midland Bank, Nat West and Toronto Dominion. There was clearly a demand to take part in this opportunity, and not all applicants were successful. One example is Credit Lyonnais. Credit Lyonnais had a joint representative office in Singapore with Banco di Roma and Commerzbank and in March 1973 they submitted a request to the MAS to be considered for a license either on their own or on behalf of a subsidiary the three banks.[34] Commerzbank subsequently approached the MAS separately, thereby 'creating a bad impression at

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[31] Resident companies were able to get approval from the Exchange Control to borrow from the market from 1972 and it was also possible to access the market for export financing. Singapore 1971 Article VIII Consultation Briefing Paper, 24 October 1972. IMF Archives [hereafter IMFA] Asian Department Immediate Office, Country Files Box 107.

[32] Article VIII Consultation Briefing Paper, 24 October 1972. IMFA Asian Department Immediate Office, Country Files Box 107.

[33] Schenk, C.R., 'Banking Crises and the Evolution of the Regulatory Framework in Hong Kong 1945-70', *Australian Economic History Review*, 43(2), pp. 140-154, 2003.

[34] Letter from Jean Saint-Geours, Director General of Credit Lyonnais to Michael Wong Pakshong, Managing Directory MAS, 9 March 1973. Credit Lyonnais Archives [hereafter CL] 332AH167.

the Monetary Authority' that there was a lack of coordination among the partners and permission was not granted.[35] Credit Lyonnais continued to seek a license, but soon discovered there were significant costs to taking part in this form of regulatory arbitrage.[36] Given the demand for licenses, the MAS was in a strong position as gate-keeper and sought a strong local presence from these 'offshore banks'.

Despite the reduction of tax and regulatory support, the path for banks that did enter the market was not always smooth. In September 1973 Henri Picq, of Credit Lyonnais' Singapore office interviewed bankers from four of the first cohort of offshore banks to get an idea of the opportunities and constraints. He found unanimous optimism about the prospects for their new offshore business, but pessimism about the prospects for lending in Singapore dollars, and most did not expect to cover their costs in the short term.[37] Payne, the Director of Barclay's Bank International in Singapore, for example, remarked that the start of their offshore operations exceeded their hopes due to the bank's international reputation, the quality of their exchange dealer and the embeddedness of Barclays Bank in Hong Kong and Australia, which made it easy to attract funds. Most of the banks viewed their ACUs at this point as placing them advantageously for the future growth of demand for funds in Asia. The MAS allocated each bank a ceiling of up to S$20 million (USD8 million) for local loans (with a minimum S$1 million for each individual loan and a minimum term of 2 years), but even more restricting was the shortage of inter-bank funds on appropriate terms and maturities. Claude Gizard at Credit Lyonnais' head office in Paris, thought this ceiling was 'paralysing', but Credit Lyonnais still renewed its efforts to gain a license for the three partners on 2 October 1973.[38] This time they were again unsuccessful because the MAS considered that there was no pre-established subsidiary of the three banks to take up the license as

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[35] Letter from Commerzbank to Hon Sui Sen, Minister of Finance, 30 March 1973. Memo Affaires internationals, Cooperation – Reunion des Directions Generales due 9 mai 1973. CL 332AH167.
[36] Letter and Report from Credit Lyonnais Singapore, 1 October 1983 for M Deflassieux, Director of Aone Asie Pacifique. CL332AH167.
[37] Letter H. Picq, Joint Representative Office for Banco di Roma, Commerzbank and Credit Lyonnais, Singapore, 1 October 1973. CL 332AH167. The banks were Toronto Dominion, Barclay's Bank International, First National Bank in Dallas, Marine Midland. TD had no ceiling, Continental Illinois had a ceiling of S$10 million.
[38] Letter signed by Banco di Roma, Commerzbank and Credit Lyonnais to Monetary Authority of Singapore, 2 October 1973. Claude Gizard to Picq, 10 October 1973. CL 332AH167.

a single institution, despite sharing a joint representative office.[39] What is interesting in this archival evidence is the emphasis bankers placed on local lending opportunities and the power of the MAS to refuse entry.

The market grew quickly. Figure 1 (log scale) shows the exponential growth of deposits in the early years, beginning to level off at the time of the international banking scandals of mid-1974, when the growth of the Eurodollar market also stumbled.[40] By March 1978 there were 79 ACUs operated by local commercial banks, 54 by foreign commercial banks, 18 by merchant banks and one by a foreign owned investment company.[41] In June 1978 all exchange controls were eliminated and the market started another phase of accelerated growth. Still, by 1983 the Asia Dollar market was only 5.1% percent of the global Eurodollar market, and never exceeded 7% in the 1980s.[42]

[insert Figure 1]

The source and flow of funds shifted over time. While initially established to attract dollars from Asia, which were then channelled to Euro-markets in Europe, from the early 1970s the flow reversed and the source of deposits shifted to Europe and the Middle East and assets were increasingly local. Initial deposits were mainly from residents of sterling area countries and the funds were then channelled by ACUs into the Eurodollar market. By 1972 about 85% of funds with ACUS were used by bank and nonbank customers in Asia and Australia, compared with 43% in early 1970. In early 1971 lending rates in the ADM fell relative to local rates in East Asia and the market became a more attractive source of funds for regional borrowers.[43]

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[39] Letter from Tew Chong Kew, Manager, Banking and Financial Institutions Department, Monetary Authority of Singapore to J Deflassieux, Manager International Affairs, Credit Lyonnais, 21 November 1973. CL332AH167. Credit Lyonnais offered to apply on its own but this was not accepted. Banco di Roma was the most reluctant to set up a special subsidiary with the required minimum capital of S$6 million.

[40] C.R. Schenk, 'Summer in the City: banking scandals of 1974 and the development of international banking supervision', *English Historical Review,* 2014, pp. 1129-1156.

[41] Memo 11 April 1974 for Technical Assistance Mission to Singapore IMFA Asian Department, Immediate Office, Country Files, Box 106, Singapore Correspondence 1971-87.

[42] Based on data of cross-country foreign currency liabilities reported by banks to the Bank for International Settlements. Stats.bis.org. Data is reported separately for Singapore only from December 1983.

[43] R. F. Emery, 'The Asian Dollar Market', International Finance Discussion Papers, Federal Reserve Bank, 21 November 1975. P. 18.

But the share of inter-bank assets remained about 70% of total through the 1980s as is shown in Figure 2.

[Insert Figure 2]

In common with other off-shore markets, greater global dollar liquidity from the accumulation of petrodollars in the Middle East after the first oil crisis in October 1973 was a potential boost to the Asia Dollar market. Foreign Minister S. Rajaratnam toured the Middle East in the Spring of 1974 to rebuild links with oil producing states there and to assess the supply and price situation of crude oil. By this point oil refining accounted for about a quarter of total Singapore's manufacturing output. The IMF noted that Rajaratnam 'also sounded the Arab States on possibilities of siphoning their fast-growing revenues into Singapore's burgeoning Asian dollar market (over US$6 billion in 1973) and into the local petrochemical industry'.[44] By the end of 1974 the market had reached $10.5 billion, but then began to slow from mid-1975 due to political uncertainties related to the US defeat in Vietnam, the global recession and the Hertsatt bank failure in mid-1974. By the end of 1975 the market had reached US$12.b billion, mainly because of the entry of newly licensed banks building their asset portfolios.[45] In mid-1975, the IMF reported that about half of liabilities and 80% of claims in the market were related to Asian business and customers. The principal net borrowers were in Hong Kong, Japan and Southeast Asian countries and most of the flow of foreign funds was reported to come from the Eurocurrency market, with very little coming directly from the Middle East oil surplus countries.[46] By 1982, the IMF reported (based on discussions with bankers) that the main non-bank borrowers continued to be Singapore's neighbouring countries and that the major net suppliers of funds were the UK, USA and countries in the Middle East and Caribbean.[47] The ACUs thus served

[44] Preliminary Report: 1974 Article VIII Consultation - Singapore from A.G. Chandavarkar IMF to Managing Director, 24 April 1974. The mission visited Singapore 9-21 April 1974. IMFA Central Files, Country Files, Singapore Box 2.

[45] Report of mission to Singapore, 5 April 1976. IMFA Asian Department, Immediate Office, Country Files, Box 106, Singapore Correspondence 1971-87.

[46] IMF Staff Report 1975 Article VIII Consultation, 7 July 1975. IMFA Asian Department, Immediate Office, Country Files, Box 107, Singapore Missions 1975-83. The mission took place in the second half of May 1975.

[47] Staff Report for the 1983 Article IV Consultation, draft, October 1983. IMFA Asian Department, Immediate Office, Country Files, Box 107, Singapore Missions 1975-83

the original purpose of mobilising funds from global and regional markets for regional investment.

The market in loans and deposits soon spread to other products. At the end of 1976, US dollar denominated certificates of deposit began to be issued in Singapore. They were considered a close substitute for US$ time deposits, although they were transferable through a secondary market.[48] The bond market began in 1971 but was slower to develop with only 4 issues by 1976. Changes to exchange control and taxation gave it a boost and a further nine bonds were issued in 1976 (US$266m), 13 in 1977 ($368m) and 12 in 1978 (US$454m).[49] But this remained a small market, described by John F. Salmon, general manager of Bankers Trust International (Asia) as 'a non-starter' in 1981.[50]

In sum, the market grew quickly once established, and the opportunities to take part were taken up with alacrity by foreign banks, primarily from Europe and the USA. The Singapore government's strategy of creating an OFC through competitive regulation seemed to be a success in terms of the growth in nominal assets, although the effort to diversify into fixed income products was less successful. The term Asia Dollar Market usually refers specifically to Singapore's ACUs, but its broader interpretation is the offshore market in US dollars Asia, both deposits and later bonds. This broader interpretation better captures the links between Hong Kong and Singapore that quickly developed, as discussed below.

Hong Kong and the Asia's Dollar Market

Although Hong Kong was the leading Asian banking centre in the 1960s and 1970s, the authorities there did not follow Singapore down the route of encouraging offshore banking. Interest earned by depositors in Hong Kong was taxable at 15% no matter where the depositor was resident. Unlike in Singapore, banks' profits arising from activity carried on outside Hong Kong was not subject to tax. The tax situation between Singapore was thus symmetrical: Hong Kong taxed depositors (15%) but

[48] Memo by I. Otanlind, IMF, 4 January 1978 IMFA Asian Department, Immediate Office, Country Files, Box 106, Singapore Correspondence 1971-87.
[49] Paper on Singapore, 24 October 1979. IMFA Asian Department, Immediate Office, Country Files, Box 106, Singapore Correspondence 1971-87.
[50] Pamela Hollie, 'Singapore: banker to region', *The New York Times*, 23 January 1981.

not off-shore bank profits; Singapore taxed bank profits (40% until 1972, then 10%) but not offshore depositors. The result was a flow of offshore deposits into Singapore and a rise in offshore banking business undertaken by Hong Kong banks. Table 1 sets out the main changes in Singapore and Hong Kong regulations relevant to offshore financial activity from 1969-1986 culminating in the opening of an offshore market in Tokyo.

[Insert Table 1]

Based on interviews, Battarchaya asserted that in 1968 'Hong Kong was the first choice' among banking circles to host the market but that the Hong Kong government resisted cutting withholding tax on deposits and was concerned that an Asia Dollar market would divert local resources to offshore business and might put upward pressure on the Hong Kong dollar.[51] The Financial Secretary, J.J. Cowperthwaite explained his position in a somewhat frosty interview with *The Banker* magazine in July 1970.[52] He recalled that, unlike the case for Singapore, 'in our discussions with interested Hongkong [sic] banks, it became very clear that they were not concerned to attract dollars to a pool in Hongkong but dollars from Hongkong to a non-resident pool'.[53] An offshore market would therefore merely drain liquidity from the domestic market. Cowperthwaite declared that Hong Kong had 'no ambitions to be a tax haven nor to attract the kind of money that flows into tax havens. We are not fond of gimmicks'.[54] Tax on interest income was already low (at 15%), and in any case 'the use of a substantial proportion of the Asian dollar deposits in Singapore are in practice managed by the Hong Kong offices of the banks concerned'.[55] Depositors avoided paying tax on interest by locating their funds in Singapore, and banks avoided paying tax on profits from overseas lending by channelling these offshore funds through Hong Kong banks.

[51] Battarchaya, p. 4-5. Palan also notes that Hong Kong was Bank of America's first choice to locate the market, Palan, 'International Financial Centres', p. 167.
[52] Interview with Cowperthwaite in *The Banker*, 120, July 1970, pp. 734-745.
[53] Ibid, p. 744.
[54] Ibid, p. 739.
[55] Ibid, p. 745.

But the rivalry between Singapore and Hong Kong was more contested than this traditional account of cosy complementarity would suggest. The rapid growth of the Asia Dollar market in Singapore soon led to calls from banks in Hong Kong to be more directly involved, and in his February 1973 budget speech Cowperthwaite's successor, Sir Philip Haddon Cave publicly offered to reassess the decision to put Hong Kong at a competitive disadvantage to Singapore and to investigate ways to 'encourage an international currency market in Hong Kong'.[56] He suggested that this might follow the Singapore model and take the form of special departments of Hong Kong banks that would issue dollar Certificates of Deposit and engage in foreign currency borrowing for lending off-shore in ways similar to Singapore. Importantly, however, he suggested that while there could be a new exemption of tax on interest earned on offshore loans, the banks' profits from such trading would then be subject to local tax.

Strains between Hong Kong and Singapore soon increased the pressure for change. In June 1973, as liquidity in the Hong Kong market fell due to a drain of deposits and capital overseas, the Exchange Banks' Association established a small sub-committee to explore the effects of the withholding tax on interest, off-shore borrowings in Hong Kong, and the effect of short-term borrowing by non-bank financial companies and merchant banks.[57] To them, it seemed that there was a danger that the relative tax advantages in Singapore were attracting funds out of Hong Kong. A joint investigation by the government's banking commissioners and exchange controllers (Ockendon, Paterson and Giddy) however, recommended that the withholding tax should not be removed and the Financial Secretary's 'offer' was rescinded in Haddon Cave's 1974 budget speech.

There were several factors that led to this outcome. First, the investigation identified fears that eliminating tax on *all* foreign currency deposits would generate a massive switch out of Hong Kong dollars and into US$ in Hong Kong, with destabilising local monetary effects. Ockendon, Paterson and Giddy tested the possibility of following the Singapore model of special departments in banks that

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[56] Haddon Cave's Budget Speech 1973.

[57] Memo from J.L. Boyer to M.G.R. Sandberg, 4 June 1973. HSBC Group Archives [hereafter HSBC] GHO 422.

would be able to accept foreign currency deposits from non-residents where interest earned by depositors would not be taxed. Both the banks and the Inland Revenue believed that distinguishing between resident and non-resident deposits was too difficult without the introduction of new exchange controls. Unlike Singapore, in Hong Kong there was no ex ante distinction made in exchange control between resident and non-resident depositors; a principle that had been hard fought in the early post-war years to preserve Hong Kong's traditional entrepot role.[58] Rather than introduce new controls, the proposals were abandoned since banks and other financial institutions were engaged in international currency markets in ways that already avoided the withholding tax, as suggested by Cowperthwaite in 1970. Thus, ironically, the free market for foreign exchange that operated in Hong Kong in contravention of the sterling area rules from the 1940s made it difficult to host an offshore dollar market. In Singapore, by contrast, the market was launched when their exchange control distinguished between residents and non-residents of the sterling area. Even when the sterling area controls were lifted in June 1972, the apparatus for distinguishing non-resident accounts persisted in Singapore.

Bringing the profits from the Asia Dollar market on-shore in Hong Kong and therefore liable to Hong Kong profits tax was deemed an unattractive price to pay for eliminating tax on interest earnings from overseas deposits. The 1973 report concluded 'the establishment of an "official" international currencies market would not provide an extra facility but a simpler method of providing an existing facility'.[59] The Inland Revenue Ordinance specifically exempted banks from paying withholding tax on their own interest earnings – instead this income was taxed as part of profits.[60] But at the same time (unlike many jurisdictions) Hong Kong did not charge tax on profits and earnings arising from activity *outside* Hong Kong, so Hong Kong

[58] C.R. Schenk, 'Closing the Hong Kong Gap: Hong Kong and the free dollar market in the 1950s', *Economic History Review*, XLVII(2), pp. 335-53, 1994.

[59] Quoted in Commissioner of Inland Revenue V.A. Ladd to Financial Secretary Haddon Cave, 18 December 1980. Citing Haddon-Cave's 1974 Budget Speech. HSBC GHO 421 Confidential Correspondence with Financial Secretary etc. In 1978-79 withholding tax on interest arising in or derived from Hong Kong amounted to only HK$118m or 1% of tax revenue, so fiscal concerns were not paramount.

[60] In 1979-80 the yield from profits tax on interest from financial institutions in Hong Kong was about HK$500m. V.A. Ladd memorandum to Financial Secretary, 11 September 1980. HSBC GHO 421 Confidential Correspondence with Financial Secretary etc

financial institutions could profit tax-free from operations conducted in Singapore. This 'territorial source criterion' was a zealously guarded facet of Hong Kong's tax system, and suggestions of changing the tax base were strongly resisted both by banks and by the Inland Revenue.[61]

The Hong Kong banks' preferred position between the Singapore and Hong Kong tax regimes did not last. Five years later, in 1978 the loophole was partially closed when some profits banks earned from off-shore transactions became subject to Hong Kong tax. Littlewood describes how this outcome was the by-product of a more substantial review of the entire tax system in Hong Kong begun in mid-1976.[62] The Review Committee confirmed the status quo that only profits originating in Hong Kong should be taxed, partly because business had threatened to 'migrate to other centres', but they also recommended that offshore earnings that were not generated by a corporate branch overseas should be taxed in Hong Kong.[63] The government rejected this proposal for most businesses but added a special exception for banks. Thus, from 1978 tax was charged on bank profits derived from business outside Hong Kong, unless it was attributable to an overseas branch. Banks were to be taxed on their market activities with other banks, rather than internal transfers within their branch networks. The tax system for banking was becoming more complex.

Many Hong Kong banks had branches in Singapore but this change still disrupted the symmetry of the tax burden between Singapore and Hong Kong and prompted the reconsideration of the withholding tax on interest earned on local foreign currency deposits. In 1979 the issue was taken up by the government's Advisory Committee on Diversification of the Hong Kong economy, which signals that it was part of the reconsideration of the direction of Hong Kong's economic prospects as manufacturing wages rose. It was thus part of government development policy in ways similar to Singapore a decade earlier. The banks and the Advisory Committee again reported concern about the possibility that Hong Kong savings were bleeding

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[61] V.A. Ladd memorandum to Financial Secretary, 11 September 1980. HSBC GHO 421 Confidential Correspondence with Financial Secretary etc.

[62] M. Littlewood, *Taxation without Representation: the history of Hong Kong's troublingly successful tax system*, Hong Kong University Press, 2010, pp. 186-99.

[63] Littlewood, p. 196.

out of the local market to Singapore to take advantage of the lower taxes on non-resident deposits and that the withholding tax inhibited the inflow of capital to Hong Kong.[64] In 1980, the outgoing Financial Secretary, Sir Philip Haddon Cave began to reconsider lifting the taxation of foreign currency borrowing by banks, but he met with stiff resistance from Victor Ladd, the Commissioner for Inland Revenue. Ladd expressed his fear that tax revenue would be lost, particularly if the 'tax-free' off-shore deposits could not be effectively isolated from the domestic market.[65] Ladd also noted that the growth of Hong Kong as an international financial centre 'at least matches Singapore' so he did not find a compelling reason to violate the territoriality criterion of the tax system.

Despite these setbacks, Hong Kong banks continued to seek relief from withholding tax and in 1981 the Committee of the Hong Kong Association of Banks established a working party to lobby the government. The Assistant General Manager of the Standard Chartered Bank in Hong Kong, William C. Brown, advised the new Financial Secretary John Bremridge that most international banks believed that the withholding tax on non-resident deposits did, in fact, inhibit the financial development of Hong Kong vis-à-vis Singapore.[66] He went on to warn Bremridge that

> 'psychology is important to any market and if the international banking community believes that the difference in treatment in regard to foreign currency deposits, as between Hong Kong and Singapore, is preventing the former from developing to its full potential, then irrespective as to whether such belief is ill-founded or well-founded development will in fact be retarded by these banks' strategies in the region.[67]

But there is little evidence to suggest that the Singapore Asia Dollar market undermined Hong Kong's reputation. In 1980 the Bank of Scotland, which had opened a branch office in July 1979, remarked that 'Hong Kong is undoubtedly the

[64] Report of the Advisory Committee on Diversification quoted in V.A. Ladd memorandum to Financial Secretary, 11 September 1980. HSBC GHO 421 Confidential Correspondence with Financial Secretary etc.
[65] Commissioner of Inland Revenue V.A. Ladd to Financial Secretary Haddon Cave, 18 December 1980. Citing Haddon-Cave's 1974 Budget Speech. HSBC GHO 421 Confidential Correspondence with Financial Secretary etc.
[66] W.C.L. Brown, Standard Chartered Bank, to John Bremridge, Financial Secretary, 20 July 1981. HSBC GHO 421 Confidential Correspondence with Financial Secretary etc.
[67] W.C.L. Brown, Standard Chartered Bank, to John Bremridge, Financial Secretary, 20 July 1981. Emphasis in the original. HSBC GHO 421 Confidential Correspondence with Financial Secretary etc.

Financial Centre in South East Asia and our decision to establish a presence there was the correct one.'[68] 'Interest and fee income from eurocurrency [syndicated] lending is and will continue to be by far the largest source of revenue' for the Hong Kong branch. In assessing where to base their first East Asian office, they noted that Singapore was complementary to Hong Kong, as a host for officially recording business for tax purposes outside Hong Kong; 'Loans written in Singapore may be officially recorded on the books in Hong Kong by means of a "Memorandum A/C". As the loans are not recorded in Singapore, and the business for tax purposes is outside Hong Kong, firms can avoid both Hong Kong and Singapore direct taxation'.[69] It didn't seem that even a relatively small bank like Bank of Scotland was subject to erroneous sentiment about the relative advantages of Singapore.

Despite the complementarity, of the two centres, bankers continued to lobby to attract deposits to Hong Kong. The HSBC management argued that the tax regime was an obstacle to Hong Kong's development, even though Hong Kong banks were able to book substantial deposits off-shore. Thus, 'Hong Kong would appear to be exceptional in that the taxation system acts to discourage people from keeping a substantial portion of their savings within the country.' [70] Addressing the Hong Kong Association of Banks annual dinner in August 1981 Financial Secretary Bremridge rehearsed the obstacles to changing the policy, including shrinking the tax base and a danger of residents switching from Hong Kong dollar deposits to foreign currency deposits, which 'could lead to further pressure on the exchange value of the Hong Kong dollar; and in turn might eventually lead towards demonetisation of the local unit'.[71] Against these disadvantages the benefits in terms of repatriated deposits or enhancement of the financial centre in Hong Kong were 'difficult to quantify', but he

[68] Board Report, Hong Kong Branch, 12 August 1980. BoSA GB1830 BOS2-6-7-6. Within a year, the Hong Kong branch had US$97.17 million in loans of which 85% was outside Hong Kong (16% Malaysia, 13.45% South Korea, 10% Japan).
[69] Board Paper, 'Opportunity Areas', 10 January 1978 GB1830 BOS2-6-6-7. Treasurer's Papers, Banque Worms in Hong Kong.
[70] Letter from HSBC to John Bremridge, 30 July 1981. Signed with initials UT? HSBC GHO 421 Confidential Correspondence with Financial Secretary etc.
[71] Speech by John Bremridge at the dinner of the Hong Kong Association of Banks, 11 August 1981. HSBC GHO 421 Confidential Correspondence with Financial Secretary etc.

concluded that 'I promise you that I am genuinely open-minded with a predilection for freedom'.[72]

Six months later, the banks' lobbying eventually succeeded. In his budget speech for 1982 Bremridge removed tax on interest earned on foreign currency deposits, referring to 'the clamourings of the interest tax abolitionist lobby'.[73] At the same time, he reduced the tax on interest earned on Hong Kong dollar deposits from 15% to 10% to try to minimise customers switching out of local currency but this left the taxation on Hong Kong dollar deposits higher than foreign currency deposits. By this time there was a surge in inflation, the Hong Kong dollar was struggling to retain its US dollar value and the Financial Secretary's inability to control the money supply had become a matter of public debate, so leaving this gap in the attractions of foreign versus domestic currency was a risky step.[74] The announcement in February 1982 was viewed locally as a boost to Hong Kong's IFC but it didn't provoke too much worry in Singapore. In early June 1982, IMF staff visited Singapore and reported that 'the Singapore authorities did not appear overly concerned with the recent decision of the Hong Kong Government to remove the withholding tax on interest income earned by non-residents on offshore deposit. While this action did remove one advantage of Singapore as a regional offshore foreign currency funding center, they doubted that there would be a significant movement of deposits to Hong Kong'.[75]

Within a few months, however, the situation had changed again. In September 1982 Prime Minister Thatcher visited Beijing and Hong Kong to discuss the handover of Hong Kong to Mainland China. The Hong Kong dollar fell sharply as the talks over Hong Kong's future were set to begin, from HKD6.00 to HKD7.00 per US dollar or 17% in September 1982. During 1982, foreign currency deposits increased by HK$69 billion while Hong Kong dollar deposits declined, but Bremridge chose not to reduce

[72] Speech by John Bremridge at the dinner of the Hong Kong Association of Banks, 11 August 1981. HSBC GHO 421 Confidential Correspondence with Financial Secretary etc.
[73] Budget Speech by Bremridge, Hong Kong Legislative Council, 24 February 1982, p. 445.
[74] T. Latter, *Hong Kong's Money: The History, Logic and Operation of the Currency Peg*, Hong Kong University Press, 2007. J. Greenwood, *Hong Kong's Link to the US Dollar: Origins and Evolution,* Hong Kong University Press, 2007.
[75] Richard C. Williams to Managing Director of IMF, Singapore 1982 Article IV Consultation Discussions, 18 June 1982. IMFA Asian Department, Immediate Office, Country Files, Box 107, Singapore Missions 1975-83.

the tax differential in his budget speech in February 1983, partly because this would reduce government revenue by an estimated HK$620m.[76] In July 1983 Tony Latter, Hong Kong's Secretary for Monetary Affairs, was struggling with the mechanisms to exert monetary control in Hong Kong as inflation advanced and exchange rate stability deteriorated. In a paper for Bremridge, entitled 'A Personal View' he noted that while the use of the Hong Kong dollar had declined over the short term 'much of its apparent loss of popularity would probably be reversed if interest tax were removed'.[77] The currency crisis culminated in the restoration of the currency board based on the US dollar in October 1983, and the removal of interest tax on Hong Kong dollar deposits. This finally removed the tax advantage in holding foreign currency deposits over holding Hong Kong dollar deposits.

Despite these domestic political and financial disturbances, the reputation of Hong Kong's IFC was remarkably robust. At the beginning of November 1983 John H. Heires of the Federal Reserve Bank of New York met with Frederick E. Schwartz, Senior Vice President of Bankers Trust, who noted that 'the Hong Kong situation has calmed down' and the restoration of the currency peg to the dollar was 'regarded positively'. Schwartz noted that 'as a financial centre, Hong Kong remains more attractive than Singapore as it has better transportation and telecommunication with the rest of the world. Bankers Trust in the last two years studied both centres to see which would have the most advantages and it chose Hong Kong'.[78] Vice Presidents of the Chemical Bank were more supportive of the advantages that Singapore gleaned from hosting the Asia Dollar market, particularly for commodities and futures trading although they had no evidence that funds had been flowing there during the Autumn market disturbances.[79] The Bank of New York Vice President remarked that 'to the extent there has been a decline in Hong Kong as a

[76] Budget Speech by Bremridge, Hong Kong Legislative Council, 23 February 1983. P. 549.
[77] A.R. Latter, 'Monetary Policy in Hong Kong: a personal view', passed to HSBC Assistant General Manager Finance J.M. Gray, 13 July 1983. HSBC Asia Pacific Archive, HKO192/101(2) Correspondence re: Monetary Control 1981-1988.
[78] Memo of meeting with Bankers Trust, 1 November 1983. Federal Reserve Bank of New York Archives [hereafter FRBNY] C260 Meetings with Commercial Banks July-December 1983.
[79] Memo of meeting with Charles Meissner and S. Waite Rawls, Vice Presidents, Chemical Bank. FRBNY C260 Meetings with Commercial Banks July-December 1983.

financial centre it was not overly visible but perhaps manifested itself in a subtle movement to Singapore'.[80]

Figure 3 shows that foreign currency liabilities began to increase sharply in Hong Kong in the Autumn of 1983 and soon exceeded those of Singapore.

[Insert Figure 3]

The development of a large dollar market between Singapore and Hong Kong that linked East and Southeast Asia with the Eurodollar market clearly enhanced the financial sectors of both territories. Singapore remained a primary funding centre in the region and became a leading global foreign exchange market. But the Singapore administration's efforts to develop an offshore dollar bond market and other products were less successful. This was the area where Hong Kong dominated as the underwriter for dollar bonds that fuelled the rapid East Asian economic development through the late 1980s and 1990s. The agglomeration of services and expertise in Hong Kong made it a more attractive centre for this side of the business. As Meyer noted in 2000, even 'with increasing uncertainty surrounding its return to China in 1997, challengers such as Tokyo and Singapore failed to de-throne Hong Kong as the dominant Asian venue for the decision-making about the exchange of capital'.[81] The two centres remained complementary rather than competitors; indeed most major international banks had offices in both cities, but there were additional advantages for locating in Hong Kong. From the mid-1980s Hong Kong's IFC benefitted from the opening of the mainland Chinese economy to foreign investment and trade while continuing to served the rapidly growing economies of East Asia. Singapore remained the major financial centre for Southeast Asia. Moreover, we must remember that the offshore dollar market formed only one part of a wider range of financial services, including wealth management, commercial and corporate banking, equity trading. In the era of the East Asian export- and investment-led 'economic miracle' in the 1980s and 1990s there was plenty of scope

[80] Memo Meeting with Bank of New York, 12 October 1983, Thomas Renyi and Owen A. Brady Vice Presidents. FRBNY C260 Meetings with Commercial Banks July – December 1983.

[81] David R. Meyer, *Hong Kong as a Global Metropolis*, Cambridge, 2000.

for the two financial centres.[82] The next section seeks to identify the specific integration in the dollar market across the two territories.

Hong Kong and Singapore Inter-Bank balances

It is difficult to identify precisely the participation of Hong Kong in the Singapore market for the early years. The Banking Commissioner in Hong Kong did collect confidential data on the geographical distribution of assets and liabilities and sent this data monthly to the Secretary of State in London, but Singapore was not reported separately from 'Rest of Sterling Area' (although Japan, Thailand and Indonesia are recorded separately).[83] This suggests that the flow was not remarkable.

Figure 4 shows the quarterly data reported from March 1979 in the Hong Kong Monthly Digest of Statistics on foreign currency inter-bank balances between Hong Kong and Singapore. About one quarter of Hong Kong banks' foreign currency liabilities to banks overseas were to Singapore from 1979 to 1982, although this this share fell to about one-fifth by the end of 1986. On the other hand, the share of claims on banks overseas increased from about 13% in 1979, peaking in September 1982 at 30% when the Hong Kong dollar crisis began. From 1982 to 1986 both series show a gradual decline suggesting that the intensity of interdependence receded and their geographic reach diversified. Figure 5 shows the value of cross border foreign currency claims and liabilities. Again, the value of Hong Kong banks' liabilities and claims on banks in Singapore peaked in September 1982 when the Hong Kong dollar currency crisis began. The 1983 measures appear to have reduced the integration of the two centres from the very high levels at the start of the decade.

[Figure 4 and Figure 5]

In the case of both banks and DTCs, the data show a net flow of funds from Singapore to Hong Kong (i.e. Singapore banks had net claims on Hong Kong financial

[82] World Bank, *The East Asian Miracle: economic growth and public policy*, Oxford, 1993.
[83] Monthly reports for 1968-1972 are included in Hong Kong Public Record Office [hereafter HKRS] 163-3-12.

firms) and indeed the net position of DTCs was about 2-3 times greater than banks, demonstrating that these more lightly regulated institutions were important players in the market.[84] This rather contradicts the contemporary accounts of a drain of funds from Hong Kong to Singapore. While more research is needed, it is clear from these official data that financial institutions in Singapore and Hong Kong were closely linked through cross-border foreign currency balances but that this changed over time.

The Asia Dollar Market in the Global Market

The rapid growth of offshore markets created challenges for the monitoring of international capital and banking markets and led to a sustained campaign within the Bank for International Settlements to increase transparency. The US and UK authorities were among the first to collect data from branches of their banks in offshore centres. Coverage by other countries, however, was more patchy. Table 2 shows that among G10 and other European banks, Singapore was a larger target for claims by the end of 1976 than Hong Kong, and that in common with other offshore centres, most funds were deposited on short term. At this point, Singapore was approaching the size of Cayman Islands, but Bahamas remained by far the largest offshore centre for the G10, particularly for US banks.

[Insert Table 2]

However, relying on the reports of branches of G10 foreign banks alone did not capture the full data of these offshore centres. At the start of 1976 Rene Larre of the Bank for International Settlements wrote to the monetary authorities in Singapore, Panama, Bahamas and Hong Kong to ask if they would be willing to report the foreign currency positions of their commercial banks.[85] He also offered to send out a representative from the BIS to consult and Michael Dealtry duly arrived in

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[84] C.R. Schenk, 'Banking Crises and the Evolution of the Regulatory Framework in Hong Kong 1945-70', *Australian Economic History Review*, 43(2), pp. 140-154, 2003. C. R. Schenk, 'Negotiating Positive Non-Interventionism: Regulating Hong Kong's Finance Companies 1976-86', *China Quarterly* 2017.

[85] Letter from Larre, 19 January 1976. BIS Historical Archive [hereafter BISA] 1/3A(3) Dec 1975-Jan 1976.

Hong Kong and Singapore in March 1976. He reported back to the Hong Kong banking commissioner, A.D. Ockendon that:

> 'I was also glad to learn that you feel there is a prudential case for collecting more information on the external operations of banks and other deposit-taking institutions in Hong Kong. As I think I mentioned to you the main point of our publishing every quarter a full country breakdown of the external positions of commercial banks in G10 countries is from the safety angle…I shall now wait to hear whether you are able to collect more information in this area and, if so, whether and how it might be incorporated into our reporting system'.[86]

He also found some support from the Bank of East Asia Deputy Chief Manager in Hong Kong, Michael Y.L. Kan. Dealtry wrote to Kan that 'I was interested to note that in your opinion it would be useful if more information were available in that area. Perhaps you may be able to persuade others of that view'.[87] But he was more frank in his letter to J.B. Selwyn, Hong Kong Commissioner for Securities, thanking him for a

> 'very agreeable evening at your club. What, if any, concrete results will come out of my visit to Hong Kong I've no idea. Perhaps not very much. But I had a whale of a time and shall not soon forget the impression of dynamism that I received. Singapore, while equally dynamic, I didn't like as much and shan't be too sorry if I don't go there again. If a chance to revisit Hong Kong comes up, however, I shall seize it eagerly – and shall hope to find you still there.'[88]

He played on the rivalry between Singapore and Hong Kong also in his correspondence with Mike Sandberg, Deputy Chairman of HSBC, noting

> 'after visiting Singapore, where rather more statistical information is available in this area, I was left wondering which of the two centers in fact does the greater volume of foreign currency banking'.[89]

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[86] Letter from Dealtry to A.D. Ockenden, 30 March 1976, BISA Eurocurrency Standing Committee, 1/3A(3) Volume 22, February 1976 to March 1976. Dealtry was the secretary of the Basel Committee on Banking Supervision.
[87] Letter from Dealtry to Michael YL Kan, 30 March 1976, BISA Eurocurrency Standing Committee, 1/3A(3) Volume 22, February 1976 to March 1976.
[88] Letter from Dealtry to J.B. Selwyn, 30 March 1976, BISA Eurocurrency Standing Committee, 1/3A(3) Volume 22, February 1976 to March 1976
[89] Letter from Dealtry to M.G.R. Sandberg, 30 March 1976, BISA Eurocurrency Standing Committee, 1/3A(3) Volume 22, February 1976 to March 1976.

In Singapore, Dealtry also met with a range of British and US bankers to learn about the Asian Dollar Market and to make the case for disclosing more banking statistics for the BIS series.[90] Michael Wong Pakshong, Managing Director of the Monetary Authority of Singapore noted that he would be willing in principle to contribute, but he was concerned about the potential to use the data as a first step to controlling the market and also about the confidentiality of the data within the BIS. Dealtry reassured him that

> so far as 'control' of the Eurocurrency market is concerned, no such idea lay behind our decision to visit Singapore and other financial centres outside the G10 area; that we are, to say the least, skeptical about the practical possibilities of countries being able to agree on, let alone carry out, any effective control scheme; and that we do not really see how any financial centre could be 'controlled' by others against its own will. Secondly, so far as concerns the sensitive character of some of the data you receive, any information that you pass on to us would of course only be used in strict accordance with your instructions. In that connection, I would add that the full country breakdowns of their banks' external liabilities and assets that we receive from G10 monetary authorities are not circulated, either inside the BIS or among the contributing central banks, except on a consolidated basis.[91]

But neither the Singapore nor the Hong Kong authorities wanted to disclose their banks' positions. In November 1976 Wong finally responded to Larre that he preferred to wait until Hong Kong had provided their data before making Singapore's data available.[92] No offshore centre wanted to be the first to be reporting formally to the BIS. At one point it seemed the Cayman Islands would disclose their annual data, but when they heard that the Bahamas authorities were hesitating, they withdrew their offer.[93] In April 1977 Larre noted that

> Mr. Wong Pakshong in Singapore is not ready to provide information until other Asian offshore centres, in particular Hong Kong, do so; and Mr. Donaldson in the Bahamas has indicated that his position is the same'…'thus the present situation is that we are unable to extend our reporting to cover

[90] The banks included Chartered Bank, First National Citibank, Bank of America and HSBC.
[91] Letter from Dealtry to Wong Pakshong, 1 April 1976, BISA Eurocurrency Standing Committee, 1/3A(3) Volume 23, April 1976 to May 1976.
[92] Letter from Wong to Larre, 30 November 1977. BISA BISA Eurocurrency Standing Committee, 1/3A(3) Volume 25, October 1976 to April 1977.
[93] Note by Dealtry 19 January 1977.BISA BISA Eurocurrency Standing Committee, 1/3A(3) Volume 25, October 1976 to April 1977.

> any of the major offshore financial centres. We have, however, by no means given up hope of obtaining information from Hong Kong…'[94]

Much, therefore, hinged on Hong Kong's reaction, but they were slow to respond. Two years later, in 1979, Larre reported to Wong that the collection of data from Hong Kong had been delayed and that no data would be collected on Hong Kong banks' liabilities to non-resident non-banks; since there was no recognized test of residency in Hong Kong to identify these positions. On this basis Larre asked again if Singapore would participate, noting that 'you ask whether other offshore centres have agreed to provide us with statistics' but these other centres had only agreed to contribute their data if Hong Kong and Singapore did.[95]

As part of their charm offensive, in 1980 the Basel Committee on Banking Regulations and Supervisory Practices, which sought to exchange information and best practice among G-10 banking supervisors, convened a meeting of supervisors in offshore centres. The meeting was held over two days at the end of October 1980 to try to engage these centres in the sharing of data, and supervisory cooperation.[96] Beyond introducing supervisors of offshore centres to each other, there was very little tangible progress from this meeting.

In 1986 the IMF also tried to convince the Singapore authorities to disclose more banking data. The MAS participated in the Fund's international banking statistics project, providing quarterly consolidated positions of ACUs vis-à-vis most individual countries, but excluding 7 countries in Asia. The data were also not broken down into bank/nonbank positions, which needed to be estimated by the IMF on the basis of partner data.[97]

This initial evidence about official attitudes to off-shore markets reveals the tension between deregulated markets, financial globalisation and transparency

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[94] Letter Larre to Vassal Johnson, Financial Secretary, Cayman Islands, 22 April 1977. BISA Eurocurrency Standing Committee, 1/3A(3) B Volume 25, October 1976 to April 1977.
[95] Letter from Larre to Wong Pakshong, 30 March 1979. BISA Eurocurrency Standing Committee, 1/3A(3) B Volume 25, October 1976 to April 1977.
[96] Summary of 19th Meeting of the Committee on Banking Regulations and Supervisory Practices, BIS, 26-27 June 1980. BS/80/33e.
[97] Briefing Paper 1986 Article IV Consultation, 10 March 1986. IMFA Asian Department, Immediate Office, Country Files, Box 108; Singapore Missions 1984-87.

during the first half of the 1980s when regulators struggled with prudential supervision in a rapidly evolving international financial market.

Conclusions

As noted in existing accounts, the Asia Dollar market was launched in Singapore rather than Hong Kong because of the unwillingness of Hong Kong to adapt its tax legislation in 1967-68, but that was not the end of the story. Three conclusions emerge from this early history of the dollar market in Asia. First, the motivation for creating the Asia-Dollar market in Singapore was two-fold: to promote an international financial centre as part of the diversification of the Singapore economy (along with a range of other initiatives), and secondly to channel regional savings into regional development projects (including in Singapore). The way the regulations evolved meant that it was not strictly offshore since it was hoped that part of the funds could be used locally; local residents were gradually allowed greater access to both the deposit and loan markets. Capturing opportunities for lending due to regional and local development was also of prime importance to the banks that entered the market in its early years. Furthermore, new evidence shows the initiative to create the opportunity for tax-free foreign currency deposits in Singapore likely came from a leading banker, rather than a government adviser as previous accounts have suggested.

Secondly, the initial decision to reject an offshore dollar market in Hong Kong did not resolve the issue. Rivalry between Hong Kong and Singapore shows some characteristics of regulatory competition, but in fact for most of the first decade, Hong Kong banks were able to exploit Singapore's tax concessions, so the markets were more complementary than competitive. But this complementarity was contested. Once their tax-free status of profits on their business with overseas banks was removed, bankers lobbied the government to reduce taxes on all foreign currency deposits, arguing that Hong Kong's tax system on foreign currency deposits undermined its reputation as an IFC. They also expressed concern about funds being diverted from Hong Kong to Singapore, although official banking data show that the net flow was in the other direction. The Financial Secretary eventually changed his mind partly in response to this lobbying, but also as part of a more general uncertainty about monetary control that culminated in the restoration of the Hong Kong dollar currency board in 1983. The Hong Kong government response was inconsistent and at times confused. Evidence from international banks suggests they still preferred Hong Kong over Singapore because of the agglomeration of other services there. The currency instability of 1982-83 was a more important blow to Hong Kong's reputation, although the restoration of the currency board link to the US$ in October 1983 resolved this issue quickly. Nevertheless, over the longer term, Singapore came to exceed Hong Kong as an international banking centre in terms of volume of foreign liabilities, but not in terms of number of bank headquarters and offices or the other financial services that contributed to the region's rapid economic growth.[98]

Thirdly, the Singapore and the Hong Kong authorities both considered their IFCs an important element of development planning for their territories. While the Singapore government is usually portrayed as having a more deliberate and comprehensive strategy, the archival record has shown that the Hong Kong government also deliberated and intervened in its IFC as part of an economic development strategy. Despite the fact that Singapore was an independent state and Hong Kong was a British colony, both states were able to resist efforts from Europe and the US to increase transparency in their offshore markets and conform to reporting standards developed through the Bank for International Settlements. More work remains to be done on the integration of the market into global money and capital markets and comparing Singapore to other offshore centres.

[98] G. von Peter, 'International banking centres: a network perspective', *BIS Quarterly Review*, December 2007.

Table 1: Key Tax and Exchange Control Changes in Singapore and Hong Kong

	Singapore	Hong Kong
1969	Elimination of withholding tax on interest earned on deposits	15% withholding tax on interest earned by residents and non-residents
	Profits on offshore and on-shore business 40%	No profits tax paid by banks on offshore business
June 1972	Elimination of preferential exchange control among sterling area countries	
1972	Elimination of 20% liquidity requirement on ACU deposits	
1973	Income tax on interest earnings from offshore loans reduced from 40% to 10%	
21 June 1973	Singapore dollar floated	
1973-March 1974	Special reserve requirements on domestic bank net foreign currency interbank liabilities	
November 1977	Floating interest rate USD negotiable certificates of deposit introduced	
1978 (or Feb. 1977)	Tax on all offshore income by ACUs reduced to 10%	Introduction of tax on banks' interest earned overseas (17%)
June 1978	Exchange control lifted – all residents can participate in ACUs without limits	
1982		Removal of withholding tax on foreign currency deposits; reduction of tax on HK$ deposits to 10%
1983		Removal of withholding tax on Hong Kong dollar deposits
1986		Introduction of tax on banks' profits earned overseas
	Japan opens offshore banking market (December 1986)	

Table 2: December 1976 External Claims of G10+ Denmark, Ireland and Switzerland and of their affiliates in offshore centres

Claims on	Total	Up to 1 year	1-2 years	Over 2 years	Unallocated*	Unused Credit Commitment
Singapore	9168	8067	54	218	829	534
Bahamas	30999	27832	242	972	2253	1284
Cayman Islands	10165	8691	425	175	874	98
Hong Kong	7485	6174	150	581	580	976
TOTAL	77632	62585	1794	7166	6087	4360

*Includes all Canadian banks ($9.2 billion). First series including non-US banks. Excluding Italian banks (est. $0.3 billion). Denmark and Ireland together less than $0.2 billion. Includes only a sample of banks: Netherlands 65%, France and Swiss banks 75%, USA 90%, Belgium, Canada, Luxembourg and Germany c. 95%; UK and Sweden c. 100%. French figures exclude banks' working balances and interbank money-market operations.
Source FRBNY Archives Fed Central 260.43

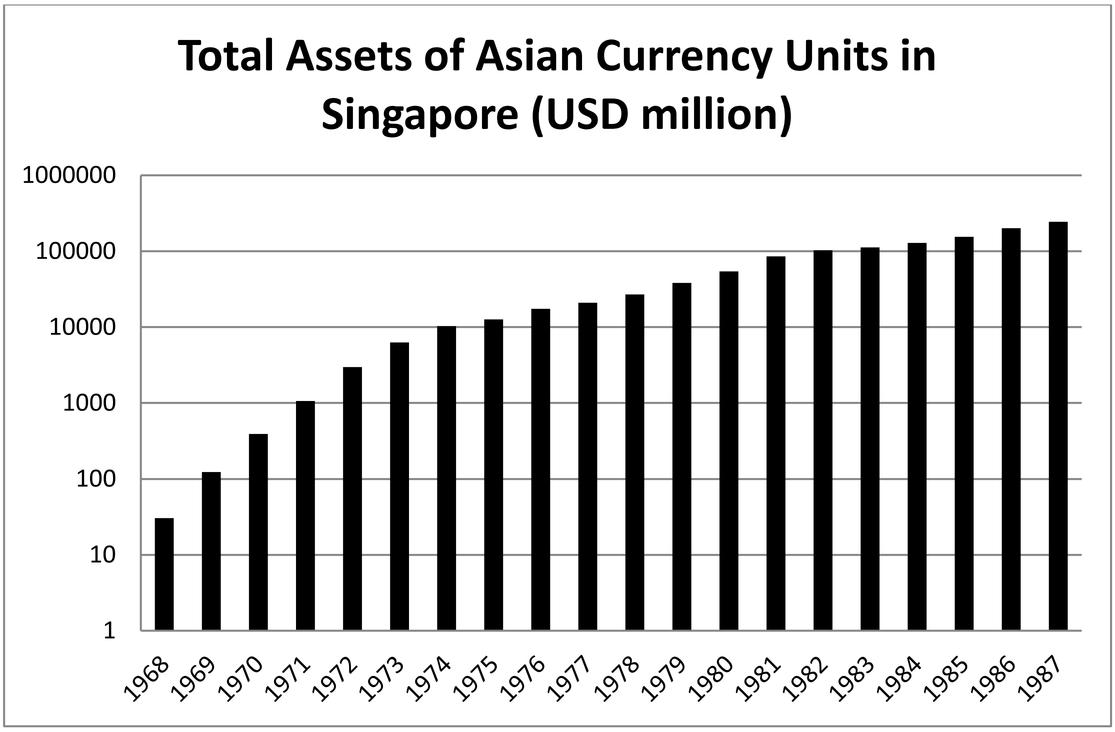

Figure 1: Source: Yearbook of Statistics Singapore, Chief Statistician, Department of Statistics, Singapore

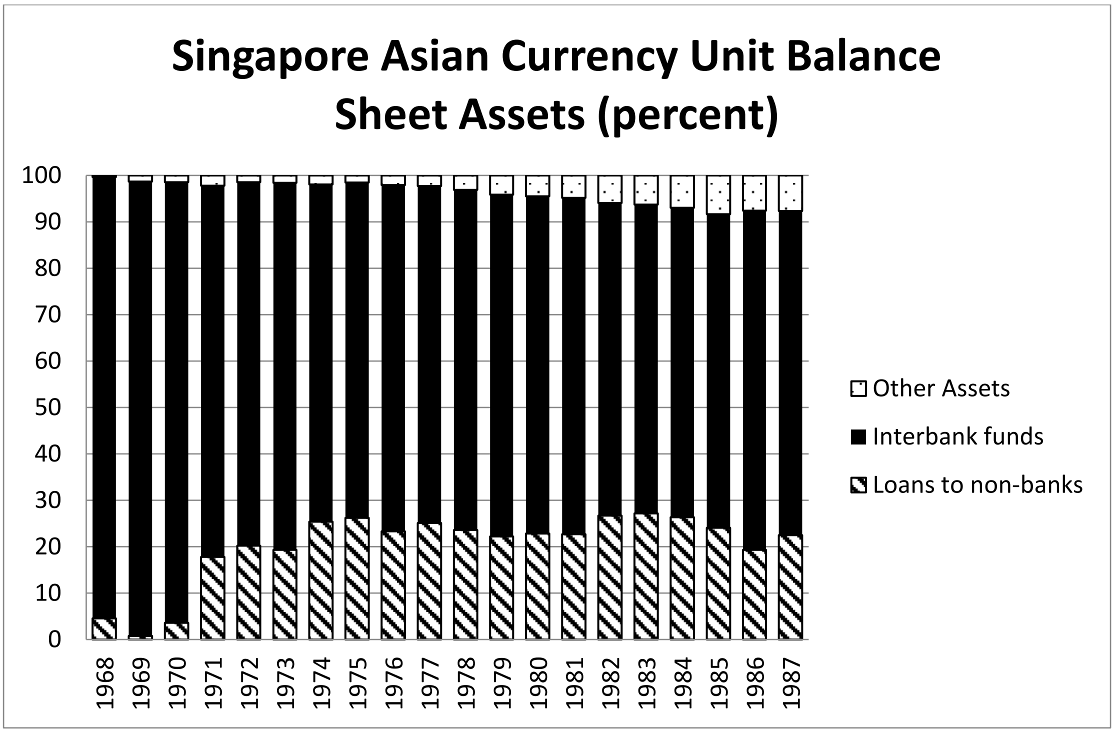

Figure 2: Yearbook of Statistics Singapore, Chief Statistician, Department of Statistics, Singapore

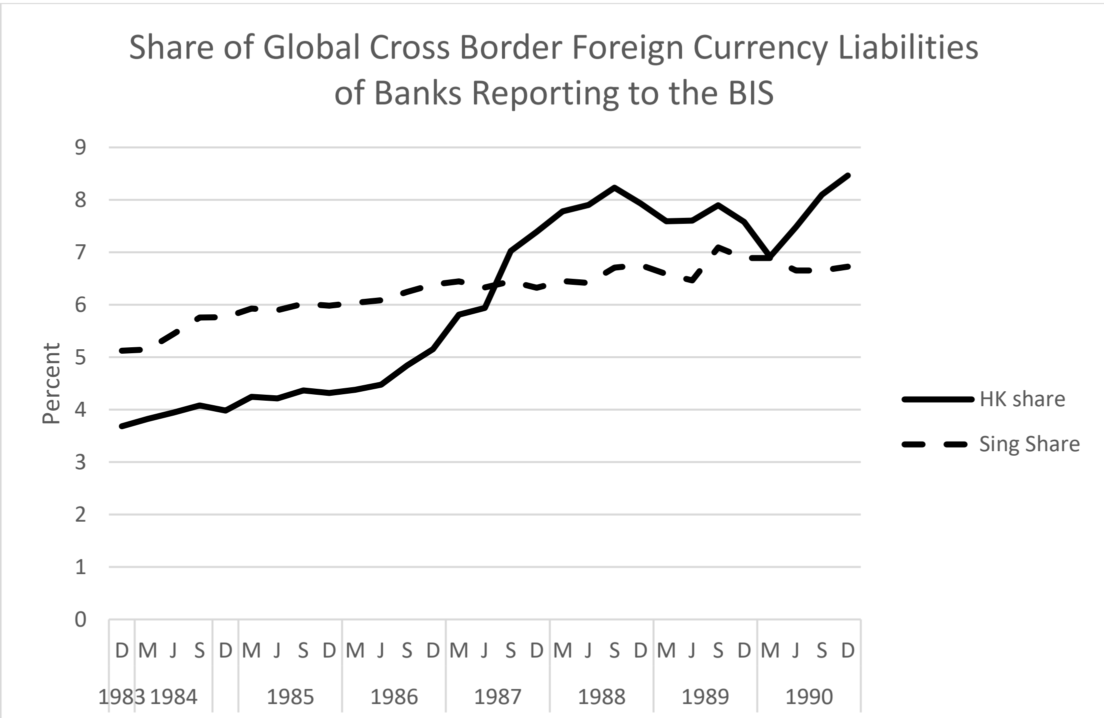

Figure 3: Source: Bank for International Settlements.

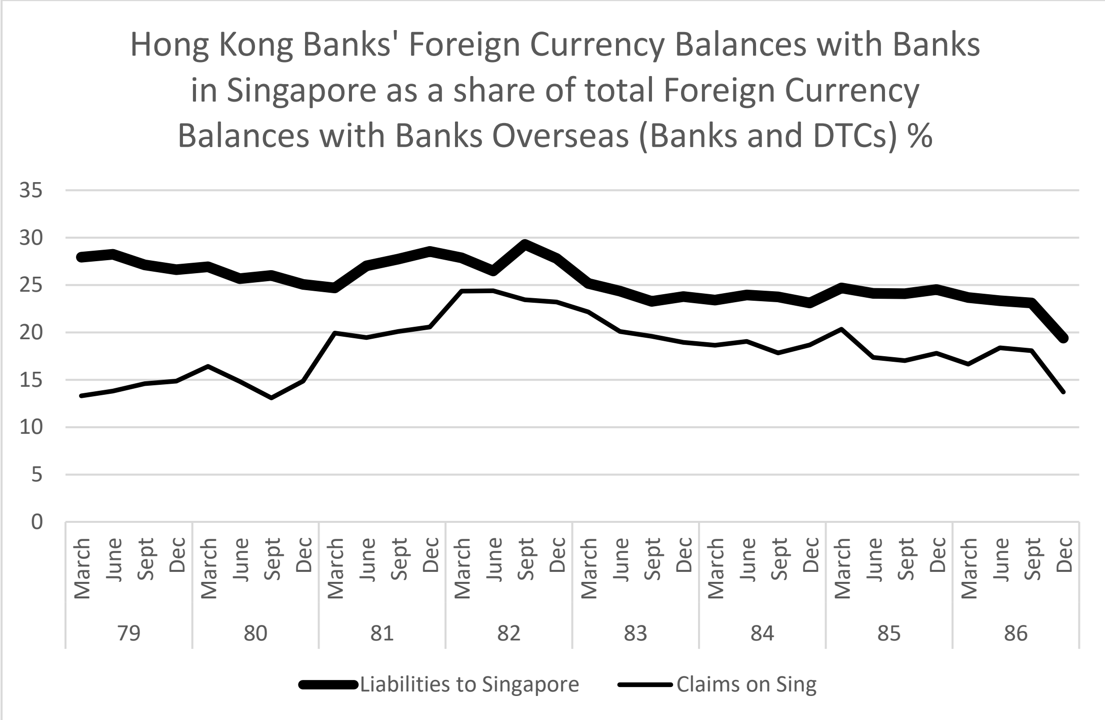

Figure 4: Source: *Hong Kong Monthly Digest of Statistics*

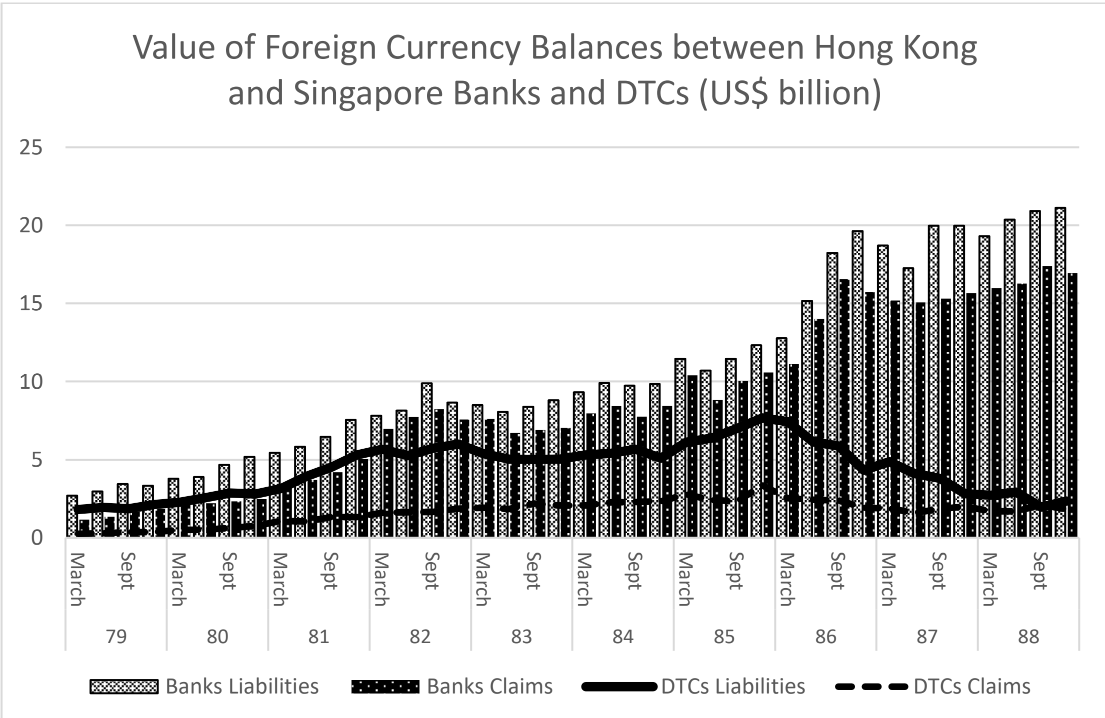

Figure 5: Source: Hong Kong Monthly Digest of Statistics

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