Dangerous Business Models: Bankers, Bureaucrats &
Hong Kong's Economic Transformation, 1948-86

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Summary

Despite high-speed economic growth between 1948 and 1986, Hong Kong’s banking industry
displayed a marked propensity for self-destructive behaviour. The Government showed an
equally strong tendency to ignore imprudent and illegal banking practices. As a result, major
bank crises occurred in 1961-65 and 1982-86. This paper uses hitherto unpublished data and
government archives to examine how banking behaviour responded both to economic
development and the regulatory environment.

Hong Kong’s banks made a crucial but largely unrecognised contribution to the creation of an
export-manufacturing base in the 1950s. Bankers failed, however, to comprehend the economic
transformation that was underway. The local Chinese banks tended to cling to outdated business
models and did not modernise their management practices to match the growing scale and
complexity of Hong Kong business. With some reluctance, foreign banks financed the
industrial take-off.

The banking industry played a major role in Hong Kong’s transition to a service economy and
its emergence as a regional financial centre during the 1970s. Foreign bankers became more
aggressive, and their management standards deteriorated. Local bankers stuck to their
traditional business model, in which property speculation was perilously prominent.

Bankers’ behaviour was shaped by official attitudes towards regulatory oversight and law
enforcement. The Government deliberately created an environment in which the local Chinese
bank group in particular was shielded from statutory and regulatory pressures to raise their
standards. Bankers were able to ignore both banking and company legislation and to engage in
criminal as well as imprudent practices with considerable impunity until 1964.

The Government facilitated a return to mismanagement and misconduct in the 1970s through
its reluctance to regulate deposit-taking companies (DTCs). By enforcing an interest-rate cartel
on licensed banks, the Government created a powerful inducement for these banks to set up
their own DTCs. By refusing to grant more bank licences, it created a new class of banking
outside the regulatory system because new entrants had to operate as DTCs.

Apart from a brief interval in 1965-70, therefore, the Government’s consistent message to the
banking industry throughout the period was of general indifference towards standards of
behaviour so long as a serious bank collapse did not occur. The result was bank runs and
bail-outs at considerable cost to Hong Kong’s reserves.