Crisis and Challenge: The Changing Role of the Hongkong & Shanghai Bank, 1950-2000

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Summary

The transformation of the Hongkong & Shanghai Banking Corporation from a colonial bank with a limited future after World War II into a major global financial group did not take place in either a stable or a competitive banking environment. Hong Kong's colonial administration suffered from "ideological" confusion in its approach to banking. Officials were wedded to traditional non-interventionism, yet throughout much of this period, they believed that unrestricted competition would undermine the stability of Hong Kong's financial markets. This paper argues that the Hongkong and Shanghai Bank was the principal, albeit indirect, beneficiary of the Government's policy errors and the consequent market failures.

The paper examines the haphazard development of banking regulation in the last century. It reviews the influence of colonial misconceptions, including the belief that the Chinese community was indifferent to bank runs and depositors' losses. It links the corruption and fraud which caused recurrent financial crises until the mid-1980s to the Government's failure to exploit its statutory powers (first under 1948 legislation and then under a 1964 enactment and subsequent amendments) and reform the conduct of banking.

Officials were convinced that the main threat to the banking industry was market competition rather than inadequate supervision, and government policies actively restricted market forces and promoted a price-fixing cartel. The Government also resisted pressures to establish a central banking institution until the 1990s, which further obstructed the introduction of effective regulation and limited the Government's capacity to create appropriate monetary policies. The result was bank failures and corporate scandals, aggravated during the 1970s and 1980s by chronic inflation and currency depreciation.

The Hongkong and Shanghai Bank was the dominant financial institution throughout the period and enjoyed a special relationship with the colonial administration, on whose behalf it exercised a quasi-central bank role. But size and monopolistic privileges by themselves were not enough to ensure survival. The paper explores the Bank's adjustment to Hong Kong's changing economic and political circumstances. It illustrates how the limitations of its expatriate culture were overcome and how the traditional, "China coast" business model was modified in response to Hong Kong's industrialisation and the rise of a new class of Chinese entrepreneurs.

The analysis draws extensively on hitherto unpublished government documents on banking policy. It also makes use of previously unpublished Banking Commission statistics from the 1960s and 1970s, which identify the market shares and lending policies of the Chinese state-owned, foreign and local banking sectors, as well as of the Hongkong Bank group and other leading banking institutions.