Profits, Politics and Panics

Hong Kong's Banks and the Making of a Miracle Economy, 1935–1985

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Introduction

Hong Kong is among the most remarkable of the twentieth century's economic 'miracles'. It overcame the constraints on economic progress that beset the rest of China and the Third World after World War II, despite the loss of its traditional Mainland markets and in the face of rampant protectionism in Western countries. An 'industrial revolution' transformed the war-ravaged British colony from a coastal trading port into a leading exporter to Western Europe and North America by the 1960s. In the following decade, it made the transition from manufacturing for export to become a substantial international financial and business centre. When China started to dismantle the Maoist era's barriers to foreign trade and investment at the end of the 1970s, Hong Kong embarked on a second 'industrial revolution', this time creating a major manufacturing base in southern China.

A Proud Record

This exceptional economic record required the support of a substantial and sophisticated financial infrastructure. Hong Kong had a vigorous indigenous banking community which had played an active part in China's development until 1949 when the Chinese Communist Party defeated the ruling Guomindang in the civil war. In addition, major international banks as well as China's principal financial institutions had long recognised the colony's special advantages in financing Mainland China's foreign trade and investment, and they dominated the local banking scene. Thus, throughout the twentieth century, Hong Kong possessed an open and multi-national banking system which could offer a range of services and a level of expertise to match the standards set by the principal Western banking centres. Chapter 11, 'The Exceptional Colony', will argue that no other colony could boast a comparable range and quality of banking services.

Hong Kong's banks were able to meet in full the business community's demands for finance from 1935 to 1985. They underwrote each new transformation of the economy, no matter how daunting the political or commercial risks. During these 50 years, they adapted to the threats created by Japanese hostilities, civil war and revolution. They shifted their focus from China trade to global markets. They overcame the barriers created by UK exchange controls and the US ban on all China-related transactions which lasted until 1971. Hong Kong was Asia's premier banking centre up to World War II (although its status was not widely acknowledged before the 1970s).[1] It retained this ranking after 1945, thanks to its free exchange market and its sophisticated international banking institutions. Not until 1960 did it slip to second place behind Tokyo after Japan had completed its recovery from the war.[2]

The quality of Hong Kong's financial institutions was put to the test by the 1997 Asian financial crisis, when it was credited with having the most effective banking regulation in the region.[3] The crisis threatened to topple banks and currencies across the region. Hong Kong's banks, however, were never in danger, although by the end of that year, property prices had fallen by 30 per cent and share prices by more than 40 per cent as Hong Kong plunged into its first recession since the 1950s.[4] As the recession bit harder in the following year, the banks absorbed the strain through lower profit levels before resuming business growth in 1999.[5] By the end of the century, Hong Kong could claim to have the freest and most stable financial system in the region.

A Scandalous Background

Despite its impressive performance in financing rapid economic development between 1935 and 1985, the colony was no exception to the rule that 'the history of banking is the history of bank failures'.[6] A conspicuous feature of the banking industry throughout this half-century was its lack of stability and integrity, and Hong Kong endured recurrent bank crises and financial scandals that grew worse by the decade.

- Bank runs in 1935 threatened to topple the economy and caused such extensive panic that London officials and local business leaders demanded sweeping reforms, including professional regulators.
- The early 1950s saw the widespread collapse of locally owned Chinese banks, and 52 of them had closed by 1955.[7]
- Between 1961 and 1965, three licensed banks failed, and another six had to be rescued from imminent collapse, including Hang Seng Bank, then the colony's second largest bank.
- In the 1970s, the government grossly mismanaged the currency. The money supply spiralled out of control, while the banking system was

allowed to fuel excessive speculation in shares and property, creating conditions for a collapse of the exchange rate in 1983.

- Between 1982 and 1986, the financial markets were beset by corporate collapses, corruption and scandal, leading to the failure of seven licensed banks and the closure of 94 deposit-taking companies (DTCs).[8]

The colonial administration's response to the ample evidence of mismanagement and misconduct among bank owners and executives was a scandal in itself.

- During the 1950s and 1960s, according to the unpublished official archives, such distinguished colonial officials as Sir John Cowperthwaite and Sir Jack Cater proved ignorant and incompetent when personally involved in monitoring standards of banking behaviour.
- During the 1970s, the public speeches of Sir Philip Haddon-Cave revealed him to be persistently ill-informed and complacent when confronted with unmistakeable signs that imprudent and illegal practices had reached perilous levels.
- In the 1980s, the Independent Commission Against Corruption (ICAC) launched investigations into the regulators of the banking industry and the stock exchange. The Deputy Public Prosecutor in charge of criminal cases relating to three major bank failures in this decade was gaoled on corruption charges relating to their affairs.

The failures of banking regulation and monetary policy hardly seemed to matter, however, since the rest of the economy did so well. Success appeared to be a natural state of affairs for Hong Kong. It escaped from poverty ahead of anywhere else in Asia, it has been claimed, and it attained prosperity faster than any other society in modern history.[9] It financed its own success, starting with rapid recovery from the Japanese occupation after World War II and then the creation of an industrial base which made Hong Kong a leading exporter to Western markets. Unlike other Third World economies, the colony received only token foreign aid and remarkably little direct investment from abroad to finance its economic take-off.[10] The local stock exchange raised virtually no funds for industrialisation.[11] Yet, unlike almost every other Third World economy, Hong Kong's development was never constrained by a shortage of the capital needed to finance high-speed growth.[12]

If Hong Kong's industrial take-off defied the usual obstacles to Third World growth, its subsequent expansion was no less impressive. Its GDP growth rates have been described as 'one of the world's most remarkable achievements'.[13] From at least 1961 when national income statistics were first compiled, GDP increased in real terms every year without exception until 1998.[14] Such unbroken growth was astonishing by any historical criterion. By the 1990s, the colony had transformed itself into a world-class, post-industrial society and, in the process, set a new benchmark for deindustrialisation with minimum social strain.[15] In the mid-1990s, this Chinese city could claim to be:[16]

> ... the world's eighth largest trading entity, with the world's eighth largest stock market, seventh largest financial reserves, fifth largest foreign exchange market, third busiest airport ... the world's busiest port.

Hong Kong's 'economic miracle' had another dimension which was no less impressive than the sustained growth of its domestic economy during the second half of the last century: its contribution to the Mainland's emergence as a major economic power after Deng Xiaoping's reforms created a new growth momentum from 1978. 'Without Hong Kong's involvement', it has been argued, 'China would face a much more difficult, if not impossible, task of successfully growing and modernizing its economy'.[17]

A Neglected Model

These achievements would have been impossible without a banking system of considerable scale and sophistication which was able to ensure that, between 1935 and 1985, growth was never hindered by a shortage of finance. Nevertheless, any attempt to identify the banking industry's true place in the history of Hong Kong's economic development faces serious obstacles. Confusion has surrounded the process from the very start. The colony's early industrial growth was so phenomenal that it left contemporary observers bewildered.[18]

> On the face of it, Hong Kong is not at all well suited to be a manufacturing centre ... Yet there has taken place this remarkable development of manufacturing during recent years, under a régime of almost complete free trade, and without any subsidies, tax concessions, or other forms of financial encouragement by the Government. How can it be explained? ... Why should little Hong Kong, rather than some other Asian country, have succeeded in alleviating the post-war shortage of manufactured goods? Why should capital and entrepreneurs and skilled workers have come to Hong Kong rather than elsewhere?

Contemporary economists, for the most part, had no satisfactory answers to these questions because Hong Kong broke the rules which were supposed to govern the economic destinies of Asia and the rest of the Third World after World War II. Most governments, both in Asia and the West, believed that the state was far more capable of ensuring national prosperity and social progress than free-market capitalism. Governments took charge of the economy, and the private sector was subject to extensive controls in capitalist as well as socialist countries.[19] Foreign trade was attacked as a form of colonial and capitalist exploitation, and the newly independent Asian and African nations were advised to replace imports from the industrialised nations with domestic products manufactured in local factories and protected by tariffs and import controls.[20] These theories remained fashionable until the 1980s, partly because of the ideological commitments of political leaders but also because of the reluctance of economists to examine the poor results achieved by these policies.[21]

Against this background, Hong Kong and its growth experiences seemed an anomaly which was irrelevant to the development issues facing the rest of the world.[22] This colony had stuck to political arrangements and economic policies that were little changed from the heyday of the British Empire. It retained an unreformed colonial political structure managed by an expatriate élite. Its government espoused free trade, minimal interference with market forces and no direct involvement in economic management. This sort of economic liberalism was to remain out of favour until late in the twentieth century. In addition, Hong Kong seemed a transitory society without a political future and whose survival as a flourishing economy was unlikely.[23] By 1966, Hong Kong had emerged as 'the leading developing country in supplying the developed world with labor-intensive manufactures'.[24] Yet, its sustained business boom was seen as an incidental by-product of the Cold War and vulnerable to changes in Asia's political balance.[25] After Hong Kong's transformation into a services-based economy in the 1970s, many observers forecast that Hong Kong could expect only a limited future as an international services centre. There was little confidence in Hong Kong's ability to survive competition from the Mainland in the 1990s, and the prediction was that Hong Kong would soon be overtaken by Shanghai.[26]

Painful Adjustments

With an economy which generated positive real growth every year from the mid-1950s until the end of the century, Hong Kong's banks should have faced few threats to either their stability or their profitability. Rapid economic development was neither a smooth nor a comfortable process, however. It involved the radical transformation both of Hong Kong's basic industries and of their business practices, a process which the banks managed to finance almost single-handed. But the banking system's own adjustment to a changing economic environment was often painful and sometimes self-destructive.

Hong Kong's banks were unique among British colonies, it was noted earlier, because they offered services comparable to those of international financial centres. Throughout the last century, the banking system was divided into four distinct groups, each with its own business model, its separate markets and its specialised functions.

China state-owned banks. These had been active in Hong Kong before 1949. After the Chinese Communist Party came to power and established total control over external trade and finance, these banks formed a tightly disciplined group under the Bank of China implementing state policies and little involved in Hong Kong's domestic economy.[27]

Local Chinese-owned banks. Until the 1960s, a distinction was often made between the modern commercial banks in this group and 'Chinese native banks' which were believed to adhere to traditional business practices. In practice, apart from corporate status, the group shared much the same business model after World War II. These banks preferred to specialise in property, currency and gold dealing.

Foreign-owned banks. The group included branches of the world's leading commercial banks and formed the backbone of Hong Kong's activities as an international financial centre. These banks were largely free from constraints on their ability to make loans well in excess of their local deposit base.

HSBC. This was the colony's largest bank group. Unique among British colonies, Hong Kong's dominant financial institution was not controlled from London (as Chapter 11 will explain). Its management was totally British, although, reportedly, Chinese shareholders were in the majority.[28] HSBC enjoyed considerable monopolistic advantages, thanks to its size and its role as the colonial administration's principal banker until the government started to strip it of its central banking functions from the mid-1980s.[29]

How each of the four banking groups adapted their business strategies in response to the challenges of economic transformation had a profound effect on the stability of the banking system. Yet, the importance of their different business models is generally overlooked when analysing the periodic bank runs and corporate collapses that were so regular a feature of Hong Kong's growth process. It is easy to regard 'bank fragility [as] a symptom of a deeper malaise in an economy', sometimes caused by business trends and sometimes by political events.[30] Hong Kong banks were, indeed, hit by internal events — notably, by downturns in the property market in the mid-1930s, the mid-1960s and the early 1980s. They also suffered because of external developments: United Nations and US embargoes in 1949–50 and political panics during the Korean War in the 1950s, the Maoist Cultural Revolution in 1966–68 and the deadlock in the 1982–84 Sino-British negotiations over the colony's future. But these dramatic incidents were only the immediate triggers for bank runs and currency crises. The fragility within the financial system which they uncovered was caused by unsound business practices over a considerable period.

Conservative Communists

Until almost the end of the period covered by this book, the China state-owned banks stayed largely aloof from Hong Kong's domestic economy. Once the Chinese Communist Party had come to power in 1949, their role in Hong Kong was confined almost exclusively to Mainland-related transaction. The political risks of trading with the Mainland during the extremism of the Maoist era thus fell mainly on this group. In the Cold War, these banks were the conduit by which the Chinese government obtained the convertible foreign exchange that the centrally controlled economy needed, a process which created a new role for Hong Kong as an international financial centre (as Chapter 4, 'Financial Centre under Siege', will explain).

The business priorities for these banks were set by the Mainland where the government's policies were extremely conservative.[31] The Bank of China and its 'sister banks' in Hong Kong thus steered clear of real estate and the property and share markets, and maintained high levels of liquidity.[32] Their involvement in 'capitalist' business in Hong Kong started only after 1978 and the introduction of Deng Xiaoping's reforms.

Local Traditions

Historically, the local Chinese-owned banks had played a conspicuous role in Hong Kong banking. They financed and organised trade with the Mainland regardless of wars, revolution and invasion. After the Chinese Communist Party took control of China's banking and external trade after 1949, this group did not realise how radically the economic environment was changing. Because the colonial administration was determined to preserve 'traditional' banking, this group was given 'informal' exemption from the 1948 Banking Ordinance and other legislation, which minimised the incentives for these banks to modernise their business practices. (These issues are explored in detail in Chapter 6, 'The Rise and Fall of Chinese Banking'.)

Traditionally, local Chinese bankers preferred to make their money from currency dealing, gold and property. The first two activities remained largely illegal from the end of World War II until the late 1960s. The colonial administration tolerated gold and currency smuggling without realising how easily they could contaminate a bank's culture. In addition, the government's property policies encouraged high levels of real estate speculation in which this group of banks was heavily involved. Local Chinese-owned banks stayed aloof from the manufacturing boom, and their traditional business model seemed to flourish in the 1950s. Hang Seng Bank, for example, went from unincorporated money changer to the second largest bank in the colony within three decades. But, by the 1960s, the group had lost its market power and its credibility with the public. Not even Hang Seng Bank was able to survive under Chinese ownership. Chapter 7, 'A Dangerous Business Model', and Chapter 8, 'An Avoidable Crisis', will demonstrate how the relationship between economic change, government policies and the business strategies of this group determined the rise and fall of the local Chinese banks.

The Dominant Players

When the manufacturing take-off began after World War II, HSBC and the foreign-owned banks were no more enthusiastic than the local Chinese-owned group about adjusting their business models to the loss of traditional Mainland markets. Cultural factors deterred them from lending to Chinese entrepreneurs who did not belong to the small Westernised elite. When the 'industrial revolution' began, it was barely noticed by contemporaries, and its potential for sustained growth was grossly under-estimated by bankers and bureaucrats alike. Chapter 5, 'Industrial Take-off: Cut-price and Self-financed', will explain how HSBC and the foreign-owned banks gradually overcame their prejudices and, through their willingness to finance the new manufacturing class, transformed Hong Kong into a major export centre. This chapter also identifies how foreign banks benefited throughout the last century from a 'liquidity loophole' because the colonial administration did not apply the same restrictions to their lending activities as were imposed on HSBC and local Chinese-owned banks.

In the 1970s, foreign-owned banks were to face problems with their business models which were very similar to the dangers that had overtaken the local Chinese-owned banks in earlier decades. Chapter 9, 'From Banking Crisis to Financial Catastrophe', reviews how during the transition from manufacturing to a services economy in the 1970s, foreign banks moved outside the highly conservative trade and industrial finance which had been so profitable and so secure in the previous 20 years. Corporate relationships became increasingly important, and foreign banks started to rival local Chinese-owned banks in their appetite for deals that involved significant legal as well as commercial risks.

Government policy proved dysfunctional. Officials were determined not to extend regulation beyond the licensed banks, and a banking moratorium prevented newcomers to Hong Kong from obtaining licences. Thus, unregulated DTCs proliferated, and inferior professional standards soon contaminated the banking system as a whole. Reluctant regulation had much the same damaging consequences for the behaviour of foreign bankers in the 1970s as the refusal to oversee Chinese banks had in an earlier era. The quality of regulation, not racial or cultural differences, was the decisive factor. Chapter 11 will show how the colonial administration lost control of the money supply in this decade, so that there was an ample supply of cheap funds for almost any speculative venture. The crisis that followed in the 1980s finally made drastic reforms unavoidable.

The Case for Regulation

Modern economists have become increasingly sceptical about the merits of government efforts to oversee financial markets. The self-inflicted losses incurred by Barings, Daiwa and Credit Lyonnais, and the involvement of prominent banks in such corporate disasters as Enron Corporation have been taken as evidence that regulators can do little to prevent fraud and misconduct. Furthermore, special measures to police the banking industry become harder to sustain as the boundaries blur between different types of financial institution and as banks themselves no longer concentrate on loan and deposit business but rely increasingly on marketing a range of financial products. The growing integration of financial services, institutions and markets through modern technology is an additional obstacle to effective regulation. Nevertheless, the overall conclusion of this book will be that effective regulation would have made a difference.

The case for regulation in Hong Kong starts, as it does everywhere, with the special nature of banking business. Historically, banks have needed relatively little capital. They are financial intermediaries, recycling money deposited with them so that the bulk of their 'working capital' comes from the funds entrusted to them by their depositors. The barriers to imprudent behaviour are probably lower than in other businesses because a bank's owners stand to lose far less than the depositors if the bank fails. In the absence of banking regulations, they can actually lend out more to their customers than they have received from their depositors. Again, if there are no official restrictions, banks can try to compensate for low profits and outright losses by making loans which involve greater risks but for which higher interest can be charged.[33] In addition, the opportunities for corruption among bank owners and executives are considerable. These individuals can demand commissions over and above the interest payable to the bank from applicants for loans who are unable to obtain funds from more conservative banks. In these cases, borrowers are approved because they bring personal benefits which are not shared either by the bank's shareholders or its depositors.

Early in colonial history, the colonial administration showed little understanding of the importance of a legal structure to ensure the stability of the financial system. In 1895, for example, the Attorney General had to confess to the legislature that the entire currency in circulation lacked legal sanction.[34] By the mid-1930s, senior officials no longer seriously questioned the need to ensure the stability and integrity of the banking system. The colonial administration was aware that the most effective way to improve the quality of banking management was professional regulation. The leading banks were advocates of reform. Yet, the government's reluctance to regulate persisted, as this book will relate, for 50 years. What is striking about the government's refusal to oversee the banks was its defiance of London's pressures before World War II and its specific directive to colonial governments after the war to protect the public's bank deposits.[35] To a large degree, this attitude was inspired by the colonial administration's general repudiation of direct responsibility for the well-being of the community.

The case for regulation was reinforced in Hong Kong by the special role of the banks by comparison with other Third World economies. Whether as an entrepôt, a manufacturing or a services-based economy, Hong Kong's dependence on external trade meant that a very high proportion of all business transactions had to be conducted through the banking system. Any threat to the good standing of this essential financial infrastructure could damage Hong Kong's credit ratings with its import sources and its export markets. Furthermore, Hong Kong lacked protection against a sudden collapse in depositor confidence and an abrupt flight of capital because the colony did not enforce the exchange controls and investment restrictions which, from World War II until late in the last century, defended the solvency of most countries.

Political factors were also important. Hong Kong needed to keep China's leaders convinced of the colony's value to the Mainland. Unstable banks could easily be seen in Beijing as evidence of deep economic malaise. At the same time, the government had to persuade London that the colony would not become a financial liability to the UK through turmoil in local financial markets. As a colony, the government was very vulnerable to public unrest. This threat was aggravated by the high population densities which meant that in a bank run, large queues of depositors could form, legitimately seeking to recover their money, and these crowds might prove difficult to disperse peacefully if the bank ran out of cash. That scenario was an argument in favour of regulation that officials could never entirely ignore.

Paradoxically, as the business of banking became more complex in the late twentieth century, the stability of Hong Kong's financial institutions improved dramatically. The last banking crisis took place in the mid-1980s, and the last bank failure occurred in 1991 when the local branch of the Bank of Credit and Commerce International (BCCI) could not survive the downfall of its overseas parent, although its Hong Kong business was solvent.[36] Hong Kong's banking system withstood the Asian Financial Crisis in 1997, as was pointed out earlier. This substantial improvement in performance, compared with earlier decades, must be attributed largely to the government's implementation of effective regulations following the banking and currency disasters of the early 1980s. Hong Kong's banking record in the second half of the twentieth offers a very powerful refutation of claims that the stability and integrity of the banks are best left to free market forces and the informed judgment of investors and depositors.[37]

The 'Data Deficit'

A daunting obstacle to a full evaluation of Hong Kong's growth performance and the development of the banking industry is a large and insoluble 'data deficit'. Hong Kong appears to have the worst record in Asia for compiling and publishing official economic and social statistics.[38] For example, almost every other Asian government was releasing estimates of national income and balance of payments by 1950.[39] The earliest official estimate of Hong Kong's GDP is for 1961, and the data for the 1960s were not released until 1973.[40] Publication of official balance of payments statistics had to wait until 1999, by which time the colonial administration had ended.[41] The absence of reliable figures has long frustrated research into Hong Kong's economic performance. As one economist lamented in the 1970s:[42]

> In order to evaluate the speed and magnitude of post-war industrialization, one would normally turn to industrial production statistics, but in the case of Hong Kong this is impossible, for none exist. There is, in fact, a scarcity of published economic statistics of every kind, and a total absence of national income accounts. This situation is the direct result of the Government's anachronistic economic policy, which attaches little value to comprehensive economic and social statistics.

The government published almost no data that can be used to trace Hong Kong's transformation into a major manufacturer and exporter of textiles and other consumer goods. Reliable benchmarks are available only for the period after Hong Kong had already become a mature industrial economy and a leading banking centre for the region.

- The GDP series started only in 1961.
- The bulk of the output from local factories was sold overseas so that the official trade statistics ought to be a good measure of the expansion of total industrial production and of output by manufacturing sectors. Publication of the domestic exports series started only in 1959.
- Data on the number of factories and on employment and wages should be good indicators of industrial trends as well as incomes. In 1952, however, the colony's labour statistics were condemned in a confidential government report as 'based on hearsay' and 'almost useless'. They did not match the standards of other Asian economies and did not comply with international standards until after 1970.[43]
- The socio-economic characteristics of the population were obscure, and even its total size was uncertain until 1961 because the colonial

administration steadfastly refused to organise a census before that date on the grounds that such an exercise would not help tackle the government's problems and would focus public attention on its unsolved social issues.[44]

The statistics available on banking and financial trends are also unsatisfactory.

- Banking statistics were collected from the industry in the 1950s but in the face of considerable misgivings among bankers. The figures were not comprehensive, and the consistency and reliability of the data are suspect.[45]
- The banks' published balance sheets were not an adequate substitute. Banks with headquarters outside the colony did not publish separate accounts for their Hong Kong operations. Local banks were permitted to obscure their true financial positions until the mid-1990s through window dressing to conceal their inner reserves.[46]
- The colonial administration sought to avoid the release of banking data that might reveal China's financial activities in the colony during the Cold War.[47]
- Reliable and comprehensive statistics on licensed bank are available only from December 1964.[48]
- The colonial administration refused to collect data from non-bank DTCs until 1978 on the grounds that this statistical exercise might imply an obligation to ensure the prudent management of the DTCs.[49]

The best-known authority on the history of Hong Kong banking has made an heroic effort to compile key banking data for the period 1954–63 before the government started to collect comprehensive statistics. Professor Catherine R. Schenk's study has also demonstrated how invaluable analyses of banking developments and official policies are in the unpublished data gathered by the Banking Commission for later years.[50] In addition to these statistical sources, this book will make use of confidential banking and currency data supplied to the author in the course of contemporaneous background briefings by the Economic Branch of the Hong Kong government.[51] These statistics are limited and incomplete, however.

It is almost certainly too late to statistically reconstruct the past . The sources of information needed to overcome the data deficit never existed in the first place. Well-resourced government agencies with extensive access to confidential data failed miserably in the 1950s to produce satisfactory estimates of key financial data for Hong Kong. 'Pretty worthless' was the unflattering verdict of the Colonial Office's Statistics Department on the Bank of England's attempt at statistical analysis of Hong Kong, for example.[52] In the case of national income statistics, the government finally bowed to pressures from

London and started work under university auspices in 1962. Officials were unhappy about the outcome of this exercise, and its results were not published until 1969.[53] Not surprisingly, there is a gap between the national income estimates subsequently reconstructed by the government for the 1960s and the work of other academics who were not so well-resourced. It is significant, too, that the colonial administration's first efforts to build a retrospective GDP series for the 1960s later required considerable revision.[54] The statistical void is yet another example of how different Hong Kong and its economic management were from the rest of Asia after World War II.[55]

The data deficit was of more than academic interest. It meant that the colonial administration deliberately made policy without the statistics needed to analyse policy proposals or to assess their outcome. Officials had to rely on instinct and anecdote to oversee banks and manage monetary affairs throughout most of the period. These were unreliable guides for action in managing an increasingly complex economy, as this book will demonstrate repeatedly. The deficit also deprived the colonial administration's constituents of the information needed for constructive political dialogue. In a 1950 discussion of statistical standards within the British Empire, one distinguished colonial official claimed that where a territory had good statistics, 'these owed their origin to the need of supplying information to active Legislatures and an interested and inquiring public, both of which were lacking in most of the British Colonies' before World War II'.[56] Hong Kong officials were not to face elected members of the legislature until 1985, and the colonial administration took full advantage of the opportunity to manipulate the flow of statistical information before that date.

Unravelling History

In addition to a dearth of financial data, the contribution made by the banking industry to Hong Kong's development has been obscured by political and academic controversies. Industrialists lobbying for government subsidies and other incentives have repeatedly accused the banks of ignoring manufacturers' requirements.[57] The industrialists' attacks on the bankers have been widely accepted among academics.[58] Critics allege that bank-lending policies had three damaging consequences.

- Hong Kong's industrial growth was impeded by a lack of capital caused principally by the failure of the banks to comprehend the needs of the new manufacturing businesses.[59]
- Industrialists could obtain only short-term bank finance on onerous terms, which 'necessarily limited the scale and expansion of manufacturing firms'.[60]
- The economy became over-dependent on textiles and was dangerously

deprived of large-scale projects and advanced technology that required ample development capital.[61]

The allegations that Hong Kong's development in the second half of the last century was hindered by a lack of bank support are refuted by the way Hong Kong's industrial expansion outperformed everywhere else in Asia and the rest of the Third World. The only significant obstacles to even faster growth in the 1950s were the mounting restrictions imposed by Western countries on textile imports and Hong Kong's increasingly severe labour shortage at the end of that decade. Chapter 5, 'Industrial Take-off: Cut-price and Self-financed', will present evidence that the banks were the chief source of finance for the creation of Hong Kong's manufacturing sector.

As a British colony, the UK's role has inspired both controversy and conspiracy theories. There is a very natural presumption that the colonial administration was duty-bound to promote British financial and commercial interests at the expense of Hong Kong and to collaborate with London in using the colony's resources to protect the UK economy in general and its currency in particular — regardless of Hong Kong's own well-being.[62] The government had to deny persistent allegations that 'as a Colony [Hong Kong was] compelled to hand over our surpluses and reserves to Britain, as if it were some form of tribute'.[63] The evidence shows that the colonial administration almost never displayed such 'patriotism' and that it made its own decisions with minimal interference from London, leaving colonial officials with no one to blame for their mistakes except themselves. The relationship between Hong Kong and the UK is examined in depth in Chapter 11 and, in the context of the Cold War, in Chapter 6.

But the conspiracy theories did not always lack justification. The most striking example is the link between the gold smuggling and drug trafficking. After sensational media reports in the 1960s, officials in both London and Hong Kong tried hard to smother public interest in this topic. However, the public records offices in both places reveal how high-level decisions were made to facilitate illegal shipments of gold to the colony by restricting police and customs service surveillance of smuggling activities. Officials knew that narcotics dealers would be able to take advantage of the tolerance shown towards the illegal movement of gold.[64]

The most misleading assumption about Hong Kong's economic history is that what happened before World War II or before the start of the Cold War at the end of the 1940s had little relevance to Hong Kong's subsequent success. In reality, banking policies and performance were heavily influenced by pre-war decisions and the rapid economic reconstruction after the Japanese occupation. The historical background is described in Chapter 2, 'Chinese Revolutionaries, Colonial Reformers' and 'Chapter 3, 'Post-war Emergencies: from Boom to Bust'.

A Colonial Case Study

The focus of this book is deliberately parochial. The role of the state in the economic achievements of the 50 years from 1935 and in the history of the banking industry are examined from a strictly Hong Kong standpoint. The wider context of Hong Kong's development has already been well explored by distinguished historians. The imperial background and the role of the UK have been described in a masterly volume by Dr. Steve Tsang.[65] The relationship between the Colonial Office and Hong Kong has been illuminated in a variety of essays by Professor David Faure. British and other overseas archives have been mined assiduously by Professor Schenk for a series of authoritative investigations of Hong Kong's financial institutions and the international dimensions of the colony's financial markets. Their scholarship sets the frame for much of the analysis in the chapters that follow.

The starting point for this book is the colonial administration's own record, especially as recorded in its own unpublished files. The picture that emerges from these sources is not flattering to Hong Kong's former rulers. The contemporaneous record of how they went about the daily task of running an increasingly prosperous and complex economy offers few instances of effective administration. There was little vision and not much internal pressure to inspire good performance. The files give a sense of isolation from the concerns of society in general, and there was little to link the personal interests of the expatriate mandarins to the well-being of the Chinese community. Very occasionally, the colonial mood changed, most notably for a few years before and after World War II when new governors felt the urgency of new policies and brave reforms. On the whole, however, senior officials were not inspiring figures.

Banking regulation and monetary affairs are important in their own right because they shaped the financial infrastructure on which Hong Kong's economic success depended. But they were also a test of the quality of colonial government and its leading personalities. Unlike social policies, the management of Hong Kong's money left little room for debate about conflicts between economic progress and public welfare. In the period covered by this book, banking regulation — almost always — wasstraightforward and involved no more than the normal standards of business integrity and sensible commercial practice. Special financial expertise was rarely required because, until the 1970s, banking business was not complicated by the technical sophistication that globalisation and the digital revolution were to bring. Monetary affairs should have been a matter of economic common sense: the adoption of policies that would ensure a monetary system free from improper or imprudent activities and stable financial markets.

The British Record

There are contradictory views on the British record as economic managers. Economic and monetary affairs were under the almost exclusive control of whoever occupied the post of financial secretary. These economic overlords were supported by the tiniest of teams until the late 1970, and they delegated little to their subordinates.[66] Yet, three of them, Sir Sidney Caine, Sir John Cowperthwaite and Sir Philip Haddon-Cave, earned the respect of the business community and came to be regarded overseas as distinguished authorities on economic affairs. Thus, the history of the colonial administration's management of monetary affairs is very much an account of the individual performance of the seven men who were financial secretaries between 1935 and 1985. It is also important to emphasise that they personally dictated the management of monetary affairs. They retained personal control even after a Monetary Affairs Branch had been established with its own policy secretary.

Despite the powerful personalities of the colony's Financial Secretaries and their public stature, there is a general assumption that, in Hong Kong, the state had no direct role of any significance in economic growth because of the government's commitment to laisser faire and its minimal intervention in either economic or social affairs. The colonial administration took a much less 'ideological' view of its agenda, however. Officials never saw themselves as locked into non-interventionism by colonial tradition. For them, laisser faire was not a matter of principle but motivated by political convenience and economic expediency.[67] The continued governability of Hong Kong was their overwhelming concern. Thus, under threat of Mainland sanctions in 1947 and of civil unrest because of bank runs in later decades, the colonial administration became more directly involved in the management of the banking industry than in the affairs of any other sector of the economy. This was a political decision, and it will become apparent in later chapters that officials felt no concern for the well-being of depositors or even the protection of the public from fraud.

This book devotes considerable attention to the impact of government intervention on banking. Chapter 1, 'Mismanaged by Mandarins', explores the priorities and preconceptions of the expatriate members of the élite Administrative Service who personally supervised the banking industry until the establishment of a professional Banking Commission in 1964. As regulators, they were handicapped by an almost invincible ignorance of even the simplest business arithmetic. They were indecisive in dealing with recalcitrant bankers and indulgent towards those whose activities were as much unlawful as unprofessional. The colonial mandarins were also responsible for overall economic and financial policy, and Chapter 10, 'Colonial Money and its Management', examines the quality of their policy-making. With no reliable national income estimates before the 1970s, the coordination of monetary policies with overall economic trends depended more on guesswork than credible analysis. Decisions were based very often on misconceptions about how the financial system worked. In the 1970s, the statistical situation improved. Now the problem was that the government totally misunderstood the consequences of the break with sterling and the way its management of a floating exchange rate would fuel inflation, encourage speculation and lead to financial failures and collapse of the currency in the following decade. These developments illustrate the well-known phenomenon that the regulators' own policies often lead a banking industry into dangerous business practices.[68]

Far more damaging, however, was the propensity of Hong Kong officials to discredit the regulatory system by disregarding their statutory obligations. The colonial administration appeared totally unaware of the close connection between the quality of the legal environment and banking developments.[69] The result was to create conditions that actually encouraged imprudent and illegal banking practices. Legislation and official policies are, of course, a powerful influence on business behaviour generally. They shape 'the rules of the game' which the entrepreneur follows because of their potential impact on profits. Where laws or official practices are misguided, it has been argued, the 'rules' may encourage business behaviour that is both self-destructive for the entrepreneur and damaging to the economy as a whole.[70] This assertion is a fair summary of the interaction of officials and bankers in the colony from the introduction of statutory regulation in 1948 until the radical reforms introduced after 1985.

Throughout this book, history appears to repeat itself. The past was easily forgotten, and its lessons ignored. Crises were recurrent, with little change in their causes or in the reluctance of the colonial administration to adopt the obvious remedies. Immigrants from the Mainland were often accused of being mere sojourners with no real commitment to Hong Kong and its well-being. The real birds of passage were the colonial mandarins who could escape the consequences of their erroneous policies because they lived in splendid isolation from the community and thought of somewhere else as home.[71] These were problems which the colony's political system could not solve. Indeed, between 1935 and 1985, its unreformed political arrangements did not foster the sound management of monetary affairs. The classical advocates of laisser faire in the UK had always realised that a government can ignore threats to the stability and integrity of the financial system only at considerable cost to the rest of the economy.[72] That was to be Hong Kong's experience during this period. Fortunately, its remarkable community generated such sustained growth in these years that the colony could afford to write off the costs of the government's policy and regulatory blunders without crippling the economy.

Conclusions — A Political Deficit

Hong Kong's economic 'miracle' was not based on abrupt breaks with the past or 'revolutions' in production processes and business techniques. The miracle lay in the surprising quality of its performance by comparison with other Chinese cities, British colonies and the rest of the Third World. Hong Kong's enduring feature between 1935–85 was its success as an 'enterprise' economy. The underlying business model for Hong Kong society was so resourceful and resilient that trade and production prospered even under the most adverse circumstances. Growth was largely incremental, and previous chapters have shown how each period of turbulence facilitated an economic surge in the years that followed. The flood of refugees in the 1930s seemed far beyond the colony's capacity to provide for them — even at a subsistence level — but investment confidence was buoyant and industry boomed. A similar immigrant influx after World War II was followed by another boom which began with heavy investment in modern mills to meet the demands of textile factories set up before the war. Meanwhile, during the Japanese occupation, local Chinese-owned banks had turned to new sources of profit, and banking was probably the first business to resume normal operations when peace returned. Then, the Cold War separated the banks from their Mainland hinterland and seemed to threaten their survival. But Hong Kong was able to develop a new offshore financial market in the 1950s to serve China's development needs, despite a US embargo and Sterling Area exchange controls. After 1978, Deng Xiaoping's 'open door' policies could have made Hong Kong's Mainland role redundant. Instead, Hong Kong became the nation's leading source of capital and expertise to modernise southern China.

This 'enterprise' economy survived through a process of constant adaptation. But institutions and individuals differed in the speed and success of their adjustments because the changes required were rarely comfortable and not always immediately obvious. This book has shown how often the optimal strategy and rational decision were postponed and how much depended on the relationship with clients and constituents. Factories and trading houses were directly linked to overseas markets, which compelled them to adopt whatever production or business practices their customers preferred. For bankers, the relationship was not so close. Until the arrival of the large family conglomerates in the 1970s, the Hong Kong borrower was too small to be able to exert much power over a bank, and bankers could remain isolated from radical changes in Hong Kong's economic conditions. In the end, however, they were subject to market forces: failure to adapt would be penalised by lost profit opportunities.

The government displayed much the same pattern. For the most part, bureaucratic rule by colonial mandarins and the absence of an elected legislature meant that there was little direct link between government policy and the community's preferences. The colonial administration could pick and choose its constituents among the business élite, and, in the case of banking, officials had considerable discretion in applying the law. There were no elections to penalise political failure or bureaucratic blunders — in marked contrast to business where bankruptcy could follow customer dissatisfaction and incompetent management. But a threat of public protests on the colony's streets was a powerful incentive for officials to discard their usual disdain for depositors and to reform financial regulation. This book illustrates, too, that the colony's political arrangements meant that the government was free to make the community pay the costs of mistakes in managing monetary affairs. Thus, the government regularly bailed out insolvent banks after 1965 for fear of public indignation if depositors were left to lose their savings. The colony's Exchange Fund financed these rescue operations with money that could have been spent directly on the community's well-being.

Causes of Complaint

Economists are divided about the contribution which banks make to economic modernisation.[1] The banking industry's role in Hong Kong's growth has been portrayed in mainly negative terms. An influential view is that, because of its colonial status, Hong Kong's financial resources were diverted from investment in the local economy and devoted, instead, to protecting the British currency.[2] However, the claim that reserves were held in London as a form of colonial tribute is not supported by the evidence reviewed in Chapter 10, 'Colonial Money and Its Management'. The real costs of maintaining large overseas reserves were social, not economic. After the 1965 bank runs, the colonial administration was determined to build up its reserves overseas to cope with future banking crises or financial collapses. This goal was achieved by underspending on social services and the infrastructure in order to boost the surpluses on the annual budget. Thus, the price for ill-regulated banking and mismanaged monetary affairs fell heaviest on the ordinary family. For example, free and compulsory primary education was delayed for as long as possible in the 1960s, and housing was mostly squalid and overcrowded, even in the public sector.[3]

Manufacturers and business in general had little difficulty in borrowing from the banks. Nevertheless, Hong Kong industrialists have been depicted as victims of colonial hostility to the rise of a Chinese manufacturing class that might threaten British financial and commercial dominance. As a result, it has been argued, the banking industry neglected manufacturing, and industrial development was handicapped by a lack of capital.[4] It was true that the colonial administration refused to provide the cheap finance and investment incentives common elsewhere in Asia, and Hong Kong's factory owners had to pay a full market price for credit facilities.[5] Yet, manufacturers managed to flourish without the state subsidies and the specialised development and investment banks common to most Asian economies. Chapter 5, 'Industrial Take-off: Cut-price and Self-financed', explained how the banking industry, HSBC and the foreign-owned banks, in particular, filled the investment gap and financed Hong Kong's industrial take-off.[6]

The colony was frequently urged to follow the example of Singapore and other Asian states and introduce state direction and support of economic development. In practice, the colony was less laisser faire than was realised, and a comparative study of Singapore and Hong Kong found that the colonial administration had established an extensive programme to serve the specific needs of manufacturing in terms of industrial sites and buildings, professional and vocational training, productivity and research programmes that was 'probably as significant as that of Singapore'.[7] Surveys of Asian total factor productivity (TFP) growth suggest that Hong Kong's performance was not inferior to Singapore.[8] South Korea and Taiwan cannot claim that they were more successful than laisser-faire Hong Kong in fostering growth through their industrial development programmes.[9]

The colony's manufacturers had a legitimate grievance, nevertheless. Bankers were slow to expand their industrial lending, especially in the early stages of the manufacturing take-off. For new factory owners, the unenthusiastic response they first encountered from the banks seemed an unnecessary obstacle. For the bankers, however, each stage in the process of economic development demanded radical and often painful changes in their business models.

- China state-owned banks used Hong Kong's advantages to meet the Mainland's development needs, both during the Cold War and after the adoption of the 'open door' policies, which assigned an important role to Hong Kong from 1978. This group first had to adjust to the impact on the Mainland's economic management of ideological campaigns during the Maoist era and then, under Deng Xiaoping, had to learn to compete directly for business against capitalist bankers.

- The local Chinese-owned banks played an indispensable part in the period up to 1949 when Hong Kong was integrated into the Mainland economy. Subsequently, they declined to take the lead in financing the new manufacturers and left that role to the international bankers, for which local banks had to pay a price in terms of growth opportunities.
- The international banks (including HSBC), with their experience of industrial economies and Western markets, financed Hong Kong's manufacturing take-off and its emergence as a major exporter in the 1950s, albeit reluctantly at first. In the 1970s, the international banks adapted with excessive enthusiasm to the development of wholesale and offshore banking, and they were caught up in the corporate collapses of the 1980s.

Informal and Illegal

The success with which the different bank groups made these adjustments was heavily influenced by government policy and legislation and, even more, by the way these were implemented. From 1935 to 1985, Hong Kong was ruled by a colonial administration whose instinct was to avoid intervention in economic matters and social affairs. In this period, the impact of the government's 'informal' decisions on banking culture was at least as powerful as its laws, regulations and official policies, a conclusion which helps to explain the frequent self-destructive behaviour of banks, both individually and as groups.[10]

Before World War II, there was no banking supervision, and senior officials and leading businessmen became alarmed at the potential for financial disaster. Regulation began in Hong Kong with the 1948 Banking Ordinance as part of a 'good neighbour' policy towards the Mainland, where the authorities were complaining that Hong Kong banks were destroying the national currency through activities which contravened both Mainland and Hong Kong law.[11] The 1948 ordinance's intention was to define the boundaries of legitimate business conduct within the colony.[12] This objective was abandoned almost immediately. Instead, the government did its best to free local Chinese-owned banks from the letter of the law. The results were disastrous for the group as a whole, and this 'informal' policy had become a threat to the entire economy by 1965. In addition, the colonial administration allowed gold and currency dealing to flourish, although illegal, and government property policies led to reckless expansion of real estate. These three businesses were key elements in the traditional Chinese banking model. The profits they offered were so attractive to local Chinese-owned banks that they neglected the manufacturing sector in the 1950s and 1960s.

The regulators adopted a new 'informal' policy from 1970 to 1985: enforcement of the Banking Ordinance would be confined to technicalities.[13]

Bank owners and executives could safely conclude that the colonial administration had little interest in either prudence or integrity. This message was reinforced by a formal policy decision not to protect the customers of DTCs even though most of these firms were, to all intents and purposes, banking institutions. In this period, HSBC and foreign-owned banks demonstrated that self-imposed prudence has its limits. 'Conservative' corporate cultures can be abandoned with considerable speed when market conditions change and traditional conventions seem to stand in the way of continued profit growth.

Hong Kong's experience indicates that non-interventionism is not a benign strategy when applied to banking and offers considerable evidence in favour of effective regulation. The primary justification for active supervision of the colony's banking industry was law and order. The market itself proved unable to police banking practices, and the industry could not be trusted to conduct its affairs either honestly or efficiently if left entirely without official supervision. Several chapters have explained why, left to themselves, many banks would not resist the temptations offered by the immediate profits from speculative and even unlawful activities. Bankers, all too frequently, were poor judges either of what would endanger their own survival in the case of the smaller, local institutions or of the severe losses that the crash of speculative markets could inflict on international banks. For the most part, however, the colonial administration chose non-interventionism and introduced reforms grudgingly and only when the survival of British rule would be in direct danger from bank runs or financial instability. Not until 1986, after five decades of crisis and scandal, did the colonial administration accept that only the introduction of professional regulation for the entire financial industry would end the recurrent failures of the financial system.

The colonial administration's poor record in monetary affairs is very relevant to the continuing debate over the contribution of laisser faire to Hong Kong's economic success. The dismal fate of the local Chinese-owned banking sector in the first two post-war decades is a warning of how dangerous the colonial administration's approach to business could be even when officials' motives were to protect local interests. The failure to grasp the consequences of allowing an unlicensed banking sector to proliferate in the 1970s and the inability to understand the mechanics of the money supply are even more significant examples of how costly ill-conceived government policies can be. There is no reason to assume that officials would have been any more successful in managing other sectors of the economy if Hong Kong followed Asian fashion and introduced a state development programme. On this analysis, it can be argued that it would have been disastrous if the colonial administration had acceded to demands from all sectors of the business community in the 1950s and 1960s to abandon laisser faire and take charge of industrial progress.

Ramshackle Rule

Hong Kong became such a splendid example of economic prosperity and community well-being that much of the credit has been attributed to the existence of a relatively small, highly disciplined bureaucracy that provided the management for an increasingly sophisticated community and a high-growth, export-dominated economy.[14] The result is to portray British colonialism as having been ideal for Hong Kong and the unique circumstances which its people faced, whatever its defects elsewhere in the world.[15] Seen close up, however, nothing in the record of administrative officers in managing monetary affairs justified their reputation as 'high-minded mandarins, who sought to achieve the Confucianist ideal of disinterested administration and paternalistic concern for the welfare of the society'.[16] In fact, until the 1980s, the Hong Kong government in general presented much the same 'ramshackle appearance' that has been described as typical of public administration throughout the British colonial empire.[17]

Among senior Hong Kong officials, there was widespread hostility towards modern standards of professionalism for which, in the case of banking, budget stringency was invoked as an excuse. In reality, the annual licence fees paid by the banks were more than sufficient to pay for professional inspections in the 1950s.[18] The government simply saw no obligation to use this revenue to employ adequately trained staff to oversee the banking industry.[19] The acceptance of inferior standards reflected an important preconception of the colonial culture: quality was a Western prerogative. This attitude encouraged antipathy towards using professional expertise and mistrust of Western-trained professionals. 'A professional man who has done his training in a wealthy country when given a job to do, naturally wants to do it to the highest professional standards he knows', the Financial Secretary complained in 1962. 'Because of the comparative economic position here', he went on, professionals ought to recognise that Hong Kong should work to lower standards.[20] During this decade, the colonial administration repeatedly warned the community not to compare the quality of its programmes with the UK or Commonwealth countries.[21] By the 1980s, Hong Kong was a mature industrial economy and about to become a leading international business and financial centre. Now, another Financial Secretary denounced those who demanded improvements in public services as irresponsible do-gooders advocating unaffordable Western innovations.[22]

Economic Darwinism was given ample scope, with bank regulation derided by officials as a policy for protecting 'silly people'.[23] Some government policies discussed earlier in this book seemed wilfully harmful to the community's well-being.

- Officials delayed the introduction of banking supervision to protect depositors on the grounds that Chinese bankers would object and that the Chinese community did not expect its deposits to be safe and made little fuss when banks failed.

- The colonial administration deliberately facilitated gold and currency smuggling which were important business activities for many banks. To oblige the Portuguese rulers of Macao, Hong Kong ignored the connection between this illegal trade and drug trafficking.
- The colonial administration was anxious to attract overseas financial institutions to Hong Kong. As a result, international banks were not made subject to the statutory limits on lending, and regulation of DTCs was introduced only reluctantly in the 1970s, despite evidence that their activities fuelled inflation and financed dangerously speculative projects.

It is easy to find parallels in other policy areas that echoed the attitudes towards monetary affairs just quoted and which similarly appeared to put the interests of the least deserving groups ahead of those of the general public. For example:

- Legislation to reduce the length of the working day for factory workers was postponed on the grounds that the business community objected and that Chinese workers liked long hours.[24]
- The colonial administration allowed violent triad gangs to hold cleaning contracts for public housing, which gave them daily access to every household on a housing estate. Officials regarded this arrangement as acceptable because they received no complaints of extortion or intimidation from the tenants.[25]
- The colonial administration was anxious to retain the services of overseas professionals. For this reason, a confidential policy — concealed from the legislature — guaranteed every expatriate child a place in a primary or secondary school from the mid-1950s. Compulsory education for Chinese children was not introduced until 1971 at the primary level, and not until seven years later at the secondary level.[26]

The explanation for this state of affairs lay partly in the political arrangements that left the colonial administration free from community supervision and public accountability. For example, the truth about the dubious decisions listed earlier in this section was buried in official files to which the public had no access. The Executive and Legislative Councils were no safeguard, for government appointees to the legislature had little incentive to challenge official members. But when the process of slow, modest political reforms began in 1985, and a handful of elected members joined the legislature, the quality of financial regulation and monetary policy was rapidly transformed.

The Political Deficit

The connection between the management of monetary affairs and political reform was a discussion topic within the Colonial Office during the 1950s. One London official claimed that the absence of democracy was a guarantee of sound finances.[27]

> ... a Governor with a nominated Legislative Council and a climate of effective opinion, business opinion, which favours private enterprise rather than government activity, should be the best safeguards of responsible and economical financial policy in the colony — certainly better safeguards than would be a constitution giving the vote and influence to the working classes, as distinct from the business classes, because the working classes might be expected to require more of a welfare state and hence a great increase in government expenditure.

Representatives from the business and professional classes filled the colonial power structure, but their presence did not ensure sound policies even in commercial and financial affairs. Appointees from this élite dominated the network of advisory committees and statutory bodies which, in the absence of elections, provided the colonial administration with a substitute for popular endorsement by the Chinese community. But they were not a substitute for the professional policy-maker even when their own commercial survival was in the balance. Thus, when the battle against Western protectionism intensified in the 1960s and a long-term strategy to defend Hong Kong's manufactured exports was urgently needed, business leaders were, for the most part, dangerously confused about what to do, and they had to be cajoled into sensible decisions by senior officials.[28]

The bankers' record was no better. They were prominent in the councils that governed Hong Kong, as well as at the lower levels of the power structure. Somehow, the bankers made little difference to the colonial administration's policy-making or regulatory programmes for banks and financial markets. They did not convince the government to intervene ahead of financial disasters, and they did not call officials to account for costly collapses. Yet, a recurrent theme of this book is how clear were the market signals that disaster was approaching. It was true that HSBC's size and status gave it some leverage over banking policy. But although it acted as a quasi-central bank during the period covered by this book, its private representations and public criticisms did not persuade the colonial administration to introduce timely measures to forestall the dangers of bank scandals and financial failures either in the early 1960s or two decades later.[29] Only after the colonial administration itself made an unconditional commitment to professional regulation of financial institutions in 1986 did the scandals stop. Stability then reigned unshaken by severe political and economic shocks during the rest of the century. Hong Kong's experience is an interesting demonstration that 'irregular' and 'informal' banking practices are not the outcome of excessive government interference with an otherwise efficient business sector, as is often argued.

In the last resort, it was the political environment that mattered most. Banking reforms were piecemeal between 1935 and 1985 and driven mainly by the colonial administration's assessment of public sentiment. During the recession of the mid-1930s, they were a priority because of the fears of general economic collapse. They lost their urgency when a boom started in 1938. The case for reforms revived after Japan's defeat when Hong Kong's banking practices led to outright confrontation between the Mainland and the colony in the dying days of the Guomindang. There were plenty of bank closures and occasional bank runs in the 1950s which were ignored by the colonial administration because the public did not take to the streets. In the 1960s, the political damage caused by bank failures in an age of increasing mass banking became too serious to ignore. Not only were banking reforms introduced, but the government realised that it was no longer politically possible to force depositors to suffer the costs of a bank failure. Full acceptance by the government of responsibility for the integrity of banks and financial markets became unavoidable in 1985 because the political landscape had been transformed by the previous year's Sino-British Joint Declaration. This fixed the date for the end of British rule and unleashed growing demands from the community for greater control over its own affairs. The first indirect elections to the legislature in 1985 made officials accountable in public for the consequences of their policies.[30]

In the absence of accountable government in Hong Kong, only the UK authorities were in a position to insist on reforms, either in the quality of government performance generally or in banking and monetary affairs. London rarely exercised its constitutional powers to force improvements on the colony. There was an obvious irony, for example, in the Bank of England's campaign to improve banking standards at the international level in the 1970s, a decade in which the quality of the colony's management of banking and monetary affairs was allowed to deteriorate dramatically.[31] Thus, despite the unremitting pace of the colony's development, the government was able to cling to the policies and practices in managing monetary affairs that had been designed for African and Asian territories whose financial systems were rudimentary and whose principal banking and commercial institutions were controlled from London. Hong Kong officials made little effort to adapt the traditional monetary arrangements of the currency board to the very different economic conditions of Hong Kong. Indeed, they did not seem to realise that Hong Kong was an exception to the rules and restrictions that applied to the rest of the British Empire

The unacknowledged heroes of Hong Kong's modernisation were the community at large. It might be argued that, by comparison with Maoist extremism on the Mainland and misrule in many other parts of the region during the period, Hong Kong's people were well-off and, in any case, had little choice but to put up with conditions in the colony. Although prudence and self-interest have not prevented communities elsewhere from self-destructive behaviour, Hong Kong's people did not riot when banks failed. Nor did they withdraw their cooperation from the colonial administration. They did not abandon their trust in the banking system as a whole, even when well-known banks had forfeited the confidence of their depositors. They were prepared to patronise foreign banks regardless of the cultural discomforts they often encountered. All in all, the public understood the advantages which modern banking provided for ordinary families as well as to the affluent. They brought the same personal discipline and social maturity to their banking affairs as they did to the rest of their lives, which was fortunate because they had a great deal to provoke them over the years. As a result of this public patience and tolerant pragmatism, Hong Kong prospered on a far greater scale than any other British colony and emerged in the 1980s as the premier business centre for the Asian region and the financial dynamo for the spectacular rise of China in the world economy.

Notes

The following abbreviations are used in the notes:

CO: United Kingdom Colonial Office files in the Public Records Office London
FEER: *Far Eastern Economic Review*
GIS: *Government Information Services* (Daily press releases of the Hong Kong government)
HH: *Hong Kong Hansard* (Official report of the proceedings of the Hong Kong Legislative Council)
HKRS: Government files in the Public Records Office Hong Kong

INTRODUCTION

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25. This sentiment was noted by Shou-eng Koo, 'The Role of Export Expansion in Hong Kong's Economic Growth', *Asian Survey*, Vol. 8, No. 6 (June 1968), p. 508–9.
26. See Y. M. Yeung, 'Introduction', in Y. M. Yeung and Sung Yun-wing (eds), *Shanghai Transformation and Modernization under China's Open Policy* (Hong Kong: Chinese University Press, 1996), pp. 2, 17–8; Wong Siu-lun, 'The Entrepreneurial Spirit: Shanghai and Hong Kong Compared', *ibid.*, p. 43; Joseph Yam, Hong Kong Monetary Authority Chief Executive, *GIS*, 4 September 2000; *China Daily* Hong Kong edition, 18 May 2002. Even Prime Minister Wen Jiabao's assurances of official commitment to a flourishing Hong Kong failed to convince the sceptics. *Hong Kong Economic Journal*, 6 April 2006.
27. The adjustment of the Bank of China to the new Chinese government was made easier by the fact that it had long functioned on lines that bore 'a striking resemblance to the collective socialist organization known under the People's Republic as the *danwei* — the ubiquitous work unit'. Wen-Hsin Yeh, 'Corporate Space, Communal Time: Everyday Life in China's Bank of China', *American Historical Review*, Vol. 100, No. 1 (February 1995), p. 99.
28. 'More than 60 per cent', according to its chairman in 1988. Kevin Rafferty, *City on the Rocks. Hong Kong's Uncertain Future* (London: Viking, 1989), p. 288.
29. HSBC's privileges and how it was stripped of them are analysed in Leo F. Goodstadt, 'Crisis and Challenge: The Changing Role of the Hongkong & Shanghai Bank, 1950–2000', *HKIMR Working Paper No. 13/2005*, July 2005.
30. This assertion comes from one of Hong Kong's most experienced regulators but reflects research covering a large number of banking failures from a variety of countries. Andrew Sheng, 'Bank Restructuring Revisited', in Caprio *et al* (eds), *Preventing Bank Crises: Lessons from Recent Global Bank Failures*, p. 325.
31. See Katherine H. Y. Huang Hsiao, 'Money and Banking in the People's Republic of China: Recent Developments', *China Quarterly*, No. 91 (September 1982), pp. 464, 468.
32. The ideological barrier to direct participation in 'capitalist' activities did not totally prevent the group from participating in such business before 1979 with approval from Beijing.
33. Tommaso Padao-Schioppa, *Regulating Finance: Balancing Freedom and Risk* (Oxford: Oxford University Press, 2004), p. 7. This distinguished central banker makes a strong case for regulation in the current banking environment. The analysis presented here is indebted to this work.
34. London directed that special legislation be rushed through in a single sitting to

remedy this defect (but at no penalty to the banks involved). A. G. Leach, Attorney General, *HH*, 20 March 1895, pp. 38–9.

35. DFS minute to Financial Secretary, 25 January 1950. HKRS41-3-3044 'The Nam Sang Bank: 1. Application from … for a Banking Licence; 2. Balance Sheet of … 3. Cancellation of the Licence of …'.
36. The BCCI collapse provoked runs on four other banks, including Standard Chartered, a note-issuer. In marked contrast to previous decades, no financial crisis developed because the banking system and its regulators were well able to cope with this challenge. See Michael Taylor, 'Hongkong: Exchange of Views', *FEER*, 17 October 1991.
37. A brave bid has been made to prove that the Hong Kong public had adequate information to protect its own interests without government assistance. Kam Hon Chu, 'Free Banking and Information Asymmetry', *Journal of Money, Credit and Banking*, Vol. 31, No. 4 (November 1999), p. 759. This attempt must be regarded as unconvincing because the author gives insufficient attention to the window dressing permitted in published bank accounts to conceal the true liquidity ratios of individual banks, data which were vital to the author's hypothesis.
38. For a detailed analysis of this data deficit, its causes and consequences, see Leo F. Goodstadt, 'Government without Statistics: Policy-making in Hong Kong 1925–85, with special reference to Economic and Financial Management', *HKIMR Working Paper* No. 6/2006, April 2006.
39. Of 14 Asian economies reviewed in a leading historical overview, only Nepal's GDP series starts later than Hong Kong (1962). South Korea's series begins in 1953 (because of the war) and Singapore's in 1960. Balance of payments estimates show a similar pattern: South Korea's series begins in 1951 and Malaysia's in 1956 (and included Singapore until 1963); while the new state of Bangladesh starts its series in 1973. B. R. Mitchell, *International Historical Statistics Africa, Asia & Oceania 1750–1993* (London: Macmillan Reference Ltd, 1998, 3rd edition), pp. 1028–38, 1091–1107.
40. The initial publication covered only 1966–71. C. P. Haddon-Cave, Financial Secretary, *HH*, 28 February 1973, pp. 457–8.
41. The estimates started with 1997. 'HK's Balance of Payments (BoP) Account for 1997 … ', *GIS*, 23 April 1999. The colonial administration refused to compile these statistics even though London was publishing its own estimates from the 1960s without any input from Hong Kong. M. 1. AS(E3) to DES, 20 June 1970; M. 3. Financial Secretary to DES, 24 June 1970; M. 5. and 7. AS(E3) to Financial Secretary, 26 and 29 June 1970; Governor saving despatch to Secretary of State for the Colonies, No. 781, 29 June 1970. HKRS163-9-217 '(A) Meeting of Senior Commonwealth Finance Officials 1970. Sterling Area Balance Of Payments — Developments and Prospects To Mid-1971; (B) Overseas Sterling Area Countries Statistics'.
42. James Riedel, *The Industrialization of Hong Kong* (Tübingen: J. C. B. Mohr [Paul Siebuck], 1974), p. 7.
43. Acting Commissioner of Labour memo to Colonial Secretary, 1 September 1952, covering a report by S. T. Kidd of 26 June 1952. HKRS22-1-19 'Labour Statistics — Policy'; (1A) Commissioner of Labour memo to Colonial Secretary, 'I.L.O. Fifth Asian Regional Conference', 22 January 1963. HKRS1017-2-2 'Labour Department: General Policy (Gibbs Report 1963)'; (19) Commissioner of Labour to

Commissioner, Census & Statistics, 15 May 1970, 'Collection of Statistics on Employment and Related Subjects'. HKRS532-3-22 'Employment Statistics Bill 1972'.

44. M. 52. Colonial Secretary to Governor, 23 December 1948. HKRS170-2-1 'Census Estimate of Population'; M. 9. DCS to Colonial Secretary, 8 December 1954; M. 4. Colonial Secretary to Governor, 27 February 1954; (10) Statistician minute to Director of Commerce and Industry, 15 December 1958; (11) M. 71. Director of Commerce and Industry to DFS(E), 15 December 1958. HKRS22-1-96 'Population Census 1961'.
45. See the following enclosures for 1953: (127), (129), (132); W. Ramsay-Main (Hong Kong) letter to F. F. Richmond (Colonial Office), 27 December 1954; Governor to Secretary of State for the Colonies, 17 April 1957. HKRS163-1-625 'Banking Statistics:1. Supply of ... to S. of S.; 2. Policy Correspondence Concerning'.
46. David Carse, Deputy Chief Executive, Hong Kong Monetary Authority, *GIS*, 3 July 1996.
47. (294) J. J. Cowperthwaite letter to W. F. Seale (Colonial Office), 11 August 1959. HKRS163-1-625.
48. Although officials soon registered doubts about the quality of bank accounts. See (1) H. J. Tomkins memo to Financial Secretary 5 March 1965, 'Suggested Measures to Deal with the Aftermath of the Failure of the Canton Trust & Commercial Bank, Limited', p. 2. HKRS163-3-249 'Banking Emergency 1965 — Matters Arising from ... Staff etc'.
49. Haddon-Cave, *HH*, 8 January 1975, pp. 342–3; F. W. Li, appointed member, *ibid.*, 15 November 1978, p. 172.
50. Catherine R. Schenk, 'The Origins of Anti-competitive Regulation: Was Hong Kong 'Over-banked' in the 1960s?', *HKIMR Working Paper No. 9/2006*, July 2006, pp. 17–27.
51. Branch staff, principally R. J. Brereton and Uisdean McInnes, who, in addition to regular briefings, allowed me to copy data directly from the files containing the Branch's confidential statistical summaries on the banking sector and exchange controls. I was also provided with detailed information on banking conditions by the late Sir Philip Haddon-Cave while he was Financial Secretary (1971–81). The colonial administration provided this access because officials were anxious to prevent the author from misreporting financial trends in the *Far Eastern Economic Review* and the London *Times* and, later, in such specialist publications as *Euromoney* and *Asiabanking* during a period of considerable banking instability and currency uncertainty.
52. P. Selwyn minute to Sir William Gorell Barnes, 6 July 1961. CO1030/1300 'The Future of Hong Kong'.
53. (138) Selwyn (Colonial Office) letter to Cowperthwaite, Financial Secretary, 21 February 1966; (139) Cowperthwaite letter to Selwyn, 19 March 1966; (141) J. Blades (Ministry of Overseas Development) to Cowperthwaite, 28 April 1966; (142) M. D. A. Clinton (Hong Kong) letter to Blades, 11 June 1966. HKRS163-9-88 'Trade. Balance of Payment Statistics. Policy Regarding Preparation of ...'; *Report on the National Income Survey of Hong Kong* (Hong Kong: Government Printer, 1969).
54. A comparison of the final revised estimates with previous figures and well-regarded academic exercises is instructive. *2003 Gross Domestic Product* (Hong Kong: Census and Statistics Department, 2004) p. 14; Cheng Tong Yung, *The Economy of Hong*

Kong (Hong Kong: Far East Publications, 1977), 'Table 8.1. Estimates of G. D. P.', p. 145.

55. It should be noted, nevertheless, that the quality of the statistical information available throughout the Third World was generally poor. Other Asian governments, however, did not refuse to recognise the contribution that good statistics could make to sound policies. A succinct and amusing comment on this issue can be found in Ashok Mitra, 'Underdeveloped Statistics', *Economic Development and Cultural Change,* Vol. 11, No. 3, Part 1 (April 1963).
56. See Lord Hailey's comments in F. Searle *et al*,'Colonial Statistics', *Journal of the Royal Statistical Society. Series A (General),* Vol. 113, No. 3 (1950), p. 291. This review indicated that Hong Kong lagged behind other colonial territories.
57. See Stephen Chiu, *The Politics of Laissez-faire. Hong Kong's Strategy of Industrialization in Historical Perspective* (Hong Kong: Hong Kong Institute of Asia-Pacific Studies, 1994), pp. 75–7.
58. The lack of special facilities for industrial lending has been interpreted as evidence of Hong Kong's immaturity as a financial centre. Jao, 'The Rise of Hong Kong as a Financial Centre', *Asian Survey,* p. 693. An alternative — though not very convincing — argument has been made that Hong Kong manufacturers were averse to increasing their size and thus did not take full advantage of all the sources of finance available to them. Irene Eng, 'Flexible Production in Late Industrialization: The Case of Hong Kong', *Economic Geography,* Vol. 73, No. 1 (January 1997), pp. 36–7.
59. Complaints about the lack of bank support began in the 1950s. Stephen W. K. Chiu *et al*, *City States in the Global Economy: Industrial Restructuring in Hong Kong and Singapore* (Boulder: Westview Press, 1997), p. 34.
60. Chiu, *The Politics of Laissez-faire. Hong Kong's Strategy of Industrialization in Historical Perspective,* p. 66.
61. This case is presented vigorously by Alex H. Choi, 'State-Business Relations and Industrial Restructuring', in Tak-wing Ngo (ed), *Hong Kong's History. State and Society under Colonial Rule* (London: Routledge, 1999), pp. 144, 150, 154, in particular.
62. For example, Douglas T. Stuart, 'Paris and London: Between Washington and Beijing', in Yu-ming Shaw (ed), *Mainland China. Politics, Economics and Reform* (Boulder: Westview Press, 1986), pp. 561–3.
63. Cowperthwaite, *HH,* 1 March 1967, p. 83.
64. The comments of the two governments are recorded in CO1030/1718 'The Drug Problem in Hong Kong'.
65. Steve Tsang, *A Modern History of Hong Kong* (London: I. B. Tauris, 2004).
66. The exceptional subordinates who were highly respected as deputies were Cowperthwaite's predecessor, A. G. Clarke, and Cowperthwaite himself.
67. As a prominent civil servant frankly confessed. K. Y. Yeung, 'The Role of the Hong Kong Government in Industrial Development', in Edward K. Y. Chen *et al* (eds), *Industrial and Trade Development in Hong Kong* (Hong Kong: Centre of Asian Studies, 1991), p. 49.
68. The best-known example is the US savings and loan collapses. They suffered high levels of insolvency after they were deregulated without simultaneously reforming the deposit insurance system, which encouraged high-risk lending. Geoffrey P. Miller, 'Banking Crises in Perspective: Two Causes and One Cure', in Caprio *et al* (eds), *Preventing Bank Crises: Lessons from Recent Global Bank Failures,* p. 280.

69. The importance of effective enforcement of legislation in the development of banking systems has been demonstrated in a study of 49 jurisdictions including Hong Kong. Ross Levine, 'The Legal Environment, Banks, and Long-Run Economic Growth', *Journal of Money Credit and Banking*, Vol. 30, No. 3, Part 2 (August 1998), p. 598.
70. William J. Baumol, 'Entrepreneurship: Productive, Unproductive, and Destructive', *Journal of Political Economy* Vol. 98, No. 5, Part 1 (October 1990), pp. 895, 899, 917.
71. See James Hayes, 'East and West in Hong Kong: Vignettes from History and Personal Experience', in Elizabeth Sinn (ed), *Between East and West. Aspects of Social and Political Development in Hong Kong* (Hong Kong: Centre of Asian Studies, 1990), pp. 8, 11.
72. A. J. Youngson, *Hong Kong's Economic Growth and Policy* (Hong Kong: Oxford University Press, 1982), p. 131.

CHAPTER 1

1. Ambrose Yeo-chi King, 'Administrative Absorption of Politics in Hong Kong: Emphasis on the Grass Roots Level', in Ambrose Y. C. King and Rance P. L. Lee (eds), *Social Life and Development in Hong Kong* (Hong Kong: Chinese University Press, 1981), p. 129.
2. Ian Scott, *Political Change and the Crisis of Legitimacy in Hong Kong* (London: Hurst & Company, 1989), p. 328.
3. See Ian Scott's analysis of this issue, 'Introduction' in Ian Scott (ed), *Institutional Change and the Political Transition in Hong Kong* (London: Macmillan, 1998), p. 5; 'The Public Service in Transition: Sustaining Administrative Capacity and Political Neutrality', in Robert Ash *et al* (eds), *Hong Kong in Transition. The Handover Years* (London: Macmillan Press Ltd, 2000), p. 154.
4. Jermain T. M. Lam, *The Political Dynamics of Hong Kong under Chinese Sovereignty* (Huntington: Nova Science Publishers, Inc., 2000), p. 94; Yun-han Chu, 'State Structure and Economic Adjustment of the East Asian Newly Industrializing Countries', *International Organization*, Vol. 43, No. 4 (Autumn 1989), 662–4.
5. Siu-kai Lau, *Society and Politics in Hong Kong* (Hong Kong: Chinese University Press, 1982), pp. 58–9.
6. Sir Robert Black letter to Sir Hilton Poynton (Colonial Office), 19 July 1958. HKRS270-5-44 'Commercial and Industrial Development — Major Policy'.
7. *HH*, 26 February 1964, p. 36.
8. *HH*, 24 February 1960, pp. 63–4.
9. M. 4. Acting Director of Supplies, Commerce and Industry to Labour Officer, 31 July 1947. HKRS163-1-305 'Retail Price & Wages Index. Preparation of …'.
10. Acting Financial Secretary minute to Colonial Secretary, 25 April 1957. HKRS163-1-634 'Public Utilities Companies Proposed Control of the Charges and Dividends levied by …'.
11. 'Completely new industries' were his actual words. *HH*, 30 March 1962, pp. 131–4 and 26 February 1964, p. 45.
12. Philip Haddon-Cave, 'Introduction. The Making of Some Aspects of Public Policy in Hong Kong', in David Lethbridge (ed), *The Business Environment in Hong Kong* (Hong Kong: Oxford University Press, 1980), p. xi.
13. The absence of any economic justification for these loans is revealed by a

61. John Atkin, 'Official Regulation of British Overseas Investment', *Economic History Review*, Vol. 23, No. 2 (August 1970), pp. 329–30.
62. For example, King, *The Hong Kong Bank in the Period of Development and Nationalism, 1941–1984. From Regional Bank to Multinational Group*, pp. 340–4.
63. Monopolies and Mergers Commission, *The Hongkong and Shanghai Banking Corporation. Standard Chartered Bank Limited. The Royal Bank of Scotland Group Limited. A Report on the Proposed Mergers* (Cmnd 8472/1982), pp. 88, 90.
64. The conflicts between HSBC executives and the colonial administration are reviewed in Leo F. Goodstadt, 'Crisis and Challenge: The Changing Role of the Hongkong & Shanghai Bank, 1950–2000', *HKIMR Working Paper No.13/2005*, July 2005. See also Tony Latter, 'Rules versus Discretion in Managing the Hong Kong Dollar, 1983–2006', *HKIMR Working Paper No.2/2007*, January 2007, pp. 8, 14, 16.
65. King, *The Hong Kong Bank in the Period of Development and Nationalism, 1941–1984. From Regional Bank to Multinational Group*, pp. 561, 664–9, 916–9 in particular. For the Bank's attempts to adapt its traditional culture and its presentation for the post-colonial era, see Steven Irvine, 'The Culture That Powers HongkongBank', *Euromoney*, February 1997, pp. 44–50.

Conclusions

1. For a summary of the key issues, see Sanghoon Ahn and Philip Hemmings, *Policy Influences on Economic Growth in OECD Countries: An Evaluation of the Evidence*, Economics Department Working Papers No. 246 (Paris: OECD, 2000), pp. 41–3.
2. Alex H. Choi, 'State-Business Relations and Industrial Restructuring', in Tak-Wing Ngo (ed), *Hong Kong's History. State and Society under Colonial Rule* (London: Routledge, 1999), pp. 147–50.
3. J. J. (later Sir John) Cowperthwaite, Financial Secretary, *HH*, 28 February 1962, p. 57; 25 February 1970, pp. 368–9; 24 February 1971, p. 419. By 1971, the government had rehoused 1.4 million people (36 per cent of the population). Living space per person in public housing was 2.6 square metres compared with 4.7 square metres per person in the private sector. Census and Statistics Department, 'Overcrowding and Sharing of Housing Accommodation in Hong Kong as Revealed in the 1971 Census', *Hong Kong Monthly Digest of Statistics*, January 1973, p. 65.
4. Stephen W. K. Chiu *et al.*, *City States in the Global Economy: Industrial Restructuring in Hong Kong and Singapore* (Boulder: Westview Press, 1997), pp. 34, 66.
5. James Riedel, *The Industrialization of Hong Kong* (Tübingen: J. C. B. Mohr [Paul Siebuck], 1974), p. 110.
6. It should be noted that Korean industrialists also appear to have relied on the banking system to finance their take-off. Sylvia Maxfield, 'Financial Incentives and Central Bank Authority in Industrializing Nations', *World Politics*, Vol. 46, No. 4 (July 1994), pp. 582–3.
7. Teresa Y. C. Wong, 'A Comparative Study of the Industrial Policy of Hong Kong and Singapore in the 1980s', in Edward K. Y. Chen *et al* (eds), *Industrial and Trade Development in Hong Kong* (Hong Kong: Centre of Asian Studies, 1991), pp. 264–5.
8. Deepak Lal and H. Myint, *The Political Economy of Poverty, Equity, and Growth: A Comparative Study* (New York: Oxford University Press, 1996), p. 98; Leonard K. Cheng, 'Strategies for Rapid Economic Development: The Case of Hong Kong',

Contemporary Economic Policy, Vol. 13. No. 1 (1995), pp. 33–4. For a good overview of the debate on this issue, see Edward K. Y. Chen, 'The Total Factor Productivity debate: Determinants of Economic Growth in East Asia', *Asian-Pacific Economic Literature*, Vol. 11, No. 1 (May 1997).

9. I. M. D. Little, *Collection and Recollections Economic Papers and their Provenance* (Oxford: Clarendon Press, 1999), pp. 197, 202, 228–9. 237–8.
10. See William J. Baumol, 'Entrepreneurship: Productive, Unproductive, and Destructive', *Journal of Political Economy* Vol. 98, No. 5, Part 1, (October 1990).
11. Sir Alexander Grantham, Governor, *HH*, 19 March 1948, p. 57; (262) AFS to Attorney General, 15 December 1947. HKRS163-1-403 'China Trade and Commerce Aide Mmemoire re Closer Cooperation between China and Hong Kong in Connection with Trade and Exchange Control'.
12. J. B. Griffin, Attorney General, *HH*, 17 December 1947, p. 334.
13. See the admission about past policy by Sir John Bremridge, Financial Secretary, *HH*, 19 March 1986, p. 771.
14. This flattering view is also a Mainland verdict, despite 'national oppression … under British colonial rule'. Liu Shuyong, *An Outline History of Hong Kong* (Beijing: Foreign Languages Press, 1997), p. 132.
15. On the case against such flattering analyses especially by British historians, see Esther M. K. Cheung, 'The Histories of Hong Kong', *Cultural Studies*, Vol. 15, Issue 3 & 4 (July 2001), pp. 566–8, 564–90.
16. Theodore Geiger, *Tales of Two City-States: The Development Progress of Hong Kong and Singapore* (Washington: National Planning Association, 1973), p. 146.
17. John Darwin, *Britain and Decolonisation: The Retreat from Empire in the Post-War World* (London: Macmillan, 1988), pp. 30–1.
18. Accountant General, (38) Circular 34 'Far East Commercial Bank Ltd — Bank Licensing Policy', 18 September 1951. HKRS163-1-679 'Banking Advisory Committee'.
19. The government's attitude is illustrated by the Financial Secretary's anxiety to retain an annual licence fee for revenue purposes even if the 1948 Banking Ordinance were abolished, as he hoped. (8) Financial Secretary letter to Sir Mankam Lo, 25 March 1952. HKRS41-1-6691 'Banking Operations Legislation for Control of …'
20. The absurdity of Cowperthwaite's assertions was highlighted by his admission: 'I myself would not find it easy to say with precision what lowering of standards is necessary or justifiable'. *HH*, 28 February 1962, p. 58.
21. Cowperthwaite, *HH*, 28 February 1962, p. 58; 26 February 1964, p. 52; 25 February 1965, p. 75; 24 February 1966, pp. 72–3; 24 February 1971, p. 417.
22. Bremridge, *HH*, 29 February 1984, p. 592.
23. See HKRS41-1-3044 'The Nam Sang Bank:1. Application from … for a Banking Licence; 2. Balance Sheet of … ; 3. Cancellation of the Licence of …'.
24. Alistair Todd (Hong Kong) letter to W. S. Carter (Colonial Office), 1 May 1965; I. M. Lightbody (Hong Kong) letter to A. St. J. Sugg (Colonial Office), 14 October 1965. CO1030/1664 'Labour Legislation — Hong Kong'.
25. Officials knew that the triads involved had records of violence. M.1., 21 July 1963; M. 3., 23 July 1963; Governor's minute, 26 July 1963; Commissioner of Police memo, 10 May 1963; Commissioner for Resettlement memo, 2 July 1963. HKRS163-1-2854, 'Cleansing Services in Resettlement Estates'.

26. Details of this piece of racial discrimination can be found in HKRS163-1-1707 'Education. Educational Provision for English-speaking Children', in particular: M.6. Director of Education to Colonial Secretary, 8 February 1954; (8) Acting Director of Education memo to Colonial Secretary, 14 October 1954; M.83. Financial Secretary to Colonial Secretary, 10 March 1956; M.84. Colonial Secretary to Governor, 14 March 1956; M.85. Governor to Colonial Secretary, 16 March 1956; (33) Agenda Item for Finance Committee Meeting, 11 July 1956; M.210. note by Financial Secretary, 20 July 1962.
27. K. G. Ashton minute to W. G. Hulland, 10 July 1956. CO1030/392 'Financial Devolution Hong Kong'. This argument against democracy was challenged on this file by two other London officials. See the minutes by J. B. Johnston (14 July 1956) and R. J. Vile (27 August 1956).
28. Leading manufacturers even opposed the creation of an organisation to promote Hong Kong products in overseas markets. On the government's views of manufacturers' attitudes, see HKRS163-1-2861 'Cotton Textiles Allocation of Quota to Restricted Markets'. On the government's difficulties in getting cooperation from manufacturers, see HKRS270-5-56 'Cotton Advisory Board. Minutes of Meeting'. For manufacturers' opinions, see Minutes of the fourth Meeting of the General Committee of the Federation, 26 August 1960, p. 3; Minutes of an Emergency Meeting, 18 July 1961, p. 2. HKRS270-5-39 'Federation of Hong Kong Industries Minutes of Meetings of the General Committee'; Minutes of 73rd meeting, 3 January 1964, p. 2; Minutes of 75th meeting, 21 February 1964, p. 3; Minutes of 78th meeting, 24 April 1964, p. 3. HKRS163-1-118 'Federation of Hong Kong Industries Minutes of the Meetings of the ...'.
29. HSBC's frustrations run contrary to the optimism expressed about the ability of powerful banks in the private sector to promote conservative banking and monetary policies as long as the government does not have to finance substantial budget deficits. Sylvia Maxfield, 'Financial Incentives and Central Bank Authority in Industrializing Nations', *World Politics*, Vol. 46, No. 4. (July 1994), pp. 564–5.
30. An excellent analysis of the dramatic change in Hong Kong's political environment in the 1980s can be found in B. Karin Chai, 'Export-Oriented Industrialization and Political and Class Development: Hong Kong on the Eve of 1997', in Richard Harvey Brown and William T. Liu (eds), *Modernization in East Asia: Political, Economic, and Social Perspectives* (Westport: Praeger, 1992), pp. 111–2.
31. On London's key role in promoting international cooperation to improve bank regulation, see Ethan B. Kapstein, 'Resolving the Regulator's Dilemma: International Coordination of Banking Regulations', *International Organization*, Vol. 43, No. 2 (Spring 1989), p. 329.

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