

# **Painful Transitions: The Impact of Economic Growth and Government Policies on Hong Kong's 'Chinese' Banks, 1945-70**

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## **Summary**

The paper uses unpublished statistics and other material from the Public Records Office to analyse the decline of the traditional Chinese banking model as Hong Kong made its transition to a mature manufacturing economy.

Local Chinese banks were a major feature of the Hong Kong and Mainland financial business landscapes immediately after World War II when they flourished by helping clients to avoid post-war controls on trade, currency and gold dealing. Their success led to a Sino-British confrontation and the introduction of Hong Kong's first banking legislation.

Benign neglect by government regulators during the 1950s left banks vulnerable to bank runs, which hit nine local Chinese banks between 1961 and 1965. In response, the Government introduced modern, comprehensive banking legislation in 1964. By this date, the local Chinese banks numbered only 38 compared with 113 in 1948.

The paper presents new data on the lending patterns of local Chinese banks. The statistics reveal a significant lack of enthusiasm for manufacturing, which was expanding rapidly in this period. They stuck instead to their traditional clientele. As a result, these banks were less successful in competing against foreign rivals than had been the case historically on the Mainland.

A substantial share of the local Chinese banks' business disappeared after 1949, when the Chinese Communist Party came to power, took control of external trade and quickly eliminated speculation, smuggling and black markets. The paper analyses how these banks survived this blow by reviewing three other major elements in their business model.

- Gold dealing had also seemed to face extinction in 1949 when the IMF ban on free gold dealing was enforced. However, this trade recovered after Hong Kong became a major bullion centre for the region, thanks to gold smuggling via Macao.
- The paper presents unpublished data showing how a new international money market developed to meet China's need for convertible sterling during the 'Cold War'.
- The special attractions of the property sector for local Chinese banks are analysed and why they disregarded the dangerous volatility of the real estate market, with disastrous consequences in the 1960s.

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