Obstacles to Bank Lending to SMEs in Hong Kong: a historical perspective

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Hong Kong's industrialisation was characterised by the dominance of small-scale enterprise and a strongly laissez-faire approach to finance and banking by the state. This paper addresses the question whether banks failed Hong Kong's industry by not lending to viable manufacturing customers due to structural obstacles that might have been overcome by the state. The analysis includes an investigation of the debate over a state-sponsored development bank, the efforts in the 1970s to overcome market failure through guarantees, and the lending practices of a variety of Hong Kong banks. The evidence does identify a bias in lending toward larger companies but does not provide a convincing case of market failure. There were a variety of sources of finance in addition to bank facilities available to small business, and the efforts to overcome identified market failure have not been successful.

The growth performance of the East Asian Newly Industrialising Economies from the mid-1950s until 1997 was keenly observed by economists and other developing countries especially through the 1980s. Their success, based on relatively open economies, inflows of foreign capital and benevolent government policies was debated and praised by policy-makers and academics alike. Nevertheless, although they shared regional proximity and a similar position in the geopolitics of the cold war era, there have been significant differences. Hong Kong, importantly, is an exception to the pattern of heavy government involvement in industrial development. Singapore, South Korean and Taiwanese governments all intervened pervasively in industrial targeting, attracting foreign capital and strategic trade policy. The Hong Kong government, on the other hand, has traditionally been stylised as preferring a laissez-faire approach, or in the words of P Haddon-Cave, financial secretary in the 1970s, positive non-interventionism. Haddon-Cave's phrase was meant to reflect that this was a deliberate policy choice by the government, not an absence of policy.

A result of this different position of the state in relation to the economy is that the relationship between finance and industry in Hong Kong has not been the same as elsewhere in Asia[1]. In Japan, South Korea, and Taiwan, state-led development programmes relied on finance channelled through the banking system to industry.[2] Singapore's industrialisation relied on government-encouraged inward flows of FDI into labour-intensive manufacturing from the 1960s. In Hong Kong, the laissez-faire attitude of the state to the financial system, the high returns on alternative investments, and the small scale of much of Hong Kong's manufacturing resulted in a greater reliance on internal funding and informal credit networks, particularly through families. It is also possible that since western-controlled banks were among the largest in Hong Kong, and manufacturing was mainly done by Chinese entrepreneurs, the cultural gap between banks and potential borrowers made it more difficult for local industry to borrow. There are, thus, two potential sources of market failure in the provision of loans to industry; cultural obstacles and information asymmetry related to small firm size.

Small firms are traditionally regarded as poor credit risks by commercial banks because of their lack of collateral, and the difficulty of collecting reliable information on credit-worthiness either because they are start-up companies or do not collect appropriate accounting or financial data. This is not, of course, a problem unique to Hong Kong, indeed there have been frequent claims of similar market failure in Britain in the 20th century and in other developing countries.[3] However, small firms play a much greater role in the economy of Hong Kong than in many other countries, and their importance increased over the period of industrialisation. In 1955, 91 per cent of manufacturing establishments employed less than 100 workers, a proportion that increased to 96.5 per cent by 1975.[4] In 1968 almost 95 per cent of factories employed less than 200 workers, accounting for over one-third of the labour force in manufacturing.[5] Factories employing less than 100 workers accounted for 42 per cent of Hong Kong's domestic exports to the UK in that year, amounting to HK$1.2b. In December 2002, Small and Medium-sized Enterprises (SMEs: defined as manufacturing firms with fewer than 100 employees and non-manufacturing firms with fewer than 50 employees) amounted to 98 per cent of enterprises, providing 60 per cent of total private employment. Their political importance resulted in the establishment of the SME Committee in 1996 to advise the Chief Executive on issues related to the promotion of this sector.

The small firm structure in Hong Kong is still viewed as inhibiting borrowing from banks. In 1996, 60 per cent of a sample of small and medium-sized enterprises described the inability to borrow from banks as a major concern.[6] Half of respondents to a 1999 survey of SMEs by the Hong Kong Monetary Authority noted insufficient bank finance as the most important constraint affecting their operations.[7] These and similar complaints have been used to identify market failure in Hong Kong in the provision of bank loans to SMEs. The response since the 1970s has been state intervention to correct this supposed market failure, including a variety of loan guarantee schemes for SMEs to reduce risk arising from the lack of collateral. Some observers have advocated the establishment of a development bank.[8] In 2003-4, the HKMA plans to establish a commercial credit reference agency to overcome information asymmetry and to encourage better accounting standards by SMEs. The question arises, therefore, whether in the earlier stage of industrialisation banks somehow failed industry by not lending to viable manufacturing customers due to structural obstacles the might have been overcome by the state, perhaps through a government guarantee scheme or a state development finance institution.

II

As in the 1990s, during the post-war years there were persistent reports of a sizeable fringe of unsatisfied borrowers in Hong Kong who felt that their financial needs were not met by the banking system. In January 1959 the Governor appointed a committee to investigate whether there was a need for an industrial bank in Hong Kong, and if the Government should be responsible for establishing it. It was chaired by the financial secretary, J.J. Cowperthwaite and included bankers from the Hongkong Bank, Chartered Bank, Hang Seng, and two industrialists.[9] After a year of deliberations the committee found the case for an industrial bank 'not proven'[10].

The Chinese Manufacturers' Association, representing small business, was convinced that there was a need for a state development bank to support SMEs. In its evidence to the Committee, the CMA reported that 'over 100' factories applied to an initiative by the CMA to promote loan applications within three weeks of its launch, claiming that 'this is proof that many factories are in need of financial assistance'.[11] In April 1959 the Committee asked the CMA for specific information on current sources of finance and evidence of frustrated industrial borrowers. The CMA replied that 'the commonly known sources of finance for medium and small factories are the Chinese banks, the native banks or private financiers at rates of interest ranging from 1.2 per cent to two per cent per month'.[12] Their members were reluctant to reveal details on unofficial borrowing since 'such transactions are in contravention to the law'.[13] The CMA promised details of frustrated borrowers in May 1960 but this evidence did not arrive before the submission of the final report a month later. This failure to produce evidence was very important to the Committee's dismissal of their case.[14]

The Director of Commerce and Industry and the Hong Kong General Chamber of Commerce both asserted that they were not aware of an unsatisfied fringe of good quality borrowers. Indeed, the remarks of H.A. Angus, the Director of Commerce and Industry, were quite hostile. With regard to industrial finance 'casual observations by industrialists themselves are often conflicting and usually reflect immaturity of outlook or obvious self-interest.'[15] He suggested that the small entrepreneur was not interested in planning for the long term; focussing instead on short-term profits in potentially short-lived industries. His opinion was that

> so many small industrialists themselves have little imagination, no idea of productive efficiency, little managerial skill, and small knowledge of raw material prices and price trends, nor do they evince much interest in rectifying these deficiencies.

Moreover small enterprises often undercut larger and more 'legitimate' business to the detriment of industry as a whole. In Angus' view this made such enterprises essentially speculative and not deserving of longer-term support from banks. The HKMA's survey of banks' opinions of SMEs in 2000 also found that '[I]n general, the responding banks claimed that, compared with large companies, SMEs were financially weaker and the quality of their management was poorer'. Moreover 'the financial and other information that SMEs were willing and able to provide was often inadequate or inaccurate'.[16] This meant that banks were unable to assess creditworthiness and had to rely on conservatively valued collateral as security for loans, effectively prohibiting lending to SMEs that did not have such collateral.

The conclusion of the Industrial Bank Committee was confirmed by a 1962 Economist Intelligence Unit investigation solicited by the newly-formed Federation of Hong Kong Industries, which represented larger firms.[17] The report found that in almost all cases initial finance came from personal savings, and that even once a firm was mature 'the degree of self-financing is abnormally high'.[18] The HKMA survey of 1999 found 90 per cent of start-up funds for SMEs were still from personal savings.[19] Nevertheless, like the Industrial Bank Committee, the EIU found that funds available from banks for manufacturing generally were adequate, noting that perhaps 75 per cent of industrial loans came from the Hongkong Bank and the Chartered Bank, although this reflected large loans to large-scale business.[20]

The negative decision of the Industrial Bank Committee was controversial.[21] It failed to resolve the debate in Hong Kong partly because it highlighted the different status of small and large enterprises, and also the relative difficulty of getting medium term facilities as opposed to short-term loans or commercial credit. In this sense, the report provided focus for the debate, and over the next decade pressure mounted for specific measures to aid SMEs' access to medium term loans.[22] The IBRD also supported the suggestion during their visit to Hong Kong in November 1966.[23] This was part of the IBRD's general support for specialised financial institutions to promote development in LDCs.[24]

In the years that followed, the bias toward commercial lending rather than medium term industrial lending was reinforced by the apparent fragility of the banking system. A banking crisis of February-April 1965 was mainly due to overexposure to the volatile property market, but the Financial Secretary and the Banking Commissioner responded by advising banks to curtail long-term lending to enhance their liquidity. This persuaded the Banking Commissioner, Leo Cole, that there was a need for a separate Industrial Development Bank partly funded partly by government and partly by banks since he was discouraging such lending by commercial banks in the interests of the stability of the banking system as a whole.[25]

Complaints from small business leaders and the CMA in the press and the Legislative Council continued until the government finally had to respond. The case of industrial finance, therefore, contradicts Choi's argument about trade policy, that 'the Hong Kong government could safely disregard the various demand of the small manufacturers without much fear of political repercussions.'[26] In March 1968 during an exchange between S.Y. Chung and T. Sorby, Chair of the Trade and Industry Advisory Board (TIAB), it was agreed that some provision for a limited institution of up to HK$50m for lending to small industry should be studied.[27] Two months later a special committee of the TIAB was established comprised of bankers and representatives of manufacturing as well as government officials. Its terms of reference were to define small industry, to consider whether its development was hindered by inadequate provision of loan capital primarily for plant and machinery, and if so, how to improve loan facilities perhaps through government guarantee of bank liquidity to reduce the risk of longer-term lending. The committee was required to report within six months. Unlike the 1959/60 study, the focus was on a survey of factories rather than banks.[28]

These ambitious research plans prolonged the deliberations of the committee and the final report was finished nearly two years later, in March 1970, after only six meetings in that time. The delay was partly due to a split that developed within the committee between the ‘pro-loans’ and ‘anti-loans’ group. These groups roughly broke down between bankers (anti) and industrialists (pro), with government officials split between the two.[29] The major obstacle suggested by the pro-loans group was that banks insisted on property as security and treated machinery as poor security for loans. Since small industry tended not to have landed property, this excluded them from most medium-term bank loans. The lack of collateral was still a major impediment to bank borrowing by SMEs in 1999/2000.[30]

Those opposed to government support of industrial lending noted that there was little direct evidence from the surveys that small firms were prevented from expanding their operations due to shortage of medium term capital for the purchase of machinery and equipment. Moreover, any new lending institution would still have to require adequate security and collateral to avoid excessive risk. As Q.W. Lee, chairman of the Hang Seng Bank put it ‘the crux of the matter was whether other institutions would have a better capability of assessing risks than commercial banks and whether these institutions would be in a position to carry a higher degree of risks than was considered acceptable by a prudent banker.’[31] Moreover, while other Asian countries where capital was scarce or unemployment was high such as Singapore, Thailand, Taiwan and Japan, had state-led financial institutions for small industry, the fact that there was no shortage of funds for investment nor unemployment made Hong Kong’s case very different.[32]

The first survey at the end of 1968 was of 200 factories employing fewer than 100 employees from a range of manufacturing sectors (a two per cent sample). A second survey of 40 factories employing 100-200 workers (an 8.5 per cent sample) was completed in March 1969.[33] Almost half of factories of fewer than 100 employees had never approached banks, while the proportion was only 25 per cent for factories employing 100-200 workers. Perhaps because of this, only six per cent of small factories reported that their expansion plans had been inhibited by inability to get loans, compared with 20 per cent of the medium-sized factories, although this was mostly due to unfulfilled plans to build factories rather than buy equipment. A closer examination of the factories that failed in their efforts to get finance also cast doubt on their credit-worthiness.[34] In most other respects the responses to the surveys were the same. About 75 per cent of capital was tied up in machinery and only 25 per cent in land and buildings, i.e. most small factories did not own their premises or land. Over a quarter of machines had been in use for over seven years and were due for replacement at a unit cost usually below $100,000. Most factories used internal resources to buy machinery and resorted to credit only rarely, using hire purchase rather than banks or private lenders. On the other hand, 90 per cent of factories were able to raise working capital from banks or other lenders. Over 60 per cent of medium-sized firms had secured loans from commercial banks to finance their current expenditure, mostly through current account overdrafts extended on a continuous basis, but also through various forms of commercial credit such as packing credits or trust receipts. Over 80 per cent of medium-sized companies obtained credit from suppliers of raw materials, usually interest free.

Despite the lack of positive evidence, the final report of the Committee in 1970 recommended that although 'it cannot be categorically shown that the overall development of small scale industry has been retarded to any marked degree by inadequate access to loans for machinery purchase' there was a 'good but not overwhelming case' for government and commercial banks to embark on an experimental scheme to support medium term finance for machinery or re-equipment with relaxed conditions of collateral.[35] Banks and the government would share the risk on loan applications assessed by an independent organisation. The scheme was to last for three years to see if there was a demand for such facilities and the total amount was limited to HK$10m. The report did not find favour with Cowperthwaite, who decided not to publish it nor to send it to the Governor for decision. He was not persuaded by arguments that some form of new initiative was required for political purposes even if the economic case was not convincing. Instead the report was narrowly circulated as a TIAB working paper to academics and industrial organisations for comment, which was generally supportive.

Subsequent events seemed to support Cowperthwaite's scepticism. The pilot scheme for government risk-sharing recommended in 1970 was finally introduced by Cowperthwaite's successor, Haddon-Cave, in March 1972. The plan ear-marked HK$30m for loans to small businesses with less than 200 workers and whose owner had less than HK$600,000 in capital assets. The loans were for between HK$50-250 thousand for capital machinery and equipment only, not for working capital. The company applied to their bank in the first instance, which then referred the application to the DCI if it appeared a good prospect except for the lack of suitable collateral. The applicant then paid HK$1000 for it to be referred to the Productivity Council for consideration. If successful, the government guaranteed 50 per cent of the loan so long as the company itself invested 25 per cent of the cost of the machinery from its own resources. The interest rate was nine per cent p.a., including one per cent to be paid to the government and one per cent to the Productivity Council. The scheme was abandoned in 1976 after only ten loans were made to a total of $1.4m. A survey of SMEs in 1978 complained that the scheme was too expensive in terms of up front charges and too restricted in purpose at a time when working capital was scarce.[36] However, the failure of this scheme has not deterred more recent efforts.

After the Asian Financial Crisis, the Hong Kong government launched a Special Finance Scheme for SMEs in August 1998. To help SMEs secure loans from banks and other financial institutions, the Government acted as the guarantor for bank loans to SMEs initially for 50 per cent but later up to 70 per cent of the loan or $2m, whichever was the less. As in the 1970s, the determination of acceptable applications was up to the banks. The total commitment was initially $2.5b, which was reached in August 1999 after which the ceiling was doubled to $5b, which was reached in March 2000 and the scheme was terminated the following month. During the scheme, over 13,000 applications were made and 12,000 cases were successful, involving 68 lending institutions and almost 10,000 companies (three per cent of SMEs). However, the default rate on these loans was predicted to be 25-30 per cent, which compares only slightly favourably to a similar British scheme in 1981 that suffered a 40 per cent default rate.[37]

Moreover, the response to the scheme by SMEs was not generally supportive. About half of the special loans were used mainly to top up devalued collateral on existing loans rather than generating new capital. For this reason, most of the loans went to companies who prima facie were regarded as good credit risks by banks already rather than companies that might benefit from the government guarantee to get new access to bank lending. Others found the conditions too strict, procedures too complicated or the term of the loans too short.[38] These are the same sort of obstacles encountered in the 1970s.

In December 2001 the Hong Kong government launched the SME Business Installations and Equipment Loan Guarantee Scheme, similar in purpose to the 1970s programme. It offered government guarantees for up to 50 per cent or $1m of bank loans for machinery and equipment for a period up to three years with a total commitment ceiling by the government of $6.6b. By October 2002 it had guaranteed a total of about $960 million in loans to about 2000 companies from 36 banks.[39] Considering that there are about 300,000 SMEs registered in Hong Kong, and the initial target was a minimum of 6600 companies, the scheme seems to have had limited appeal.[40] In March 2003 this scheme was replaced with a more ambitious SME Loan Guarantee Scheme with a ceiling of $4m per loan for equipment and also for working capital.

These cases from the 1960s to the 1990s seem to show a general dis-satisfaction among SMEs over access to and conditions on bank lending to manufacturing industry, and the difficulties encountered in trying to overcome the suggested market failure. Evidence on the actual nature of bank lending to industry will be presented in the next section to help determine whether this dis-satisfaction was justified and to give a more textured view of lending practices in Hong Kong.

III

The banking system in Hong Kong during the period of industrialisation was vigorous and heterogeneous. Banks registered in Hong Kong ranged from small sole-proprietorships to huge multinational entities such as the Hongkong and Shanghai Bank.[41] The number of licensed banks hovered around 80 during the period while the ratio of bank deposits to GDP escalated from 41 per cent to 70 per cent between 1959 and 1964. Until 1965, prudential supervision was very limited with no requirement to publish balance sheets, no statutory reserve ratios or interest rate controls. From 1965, a new banking ordinance increased inspections and supervision but transparency requirements remained rudimentary. Figure 1 shows that the ratio of loans to deposits crept up over the period from 55 per cent to close to 70 per cent.[42] The ratio of the Hang Seng Bank was consistently higher than the other two large banks, but still lower than the banking sector as a whole. The Hongkong Bank tried to maintain a 50 per cent liquidity ratio in Hong Kong, a policy that drove it to attract deposits aggressively in the 1960s when the opportunity for advances increased.[43] The Chartered Bank's liquidity also hovered between 40-50 per cent during the second half of the 1960s.

Complete official figures on bank lending are only available from 1965, by which time manufacturing accounted for 20 per cent of advances from Hong Kong banks. The 1960 Development Bank Committee found that loans for industrial investment amounted to 18 per cent of total loans and advances in 1957 and 21 per cent in

1958.[44] Table 1 shows the breakdown of industrial lending based on a survey of banks conducted by the committee, which shows that despite the preoccupation of the later Loans for Small Industry Committee, the vast bulk of loans were for purchases of plant and machinery.

Table 1: Bank Lending to Industry, HK$ million

	1957	1958	1959
Land	5	14	9
Buildings	11	29	19
Plant/Machinery	70	60	85
TOTAL	86	103	115

Source: Report of the Industrial Bank Committee, 1960.

Figure 2 shows the distribution of bank lending to industry from 1965-73. The share of lending to manufacturing was remarkably steady until it fell from the second half of 1970 when the share of loans related to the rising stock market increased. Figure 3 shows the distribution of manufacturing loans by sector. The decline in cotton reflects its dominance of early industrial activity, particularly borrowing by Shanghai immigrants, followed by the diversification of industry.

The Hongkong and Shanghai Bank

The Hongkong Bank dominated the financial sector of Hong Kong throughout this period. Its share of loans and advances did erode during the 1960s but it remained the outstanding leader in the market. The Hongkong Bank accounted for 46 per cent of total bank advances at the end of 1958, but the share fell ten per cent over the next two years reaching 34 per cent by the end of 1961.[45] This reflected a declining share in commercial finance when trade with the UK receded while trade with China and the USA (in which other banks specialised) accelerated. According to submissions to the Banking Commissioner, in June 1966 the Hongkong Bank accounted for 48 per cent of total loans to manufacturing and 31 per cent of total loans and advances by banks in the colony. By 1970, the bank accounted for 35.6 per cent of loans to manufacturing and 26.5 per cent of loans overall. [46] The falling market share evident from the beginning of the decade prompted various initiatives to recapture their position. Figure 4 shows the rapid growth in loans and overdrafts compared to the relatively static value of commercial lending against imports.

Jao has investigated the bank's lending practices in the 1960s.[47] Applicants were required to supply detailed balance sheet and financial data as well as lists of the partners and directors of the bank. These details were supplied by chartered accountants and included all other loans outstanding to other banks and companies. However, in practice many smaller Chinese firms did not collect or produce balance sheet data and so this requirement was sometimes waived.[48] The bank also insisted that the customer was committing a substantial amount of their own capital in the business and that any new loan was part of a resolution of the board of directors of the borrower to ensure they were aware of their responsibilities to repay.[49] Emphasis was also placed on the firm's foreign exchange turnover since this business was particularly lucrative for the bank. Agreement to pass this business on to the Hongkong Bank could be a determinant of whether an application for a loan was successful.

It appears that formally, at least, little emphasis was placed on subjective criteria such as the personality and reputation of the head of the company. In practice, of course, it is likely that reputation still had an important place in decision-making. In the case of a property developer looking for an extension of his company overdraft from HK$0.8m to HK$1.5m to develop an estate into luxury flats, a local Chinese applicant was able to negotiate more favourable terms by writing directly to MW Turner, chief manager of the Hongkong Bank with whom he was personally acquainted, including such flattering suggestions as ‘I have always known from friends of mine that it is the governing policy of your Bank to be helpful wherever possible’.[50] The manager of the Mongkok Branch of the Hongkong Bank in the early 1950s also recalled the importance of personal contact as reinforcement to financial information and site visits when deciding about the bank’s commitment to a particular customer. He recalled ‘you try to get to know the chap – he entertains you and you entertain him. But you meet him as often as you can and you see how he works, how he treats other people, and now and then you may get information from other people about him – if he’s highly regarded’.[51] In this way, non-collateral criteria were also part of the decision process.

The Hongkong Bank’s loans to industry for working capital were usually for one year, after which time they were reassessed and a decision was taken over whether to extend for a further year. Providing payments were in order, roll-over of loans could be expected although the bank retained the right of repayment on demand. The bank provided longer loans of three years or more for the construction of factories and purchase and installation of machinery.[52] The ratio of advances to collateral was a cautious 50 per cent in the early 1960s.[53] In the 1950s this cautious approach was particularly important when the collateral was stock in godowns, given the volatile trade environment of Hong Kong. By the 1960s the volatile property market was a further reason to value property and land collateral conservatively.

Table 2 shows the spread of interest rates charged by the Hongkong Bank by type of borrower in June 1966. Higher rates were charged on loans against property and for property development compared to Class 1 loans to industrial and commercial firms secured by stock. At this time the property market was in a slump after the boom of 1964. Loans for industrial machinery were offered to Class 1 customers at only 0.5 per cent above the prime rate. Staff of the Hongkong Bank could borrow at the preferential rate of 5.5 per cent, or one per cent below prime. Class 1 borrowers, likely to be larger companies well known to the bank, were charged preferential rates over other borrowers.

Table 2: Hongkong Bank lending rates June 1966

Class of Borrower	Use/Collateral	Rate (per cent p.a.)
Class1	Industrial/Commercial firms loans and overdrafts; Loans against rice/raw cotton	6.5 (Prime)
Class 1	Industrial/Commercial; Loans for industrial machinery	7
Class 1	Sharebrokers; Loans against shares for business	8
Class 1	Clean Advances and personal Loans; loans for industrial factory development	8.25
Class 1	Old borrowers against property	9.25
Class 2	Industrial and Commercial firms	7.75
Not Specified	Advances against shares	8.5
Not Specified	Loans and overdrafts against property mortgaged entirely for business	8.75
Not Specified	Minimum rate for advances against property for development	9.75
Not Specified	New development projects for offices and flats	10.25-10.75

Source: Report on the Working of the Hong Kong Office and Agencies for the Half Year ending June 1967, GHO201, HSBC

The traditional way that foreign-controlled banks such as the Hongkong Bank and the Chartered bank found new opportunities for local lending to both large and small firms was through the compradore or Chinese manager. In the post-war years, this position was held at the Hongkong Bank by Peter Lee (Lee Shun Wah) until 1965.[54] Lee was responsible for hiring local Chinese staff to the bank and guaranteed their activities with HK$150,000 in security deposited with the bank after the war. When introducing or guaranteeing business of Chinese companies with the bank, Lee took 1/8-1/16 per cent commission. Lee was a prominent member of the local business community and was the chairman of the Chinese Banking Association.

The influx from 1948 of Shanghai textile entrepreneurs accelerated the direct relationship between western banks and Chinese industry. These large, well established concerns negotiated bank finance directly for large-scale factory construction and equipment as part of the process of moving this industry from Shanghai to Hong Kong during the political and economic instability of the late 1940s.[55] As the 1950s progressed, therefore, the business climate in Hong Kong changed and there was less need for a Chinese intermediary. Newer immigrants from Shanghai, Foochow, Chiu Chow, and Swatow more often spoke English and made direct links with the Hongkong Bank rather than going through Lee. Nevertheless, Cantonese businesses and Hong Kong Chinese continued to use Lee as an intermediary through the 1950s. The Mongkok branch of the Hongkong Bank opened in 1948 specifically to service the growing garment industry in this area and Lee was made responsible for introducing and handling business by Chinese industry at the Mongkok Branch, assisted by Ho Chin Lam, who would regularly go out to visit Chinese businessmen on behalf of the bank.[56] Given the greater risk of industrial lending compared to commercial short term credit, the branch was required to supply its own funds by attracting deposits. Loans were for up to five years only and the branch manager had an authorisation limit of HK$50,000 for any single loan.

Contrary to some accounts, the archives show that the Mongkok branch was not immediately successful and also that it channelled considerable funds to head office rather than lending them all locally. In June 1949 the branch manager asked Head Office to advertise the branch's facilities since the large companies in Kowloon already had their accounts at branches on Hong Kong Island and it was necessary to attract local smaller deposits. The manager noted that 'although it is contrary to Bank's practice to 'tout' for business, a little more energy on the part of the Compradore Department might stimulate the interest of the local population.[57] Deposits did grow quickly in the ensuing years, but most of the proceeds were loaned to Head Office. At the end of 1951 the manager complained that 'like Kowloon it is unfortunate that more suitable opportunities do not appear to exist for making use of the comparatively large funds available in further advances'.[58] At this time, the branch's income was HK$264,000 for the six months to December 1951 of which over 90 per cent was income on funds deposited with Head Office. As late as the end of 1955, this proportion was still 56 per cent. As the report for that year stated 'The steadily rising levels of deposits and advances show clearly that it is providing much-needed banking services to this important growing industrial area, and at the same time large surplus funds are made available to Hong Kong [head office]'.[59] By this time the Mongkok office had expanded into a new 10-story building and its income had increased three-fold over 1951 while interest income on advances (mainly overdrafts to traders) had increased 14-fold. When the branch came to specialise in lending to industry, a Shanghai native was recruited separately from Peter Lee to run the Industrial Banking Department in the early 1960s. With his Shanghai contacts, he was able to contact textile companies and other business managers in Kowloon to bring their accounts to the bank.[60] Shanghai business tended to be the larger scale industry compared to Cantonese firms, which supports the contention that the Hongkong Bank loaned mainly to large industry.[61]

The costs of monitoring and assessing creditworthiness of industrial borrowers is evident in the activities of the Industrial Banking Department (IBD), created in 1962 under the administrative control of the Mongkok Branch and providing services to the rest of the bank's offices in Hong Kong.[62] It inspected and valued potential and existing security held against loans in the form of machinery, property or stocks. It also inspected factories themselves to gauge managerial efficiency and to assess production capacity and utilisation. For loans to build factories, the IBD projected possible cash flow and profitability. Financial statements were also inspected and reports submitted to head office. Existing customers in good standing were usually inspected annually, those in doubtful positions much more frequently. The institutional structure for monitoring existing loans was thus fairly comprehensive and put a considerable strain on the staff of the IBD. In 1964, for example, the IBD made 249 full inspections of factories and firms of which 43 were on behalf of branches other than Mongkok.

Inspection and valuation was also, of course, routinely conducted by head office staff before the IBD was established. A report on a glove factory in 1957, for example estimated sale value and working value of the contents, included a complete and detailed inventory of all stock, equipment and machinery, noted the state of machinery (rusted) and that the manager 'gives the impression of having private means which are not invested in the concern'.[63] In 1959, the Mongkok branch manager set up a Factory Inspection Unit staffed by Chinese clerks that was the precursor to the IBD. [64] In the same year the Hang Seng Bank also opened an industrial department for similar purposes. These examples show the extra cost of industrial lending, particularly the valuation and monitoring of machinery as collateral considering that this was a removable asset.

The Hongkong Bank made various other initiatives to overcome information asymmetry. In the early 1960s there was an unsuccessful bid to promote joint manufacturing ventures between Hong Kong and foreign investors by appointing a western 'industrial consultant', perhaps partly in response to the increasing trade friction between textile producers in Hong Kong and Britain. [65] They also tried to overcome the breach between local entrepreneurs and the bank establishment by employing H.J. Shen as the first Chinese Manager for the Hong Kong office at the beginning of 1964. Shen was Managing Director of East Sun Textiles Co. and a former central banker with the Bank of China, who had acted as an intermediary for Shanghai industrialists since the 1950s. This appointment shows that aspects of the traditional Compradore system were still useful to the bank, but again the focus was the larger-scale Shanghainese business customers.[66]

By the mid-1960s the Hongkong Bank still promoted the traditional practice of lending to established businesses and taking a close interest through board representation. Members of the non-executive Board of Directors of the Hongkong Bank were represented on the boards of over 100 other companies operating in the colony. In May 1965, the Hongkong Bank manager expressed his view that

> 'deposits obtained by means of cheaply run collecting agencies should be used in substantial advances to concerns of outstanding importance. In this way foreign banks might exert influence (possible through Board representation) and preserve respect more effectively than by continuing to compete with indigenous banks in the financing of small businesses'.[67]

The bias against lending to small business could not have been made clearer.

Hang Seng Bank

By 1964 Hang Seng Bank was the largest Chinese-controlled bank in Hong Kong. It had close connections with the local business community, particularly the smaller scale Cantonese sector, and with the gold trade.[68] As Figure 1 shows, the fortunes of Hang Seng in the 1960s were mixed. After a period of dramatic expansion in the 1950s and early 1960s, it became a victim of the banking crisis of 1965 and had to be rescued by the Hongkong Bank taking over 51 per cent of its capital. At the end of 1964 the Hang Seng Bank showed a balance of almost HK$500 million in outstanding loans and advances of which over HK$400 million were secured loans and overdrafts. The loans were overwhelmingly to small and medium-sized enterprises, and were secured against property. The Chinese banking practice of lending long based on short term deposits, and using a potentially overvalued asset such as property as security was shocking to the Hongkong Bank when they interrogated the Hang Seng's books.[69]

The internal audit conducted by the Hongkong Bank after its takeover of the Hang Seng Bank in April 1965 offers a detailed view of lending operations and practices. Applications for bank facilities were carefully assessed and the bank operated a credit scoring system.[70] This gave equal weighting to the business practices and reputation of the 'responsible person' of the company as it gave to the company's financial standing (including capital, property, stock, profit and loss account, and turnover of business). This should have made it easier for smaller businesses and start-up companies to gain credit through the personal reputation of their founders. Within the category of Ability of the Responsible Person, more points were given for being ‘experienced and resourceful’ than for being ‘careful and conservative’.

Table 3; Hang Seng Bank Credit Scoring System 1965

Category	Maximum possible points
Behaviour and Conduct of the Responsible Person	7
Ability of the responsible person	5
Accounts with Fellow Traders	7
Response in the Face of Competition	5
Method of Conducting Business	6
Financial Standing	30
Departmental Opinion	40
Total	100

Source: GHO322/1, HSBC

Likewise, in the category of reaction to competition, ‘Careful and Conservative’ earned only three points, while ‘acts in conformity with commercial moral standards’ earned four points and ‘Can handle the situation properly and suitably’ earned the maximum five points. Again, in judging method of conducting business, ‘Careful and conservative’ earned three points, ‘Aggressive’ earned four points and ‘sound and steady’ earned the maximum six points. In the absence of complete balance sheets and financial information the role of reputation was clearly important in the decision of allocation of credit since it accounted for 30 per cent directly and probably a further part of the opinion of the department head. The Hongkong Bank advised that clearer records of property valuation should be kept but did not recommend any changes to the credit-scoring process.

Larger loans (beyond HK$100,000 against property, HK$50,000 against shares and HK$80,000 against commodities) were referred to a Credit Committee that comprised the General, Deputy and Assistant General Managers, Manager of Head Office, Heads of Divisions and Departments and Branch Managers. As well as deciding on large secured advances, they also advised another committee (the Clean Credit Committee) on clean advances, packing loans and bills purchased. The Clean Credit Committee was comprised of the above officers except Heads of Departments and Branch Managers. This committee also assessed the value of guarantees offered to the bank as security. Decisions were taken by casting individual votes and all resolutions had to be unanimous. This reinforced the individual and group responsibility of these officers for the loans of the bank.

Table 4 shows the proportion of advance usually offered against different forms of security. The proportion for property was particularly high relative to the limit of 50 per cent used at the Hongkong Bank and by the Bank of East Asia.[71]

Table 4; Security Ratios, Hang Seng Bank 1965

Security	Proportion of advance to security value (per cent)
Property (land or buildings)	65-70
Marketable Shares	60-70
Commodities	50-70
Fixed Deposit Receipts	100
Post-dated cheques	100
Packing Loans – Letter of Credit	70-90

Source: GHO322/1, HSBC

Repayment schedules were arranged but not always adhered to. Instead, loans and overdrafts were periodically reviewed and usually renewed automatically.[72] This flexible tradition was valuable to the bank's customers and the Hongkong Bank agreed after the take-over that new firmer arrangements could not be imposed on existing borrowers who might be tempted to take their business elsewhere.[73]

By April 1965, 90 per cent of outstanding loans were against property as security. Properties were inspected and valued carefully prior to facilities being granted and the Hongkong Bank found no reason to doubt these valuations. Except for specific Property Instalment Loans for the purpose of buying a flat, borrowers repaid at the end of the term of the loan rather than by monthly or quarterly instalments. Building loans were usually over a term of two years, again without agreed instalment payments. Extensions were usually allowed so long as interest payments were not in arrears. Indeed, the Hongkong Bank noted that 'in practice it appears that after a building is completed, the building advance in most cases becomes a fixed loan against property'.[74] This relaxed attitude to repayment of outstanding loans may have been responsible for part of the bank's over-commitment to the property market by 1965. By the end of 1971, 89 per cent of secured loans were still against property, mostly Property Instalment Loans for home-buyers. Only six per cent of advances were Factory Instalment loans. By this time the Hang Seng was sailing again into difficult waters as the Hong Kong stock exchange boomed and the Hang Seng's advances against shares reached 16.5 per cent of deposits and 27.5 per cent of all advances.[75]

The interest margins for the bank were generous, as can be seen in Table 5. Rates on advances from the Hang Seng Bank at the end of April 1965 were generally about 3 per cent p.a. higher than at the Hongkong Bank, reflecting greater risk and weaker collateral.[76]

Table 5 Interest Rates at Hang Seng Bank April 1965

Per cent Interest Paid on Deposits (Actual p.a.)		Per cent Interest Earned on Advances (Average p.a.)	
Current Accounts	0	Secured Loans	13.6
Savings Accounts	3	Secured Overdrafts	11.8
Employees' Deposits	10	Hire Purchase	11.1
Deposits at Call	5	Inward Bill Loans	8.0
Fixed Deposits	6.5-8.25	Packing Loans	7.7
		Clean Overdrafts	11.8
		Overall Average	12.8

Source: GHO322/1, HSBC. The rates on interest earned are averages because the actual rate varied with the type of security, e.g. building loans secured against land had a rate of 13-14 per cent p.a.

In February and April 1965 the Hang Seng was the victim of depositor panic as rumours circulated about weaknesses of Chinese banks. The Hang Seng survived the crisis of February in which two banks failed, but succumbed from a weakened position in April 1965 and had to submit to a 51 per cent buy-out by the Hongkong Bank. The Hongkong Bank considered fixed loans against property to be a major weakness of Hang Seng's portfolio, and once they took over administrative control of the bank they insisted that this category of debt be reduced.[77]

The Chartered Bank

Evidence from this, the most prominent British overseas bank in Hong Kong, is available from detailed branch balance sheets. They reveal the nature of overdrafts and fixed loans, which together accounted for about 90 per cent of all loans and 35 per cent of total assets. Figure 5 shows the growth in these loans. There is little detail on the specific purpose for most overdrafts, although many are identified as for working capital and most are rolled over from year to year, with the same customers appearing on the books for over a decade. In terms of category of business, there was a reduction in exposure to the clothing industries from 1966-70 and a rise in business, investment and finance companies as the stock market started to rise and investment companies expanded. After the slump in the property market from 1965 there was a reduction in the use of property as collateral for overdrafts. Figure 6 shows the changes in the sectoral distribution of overdrafts over HK$10,000 by value.

Looking more specifically at a snapshot of 1966, in this year the bank had $212m outstanding in current account overdrafts, of which $199m or 212 loans were over HK$10,000. Using these as a basis of analysis, two thirds of the loans were to Chinese borrowers, accounting for 72 per cent of the loans by value, suggesting there was no bias against Chinese borrowers. Table 6 shows the type of collateral used. Although only 13 per cent of loans were to British borrowers, half of clean overdrafts were held by British firms, mainly trading companies. No Chinese-owned trading company had a clean overdraft. They mainly used charges on property and personal guarantees as security. There were also a few very large clean overdrafts to multinational American or European oil and shipping companies.

On the other hand, all the overdrafts to the clothing industry and 98 per cent of overdrafts to the textile industry were to Chinese companies, using debentures sometimes backed up with a trust receipt suggesting the loans were for commercial purposes. Almost all cases where property was used as security were Chinese borrowers, mainly trading companies. Stocks and shares were offered against personal overdrafts of individuals, company directors and finance companies. Chinese borrowers most often supplied two or more forms of collateral.

Table 6: Collateral for Overdrafts by Nationality of Borrower 1966

Nationality	Clean	Shares	Guarantee	Property	Deposits	Provision	Commercial	Debenture	Other	Two or More	Grand Total
British	11	20	2	1	5	1	3	2	1	2	48
Chinese	4	25	14	45	3	10	9	16	3	14	143
Other	8	2	5		2		2	1	1		21
Grand Total	23	47	21	46	10	11	14	19	5	16	212

Source: Chartered Bank Archives, Guildhall Library MS

The Chartered Bank began to make fixed term loans in 1959. They were usually offered for duration of 2-5 years, although there were a few exceptions, such as a loan in 1970 for eight years for a petrol station development, and a loan for ten years for factory construction by a very large spinning firm. Collateral was usually related to the purpose of the loan, but not completely corresponding. Usually mortgages were used to secure purchase of flats or construction of factories while debentures/claims on assets were collateral for the purchase of machinery and factories. There were also several corporate allocations for employees of large companies and of the bank itself to purchase flats or cars.

Again taking 1966 as a sample year, total fixed loans amounted to $111m. Of these, 105 loans averaging $1m each were made for specific purposes, the other $6m allocated for staff housing and car loans. Of the 105 identified loans, 90 per cent were to Chinese borrowers, including all the loans for building factories and buying machinery. The average value of loans to buy machinery were $1.3m, suggesting these were large companies. The average value of loans to build factories was $1.6m, while less than $50,000 was the average loan to buy a flat. One large Chinese textile firm received a fixed loan of $12m for ‘general running of business’ and a plastics company had a loan of $1.75m for the same purpose, but otherwise the loans were all for specific projects.

The detailed evidence from the Chartered Bank suggests the flexible use of overdrafts for medium term lending with a variety of security. Fixed loans also offered medium-term facilities mainly to larger industry and to individuals buying flats against a variety of collateral often including claims on factories and machinery. This evidence seems to contradict the Industrial Development Bank Committee investigations that landed property was required for security, although there is no indication that Chartered was particularly engaged in lending to smaller companies.

Other Banks

Along with the size of borrowers, another possible market failure in the provision of industrial lending in Hong Kong was the cultural gap between bankers and industrialists. However, the evidence suggests that Chinese banks were sometimes more reluctant to lend to industry than the western controlled banks. In the early 1960s, before the aggressive expansion of Hang Seng Bank, the Bank of East Asia was the largest Chinese controlled bank in Hong Kong. Until the middle of the decade, however, it was notoriously conservative in its lending practice, maintained very high liquidity ratios and tended to service only large and well-established

Chinese clients. Sinn noted that 'up to the mid-1960s, due to its historical background, the Bank [of East Asia]'s clientele had been confined to a narrow social sector – well-established firms and individuals, both Chinese and foreign, with direct or indirect personal connections with the Bank'.[78] Because of its conservative stance, it survived the 1965 banking crisis without any difficulty, in fact gaining deposits withdrawn from other banks.

Two factors appear to have prompted a relaxation of the cautious policy of the Bank of East Asia in the second half of the 1960s. Firstly, the death of the bank's famously conservative founder and long-time Chief Manager, Kan Tong-po, in 1964 paved the way for new management. Secondly, increased competition from the Hang Seng Bank led to a reassessment of the bank's strategy.[79] The result was a new branching initiative to collect deposits and increase lending. The liquidity ratio of the bank fell from an average of 77 per cent in 1950-63 to 60 per cent for 1964-68. In the same years the average loan to deposit ratio rose from 37 per cent to 51 per cent.[80] Nevertheless, the bank was conservative with respect to industrial lending. Sinn records that in the 1960s branch managers were 'asked to divest themselves of some of their more minor duties in order to be free to call on factories and shops in their districts and build up business contacts'.[81] However, these contacts were then passed to head office, the branches not lending directly. It was only in 1971 that a new department was opened in Mongkok to serve industrial customers, 23 years after the Hongkong Bank.

At the other extreme from the conservative Bank of East Asia, many of Hong Kong's smaller banks were preoccupied with speculation on the stock market, the gold market, foreign exchange, and in real estate during these decades because these markets offered more competitive returns on investment than lending to industry.[82] Their loans tended to be at much higher rates than larger banks. At the end of the 1950s, rates on loans from these banks ranged from 16-24 per cent p.a.. Partly this gap was due to the increased competition from the aggressive branching activity of the mainstream banks, which forced smaller local banks to raise their deposit rates to compete for local funds. By 1963 some small banks paid as much as 7 ½ per cent on three-month deposits compared to four per cent paid by the larger banks.[83] Higher deposit rates in turn forced them to lend at greater risk, but for higher nominal return encouraging adverse selection. The insecurity that resulted from this strategy (evident in periodic bank failures) then made it more difficult for these institutions to attract deposits, widening the gulf even further. The fact that there was a market for these expensive loans, however, does suggest that there was considerable demand for credit among the Chinese community that was not met by the larger banks.

The market for commercial lending was much more competitive, however, and so the native banks had to keep their rates in line with larger banks to maintain a share of the market. This also pertained to loans secured against stocks and shares, and so borrowers using share collateral were charged a lower rate of 0.6-0.8 per cent per month. Ng's estimate of the combined balance sheet of ten native banks in 1959 showed that commercial advances were about one third of other loans.[84] About two thirds of loans were against real estate on terms of six months, and earned interest of 1-1.2 per cent per month. The prominent position of property investment in small Chinese banks' balance sheets made them vulnerable to slumps in the property market. This was evident in the banking crises of 1961 and 1965 that revealed the precarious state of many Chinese banks' balance sheets. The Ming Tak Bank, which was the first to fail in 1965, had a total of HK$20m in assets, 93 per cent of which was related to real estate, including unfinished projects where the loan could not be liquidated. In the end the government spent HK$8m paying off mortgages on property owned by Ming Tak and advanced a further HK$2m to finish construction of some of the bank's projects.[85]

IV

There were two possible sources of market failure in the provision of finance to industry in Hong Kong. In Hong Kong, as in other cases, there was considerable political pressure from representatives of small business who felt discriminated against by banks because they lacked the collateral or reputation to establish their credit-worthiness. In addition, however, there was a cultural dimension in Hong Kong where the largest bank was controlled by British ex-patriates while industry was mainly conducted by Chinese. There was also a further division in the manufacturing sector between Shanghai large-scale industry and Cantonese smaller-scale industry. The Hong Kong case therefore marks an extreme example of the cultural gulf between finance and industry sometimes cited in the case of Britain.

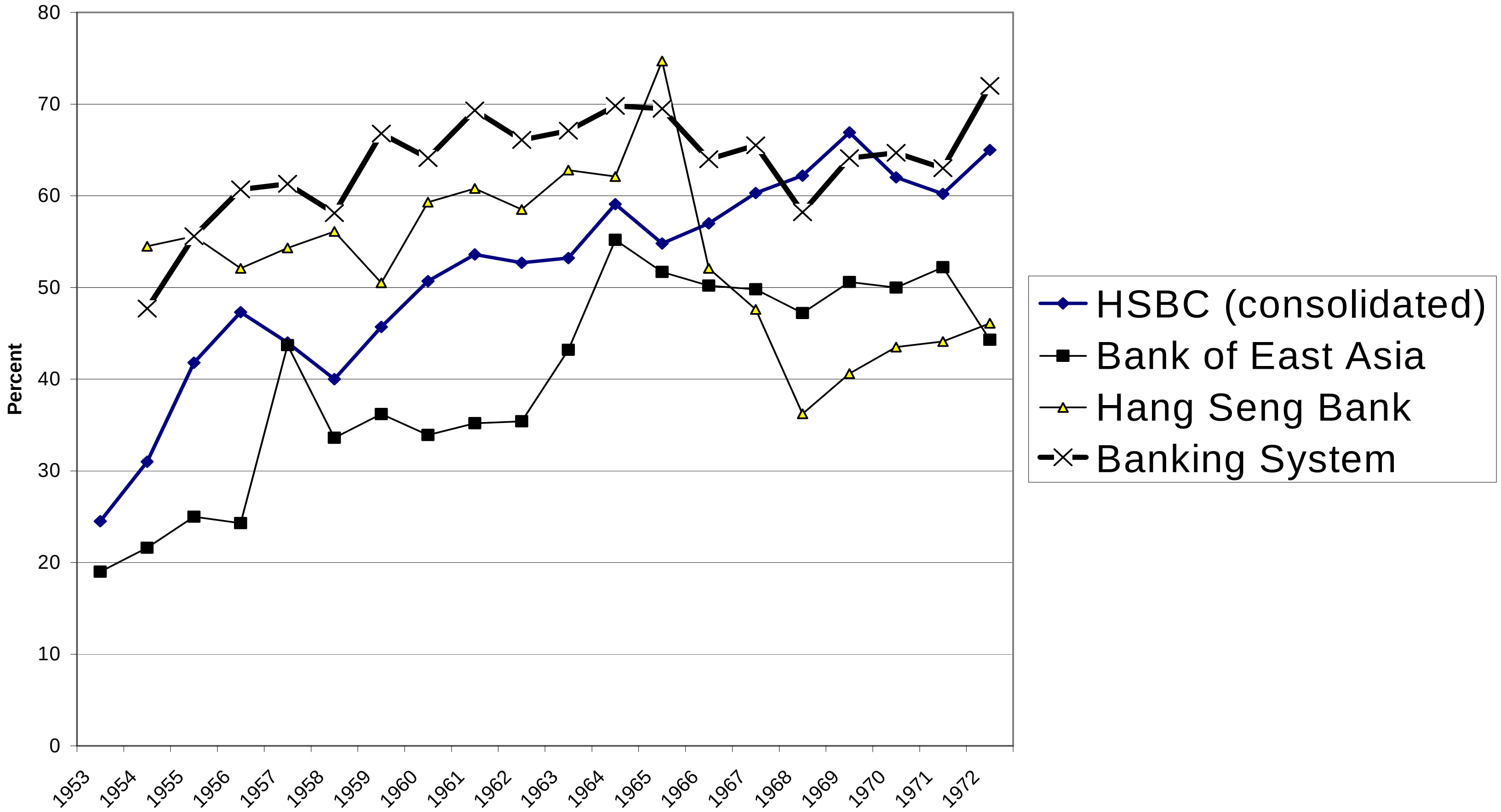
The archival evidence presented in this paper revealed an eagerness among larger banks to overcome information asymmetries and to engage in industrial lending by establishing dedicated departments, hiring specialist personnel, and providing targeted products such as fixed term loans. A variety of collateral was accepted, and personal reputation could be as important a determinant of loan decisions as more formal financial data. Medium term industrial finance was available through flexibly used current account overdrafts as well as fixed loans, although the evidence suggests that, as expected, there was a bias toward larger scale industry.

The government's surveys of small businesses in Hong Kong revealed a variety of borrowing opportunities for both Shanghai and Cantonese manufacturers through exploiting network capital, hire purchase and credit from suppliers as well as from money-lenders and banks. Most small firms did not approach banks for loans other than for working capital. While initial finance came from savings, hire purchase seems to have been important once a business was underway and would warrant further research. The records of overdraft facilities showed that, as in developed economies, they were used flexibly and could be relied on for the medium term.

With regard to market failure due to cultural obstacles, the reluctance to engage with small business was not restricted to foreign or ex-patriate controlled banks. The Chinese-controlled Bank of East Asia was even more diffident about industrial lending than either of the 'foreign' banks surveyed. The Hang Seng Bank provided an example of a large local bank with a strong commitment to small business but the Chairman of Hang Seng, himself, did not believe that there was market failure in lending to small industry. The failure of the bank in 1965 highlighted the dangers of its lending policy although there is no evidence that loans to small business was the root of its problems. The records of the Chartered Bank do not support the suggestion that they discriminated systematically against Chinese borrowers.

Despite the lack of proof for market failure, political pressure led the government to consider two responses; a state-funded development bank or government guarantees for private bank loans. Unlike other developing countries, Hong Kong's banking system was relatively well developed and competitive. On this basis, the state rejected the case for a new development bank to channel funds to industry, and was resistant to proposals for guarantees on the grounds that the government could no better assess risk than could experienced commercial banks. The small take-up and high default rates of the experiments with assisted lending to SMEs in the 1970s seem to support the government’s position and weaken the case for market failure. Nevertheless, the continuing importance of SMEs in the Hong Kong economy has led to sustained efforts to support their access to bank lending in the troubled years since the Asian Financial Crisis.

Figure 1: Loan-Deposit Ratio of Hong Kong Banks 1953-72



Source: Jao 1974

Figure 2: SECTORAL ALLOCATION OF BANK LOANS AND ADVANCES: 1965-1973

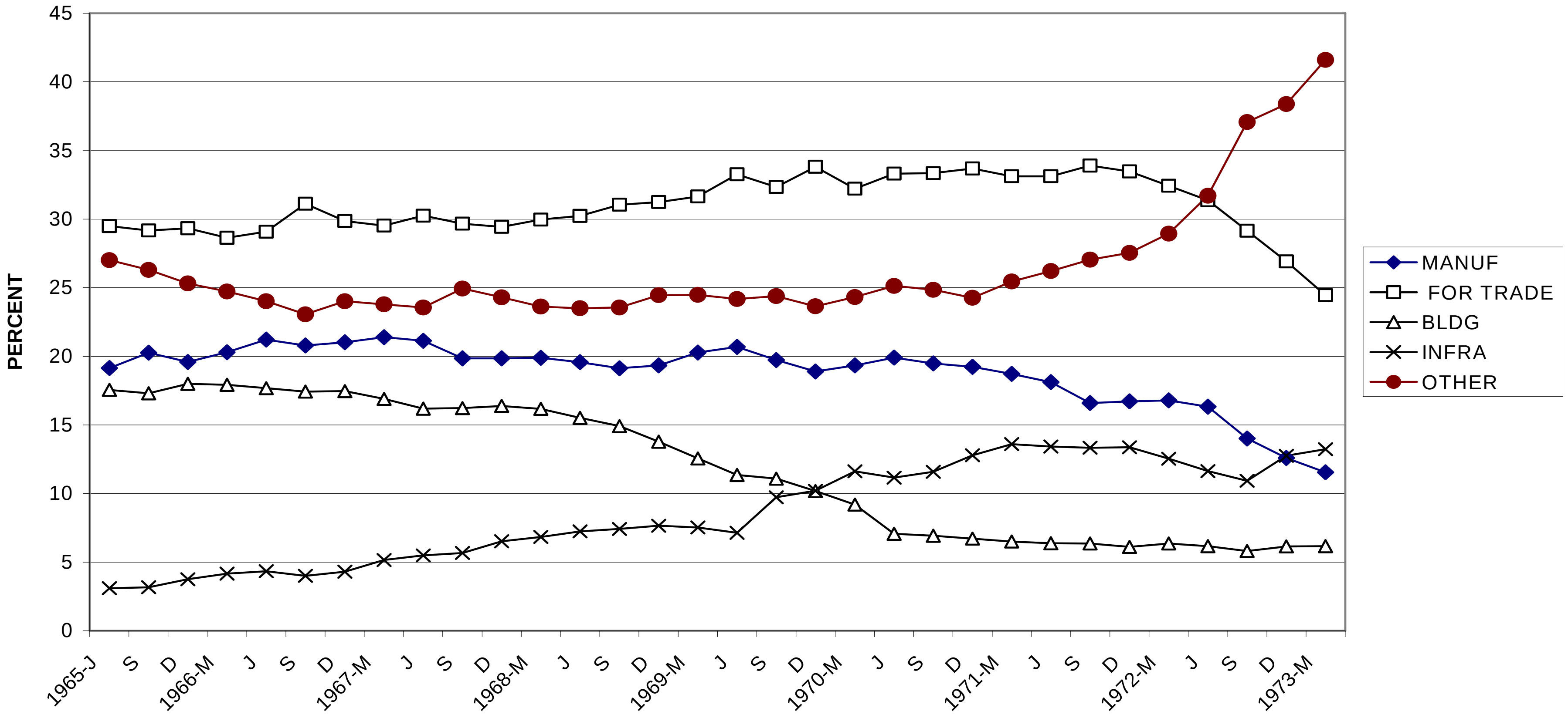


Figure 3: Allocation of Manufacturing Loans

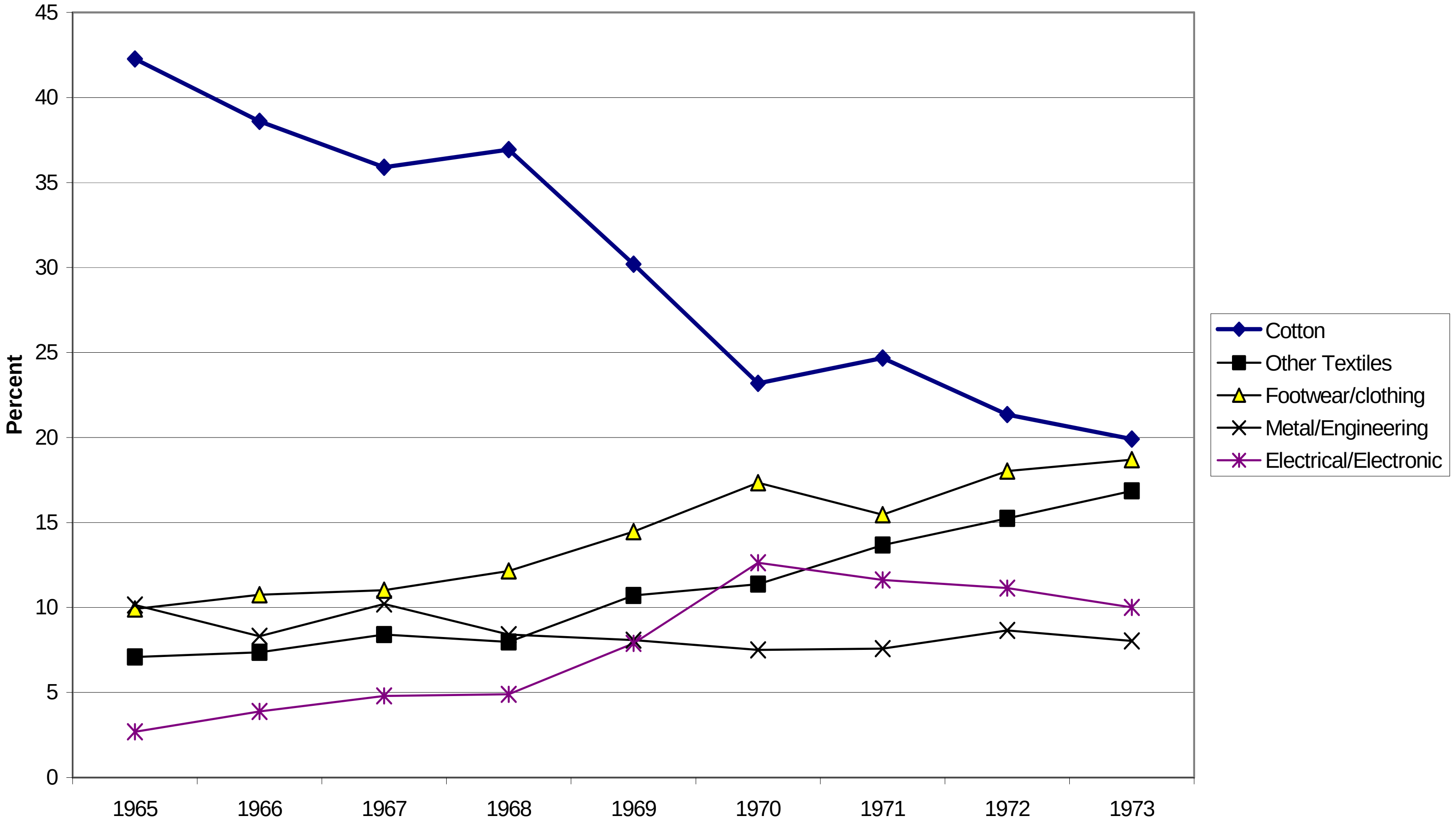


Figure 4: Hongkong Bank Loans and Advances 1954-1967

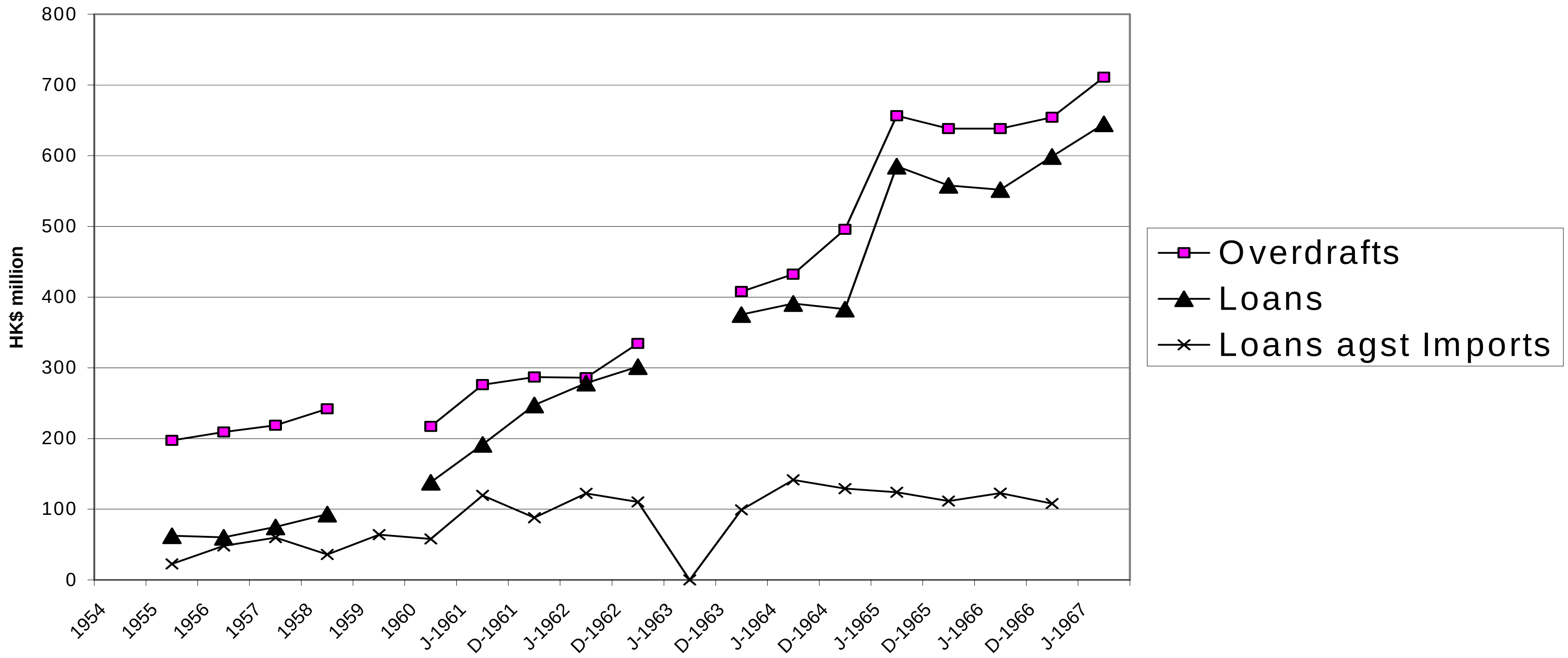


Figure 6: Chartered Bank: Share of Total Value of Overdrafts

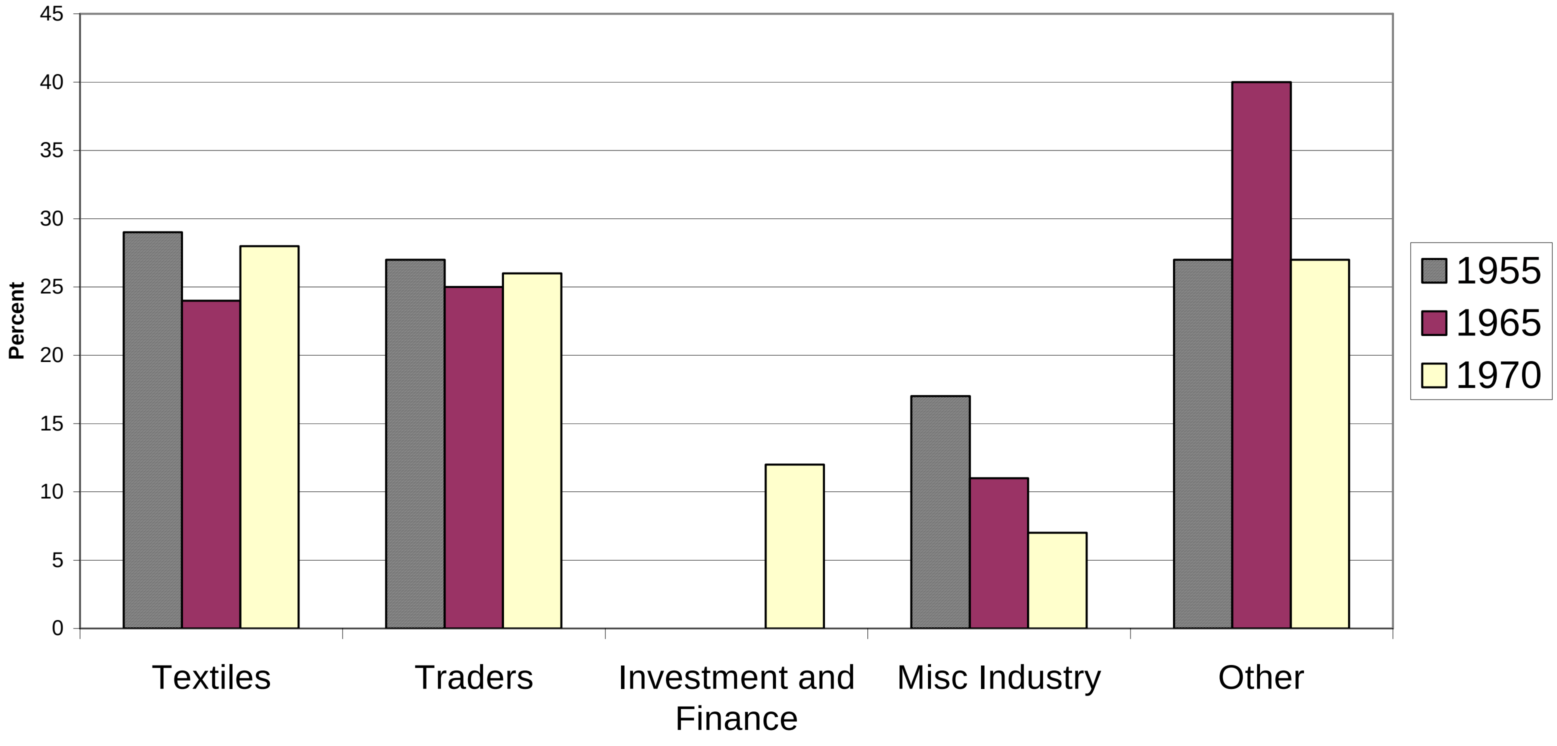
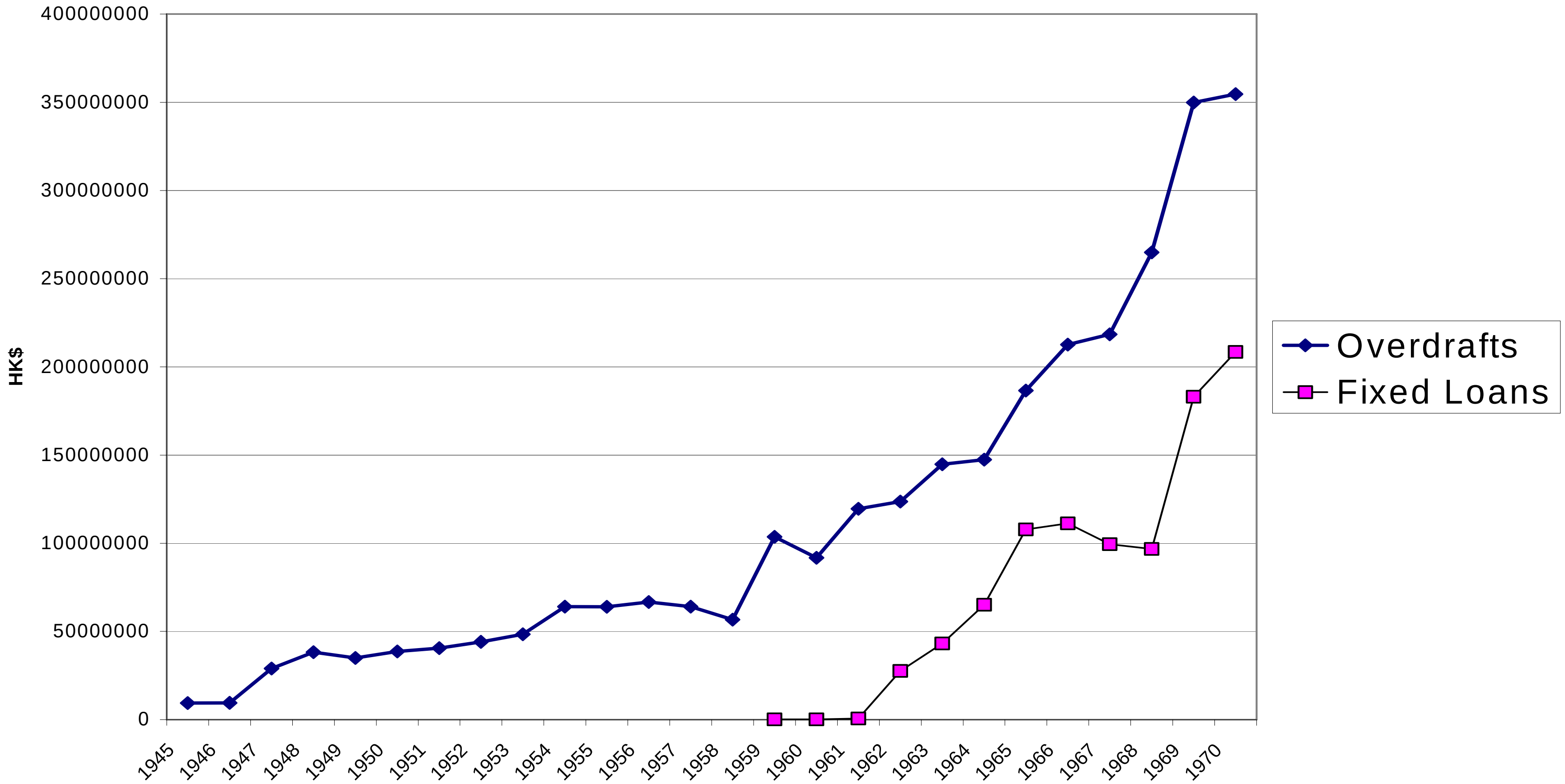


Figure 5: Chartered Bank Hong Kong Office: Overdrafts and Fixed Loans 1945-70



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14 Report of the Industrial Bank Committee, 1960, p. 14-15.
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19 HKMA 'Survey', p. 5.
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[29] Memo by GCM Lupton, 6 May 1970. Letter from EI (Peter) Lee to JJ Cowperthwaite, 29 September 1970. HKRS 163/3/380.

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[31] Minutes of the Third Meeting of the Loans for Small Industry Committee, 12 June 1969. HKRS 163/3/380.

[32] For an account of mixed results of state support schemes for SMEs in Singapore, Thailand, Taiwan and Japan see SB Chew, Small firms in Singapore (Oxford, 1988).

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[36] Sit et al., 1979, pp. 231-34.

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[43] King, Hongkong Bank, p. 625.

[44] Report of the Industrial Bank Committee, 1960, p. 9. The survey included 62 out of 83 licensed banks 'including all banks of importance'.

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[46] Y.C. Jao, 'Financing Hong Kong's Early Postwar Industrialization; the role of the Hongkong and Shanghai Banking Corporation', in FHH King ed., Eastern Banking; essays in the history of the Hongkong and Shanghai Banking Corporation, (London, 1983), pp. 545-574.

[47] ibid

[48] Account of oral history by Bradford, Manager of Mongkok Branch from 1956. In King, Hongkong Bank, p. 357.

[49] HKH94.4. HSBC. King, Hongkong Bank, p. 356.

[50] HKH 94.15. HSBC.

[51] King, Hongkong Bank, p. 356 quoting an interview with RGL Oliphant about his time at Mongkok Branch in the early 1950s.

[52] There were cases of longer term lending. For example, in 1948 HK$4m was loaned to a real estate development company for a period of ten years to build flats. It was repaid much earlier. HKH94.6. HSBC.

[53] Jao, 'Financing', p. 552.

[54] This account is from HSBC Group History Programme, Oral History Archive Project, interview with Peter Lee Shun Wah by FHH King and C. King. HSBC.

[55] For extensive quotation from oral accounts by western bank managers see, King, Hongkong Bank,

pp. 351-3.

[56] V.F.S. Sit, 'Branching of the Hongkong and Shanghai Banking Corporation in Hong Kong: a spatial analysis' in King ed., Eastern Banking, 633-4, Jao, 'Financing', pp. 553-557.

[57] Report of Mongkok Branch for the six months to end June 1949, GHO253, HSBC.

[58] Report of Mongkok Branch for the six months to end December 1951, GHO253, HSBC.

[59] Report of Mongkok Branch for the six months to end December 1955, GHO253, HSBC.

[60] Interview with P Lee. HSBC Archive.

[61] For the ethnic divisions of Hong Kong industry see Choi, 'State-Business Relations', pp. 154-56.

[62] The following account is from Jao, 'Financing'.

[63] 18 November 1957, HKH94. HSBC.

[64] King, Hongkong Bank, p. 361.

[65]Minutes of the London Consultative Committee, 10 December 1964. Chairman's Papers Carton No 4, RGL Oliphant private file 1963-5. HSBC.

[66] The term 'Compradore' was officially dropped by the bank in 1960. See, CT Smith, 'Compradores of the Hongkong Bank', in King ed., Eastern Banking, pp. 93-111.

[67]Letter from JH Saunders to Sir KW Mealing (Mercantile Bank in London) 12 May 1965, Chairman's Papers Carton No 5, Letters between Turner and Sir Kenneth W Mealing (Mercantile), HSBC.

[68] G. Chambers, Hang Seng; the evergrowing bank (Hong Kong, 1991), p. 36. The garment, toy, plastics, metals and electronics industries are mentioned as important customers.

[69] Note by PE Hutson, 15 July 1965. Hang Seng 1965, GHO 322 HSBC.

[70] Appendix to Internal Audit of Hang Seng Bank Ltd, May 1965. GHO322/1a, HSBC.

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[72] Internal Audit, May 1965. GHO322/2, HSBC.

[73] Memo from Lee Wing Heng, sub manager of Hang Seng Bank to Hongkong Bank, 11 April 1968 and undated response (April 1968), GHO322/4.

[74] Internal Audit of Hang Seng Bank, May 1965. GHO322, HSBC.

[75] GHO322/8, HSBC.

[76] Report on the Results of Hong Kong Office and Agencies, June 1965. HSBC GHO201.

[77] Hang Seng Bank Ltd Progress Report by JN Frost, Assistant Manager Hongkong Bank. 30 September 1965. GHO322, HSBC.

[78] Sinn, Growing, p. 135.

[79] Ibid., p. 116, 122-23.

[80] Y.C. Jao, Banking and Currency in Hong Kong (London, 1974), p. 194, 197.

[81] Sinn, Growing, p. 131.

[82] KL Ng, 'The Native Banks; their structure and interest rates', Far Eastern Economic Review, 11 February 1960, pp. 307-21, p. 316-7.

[83]D. Williams, 'Hong Kong Banking', Three Banks Review, 59, September 1963, pp. 26-44, p. 28.

[84]Ng, 'The Native Banks'.

[85] Far Eastern Economic Review, 14 April 1966, p. 75. See also Jao, Banking and Currency, pp. 244-45.