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The emergence and development of Singapore as a regional/international financial centre

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Can Singapore develop into a regional financial centre, embedding itself as the core in an Asia-Pacific version of the OECD? In the three decades after independence in 1965, Singapore did move from a concentration on trade and commercial activity to an active money and capital market, an increasingly sophisticated stock market linking gold, commodity, capital, and foreign exchange transactions of Asian markets with markets in Australia, Europe, and the US. If using different categories of financial transactions to identify this emerging international financial centre of Singapore, the primary achievement would be in commercial banking and in particular the regional presence of the Development Bank of Singapore, absorbing majority stakes in Thai and Indonesian banks and its role as banker for the Singapore government in China, the US, and South and South East Asia. Important, too, here is the number of international banks operating in Singapore with the rise in foreign financial assets and the utilization of the city-state as a base for investment projects in South East Asia. The range and scope of these financial strategies is important for innovations in investment strategies and modes of entry into these economies in an era of rapid economic growth in the 1980s and 1990s.

Another critical institution to this transition to an international financial centre is the growth of the stock market. Did Singapore attract listings from countries other than Malaysia? Were Singapore’s domestic securities and money markets sufficiently developed? Crucial here are the capital flows into Singapore, partly assisting the expansion of international trade, investment in the region, but also diversified into financial institutions providing a package of short term, as well as long term credit, access to equities, derivatives and innovative financial products.
Does Singapore fit into a model of an International Financial Centre, or is it just an elaborate, grander version of its historical role as international commercial entrepot? In order to define this evolutionary position of Singapore we need to appraise the success of its dominant financial institutions: the stock market, the derivatives and financial futures market, the money market, the foreign exchange market, the Asian Dollar Market, and commercial banking. The role of the state in the development or stagnation of these separate institutions is important, as well as trends towards the creation of financial stability through regional cooperation, as in the Chiangmai initiative of 1999. The changing institutional and regulatory environment since the 1997 crisis imposes new challenges to a city state obsessed with national over regional aims, stability over innovation.

The Singapore stock market
The Singapore stock market was operated jointly with Malaysia until 1973, and until 1989, Malaysian companies were listed on both stock exchanges. Later Malaysian and international shares were traded through electronic trading in Central Limit Order Book [CLOB], which was closed after 1998. The growth is gradual; the increase in market capitalization is high, though dominated by a small number of enterprises of the state or statutory boards. Singapore therefore has large companies but fewer than those listed in Malaysia. The majority of the shares in these SOEs were held by one of the four government holding companies.

At the close of 1999, there were 370 companies listed on the stock market with total market capitalization of Sp$434 billion, 3.4 times the GDP for that year. Of this market capitalization, 27 per cent is held by one single government holding company, Temasek Holdings.¹ This domination by the state has persisted from the 1970s. The few privatisations undertaken since 1987 have helped to stimulate trading. This was particularly keen in 1993 with the listing of Singtel. Thus market capitalization leapt from US$48.8 billion to US$132.7 billion between 1992 and 1993.² Between 1990 and 1994, trading value had risen from US$20.2 billion to

US$81.0 billion. Foreign counters accounted for 20 per cent of the total market capitalization in 1988-92. In addition, there was secondary listing of foreign stocks denominated in foreign currencies.

The conservative growth in Singapore’s equity market is clear from the three tables 1.1, 1.2, and 1.3. The growth, though more gradual than its neighbours, Malaysia, Thailand, and Indonesia, was less volatile. It faced two serious blows: the first in 1985 when the Singapore Stock Exchange faced a case of fraud committed by the Pan Electric Group of 13 firms; and second, in 1987 the world stock market crash caused shares in Singapore to plunge further. But recovery was swift. The high growth between 1993 and 1994, dipped in 1994-95, but regained its buoyancy in 1995-96, because of continuing privatisation with IPO issues, and secondary floatations. Growth is still limited, and this retarded growth of the stock market is further explained by abundant budget surpluses of the government, which could have been channelled to these state and semi-state listed corporations. Instead their overall dependence on bank finance and own retained profits was maintained. These corporations only occasionally resorted to the use of bonds.

The stock market has listed equity warrants, convertibles, and other hybrid products, but again trading is limited, the market is small and is not exploited by large corporations such as Keppel and Sembawang. Derivative options traded in the offshore market are often those relating to banks, hotels and property, all three highly lucrative products. Many of these covered warrants can be traded only by financial institutions or reputable individuals. This has discouraged the growth of secondary listing in Singapore, unlike Hong Kong, where trading in derivatives is high and is frequently used to hedge risks. The Monetary Authority of Singapore (MAS) has discouraged the use of domestic derivatives, though they can be exploited in the offshore market. This constraint on the domestic market and the lack of integration between this and the offshore market prevails throughout this period and explains the slow growth in any transition to an international financial centre.

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3 *Singapore Corporate Handbook*, 2000, pp. xix-xx
The Singapore government’s focus was always on scrutiny, without providing a clear institutional framework on regulating the derivative market; it increased controls but often without supervising them. This explains the Barings scandal of February 1995. This is not surprising since domestic speculative activity is strictly controlled, while in offshore markets the activities of brokers, auditing and supervising them is fairly lax. In addition, the focus was often on some listed derivatives and thus overlooked fraudulent overtrading in Singapore’s International Monetary Exchange in Nikkei and Euroyen futures, resulting in massive losses for Barings in 1995.

Another explanation for such distortions is in the clear historical biases within Singapore’s derivatives growth. Singapore is an established centre for the trading of spot, forward, and swap contracts on energy because of its entrepot and shipping history and as the world’s largest fuel oil bunker in the contemporary period. Its reputation is in oil-refining, processing, and hence its derivatives market in energy is particularly strong. By the 1980s Singapore ranked third as a trading centre for over-the-counter energy products, after London and New York. Though limited in scope in terms of other commodity options, Singapore’s reputation in energy futures has grown in tandem with growth in industrialization, shipping, and the accelerated economic changes in South East Asia since 1980.

Again this historical bias has resulted in Singapore attracting gold and currency brokers and traders. Since 1970 Singapore has consistently featured as the largest importer of gold in South East Asia, though illicit gold smuggling into Vietnam and Bangkok may cast a different perspective on this. However, Singapore still remains an important gold distribution centre.

Another crucial source for this transition to an International Financial Centre, (IFC) is derived from its investment strategy from the mid-1980s, which focussed on the creation of a growth triangle in Riau, Batam, and Johor, similar to Hong Kong’s

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position in relation to Special Economic Zones on China’s coastal areas. Singapore indulged in global ambitions in China and California, with joint state and private corporations funding and acquiring niches in infrastructure, food, telecoms, and finance. In this global expansion, it was the interaction of the Singapore state with the Chinese diaspora in South East Asia that helped in acting as a conduit for Chinese capital flight from Indonesia, even Malaysia, as well as acting as a clearing house for investors from the US and Europe. Singapore, though not an important base for international corporations, did attract these investment houses because of its location, its good corporate governance and political stability. In 1994 portfolio capital flows into Singapore accounted for only 3% of total capital investment, further evidence of such direct interactions between the state, Western and Chinese capital.⁶ Between 1989 and 1994, Singapore had also witnessed an impressive increase in financial operations and a higher incidence of Western banks relocating themselves from Hong Kong to tap into Asian economic growth. Singapore also experienced a spillover from Japanese financial liberalization, when Japan concentrated on long-term financing, especially in China, while Singapore’s advantage was in short to medium term financing. The section on commercial banking in Singapore, and the emergence of DBS as a global investor reveals this specialization. Though in the 1990s, the Singapore International Monetary Exchange (SIMEX), which had concentrated on interest rates, currencies, and stock indices, did attempt to develop futures on long term debt instruments, regional currencies, and regional stock indices.

There is a complication here. Singapore’s monitoring of domestic firms is intense, but because of the secrecy surrounding the distribution of loans or deposits made through the offshore market, and even though the monetary authorities are aware of the sources and destination of capital flow, it does not have the regulatory infrastructure to monitor the geographical distribution of the operations of foreign firms listed on the Singapore stock exchange. Thus Sinar Mas, the Indonesian conglomerate, listed Asia Pulp and Paper in Singapore as a free standing company, involved in paper production in China. Yet it had multiple holding companies,

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conducting labyrinthine financial deals. Only the New York Stock Exchange suspected fraud and forced its delisting in April 1999. Only then was Singapore alerted to this financial chaos. Though APP was able to avoid Indonesian capital restrictions by using networks, and was favoured by the over-optimistic analysis by Western investment banks, it was ultimately the failure of the governments of Singapore and China that allowed APP to weave such an expansion into a capital intensive industry in China. Too much deliberate planning by the state in Singapore overlooks the scandalous developments in certain foreign enterprises. This disjuncture in corporate governance and social responsibility between domestic and foreign enterprises is a recurring feature of Singapore’s regulation and supervision. The 1997 crisis has alerted it to this gap.

Internationalization of the Singapore dollar: prospects or panic
Singapore escaped the harsh shocks of 1997; it endured a depreciation in the Singapore dollar of 15 per cent in July-December 1997, though the dollar deteriorated further in 1998 because of the Indonesian connection, when it suffered a 5 per cent depreciation in January 1998. MAS intervened in the foreign exchange market with reserves falling by US$3 billion in January. However this intervention was not sufficient because the offshore market in London and New York accounted for two-thirds the size of the onshore market, and speculators took advantage and the differential in offshore and onshore interest rates widened to 13 per cent. Ironically, the imposition of capital controls by Malaysia helped to steady the Singapore dollar’s market stability against the US dollar. In short, MAS pursued formal and informal controls to limit speculation, assisted by the rapid recovery of the Singapore economy by 1998.

In the light of these developments, what prospects are there for the transition to a global financial base? In April 1998, Singapore accounted for 7 per cent of global foreign exchange activity, with the average daily foreign exchange turnover of US$139 billion. Yet trade in the Singapore dollar was equal to only 13 per cent of

this. This is a direct result of MAS limiting activities in the Singapore dollar. Non-residents are only allowed loans, currency swaps, securities and repurchase agreements to the value of 5 million Singapore dollars. They also need permission from MAS to deal in Singapore dollar options. This is to prevent speculation, but it also hampers the growth of the currency, and limits innovation in currency options. Before 1998, Singapore’s currency market was less active than even Malaysia.

A few random statistics will help disclose the immaturity of Singapore’s capital market. The financial sector accounted for 10-12 per cent of GDP between 1993-2000. Stocks, futures, commodity brokering contributed 9 per cent of assets in the financial sector, while banking accounted for 46% of output in the financial sector, insurance added 18.5 per cent, and investment for 3.8 per cent. Though foreign assets in finance rose from 24 per cent in 1960 to 26 per cent in 1990, ‘foreign banks’ share of total banking profits fell from 49 per cent in 1974 to 28 per cent in 1995. In 1998 there were 145 foreign banks, 58 merchant banks, and 12 finance companies. The four local banking groups, DBS, OUB, UOB, and OCBC dominated the financial sector. These figures provide a dismal perspective on Singapore’s chances to evolve into an IFC challenging Hong Kong and Tokyo. While the creation of an Asian dollar market in 1968, a non-resident gold market in 1969, and an Asian Dollar Bond Market in 1971 provided advantages in acting as a collection point for Asian dollar deposits, the over-regulated market weakens growth and innovation. Singapore, despite being ranked fourth in foreign exchange transactions behind London, New York, and Tokyo, possesses an attenuated secondary market in the currency trade.

The strict regulation by MAS has meant that foreign exchange market deals are monopolized by the US dollar. The volume of transactions of the Singapore dollar against the US dollar remains small. Cross country currency trading of yen, Deutsche marks, and sterling became large, with the creation of SIMEX as a major futures and

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options base in 1984. By 1993 there were 16 futures and options contracts which
included currency and interest rate futures. The US dollar has dominated currency
transactions in the Asia-Pacific economy. In 2000, the US dollar was dominant, the
Singapore dollar was insignificant. The bulk of the transactions are in US dollars,
though the yen has increased in circulation since the 1980s. Since 1987, yen
denominated external debt for Thailand has exceeded that of debt nominated in US
dollar. The core analysis here is, can Singapore evolve into a major money market?
Does the island state possess the conditions for the creation of an international
currency, and the institutions to assist such a dramatic transition?

Liberalization of the financial system has not released impressive growth. In
July 1973, the Singapore dollar was floated. In August 1973, gold dealing was
liberalized. In June 1978 exchange controls were relaxed and in July 1995 the cartel
system for fixing interest rates was abolished, and despite Singapore emerging as an
important funding centre for South East Asia and China, the currency remains limited
in circulation. The liberalization in December 2000, the lifting of restrictions on
foreigners borrowing dollars and investing in dollar assets, may stimulate growth in
the future. Singapore was also forced in 1998 into disclosures on the distribution of
loans and deposits made in the offshore market. This could lead to greater integration
between the domestic and offshore markets and offshore interests could be allowed
access to domestic capital markets and to the Singapore dollar. This would increase
international trade, reduce costs for Singapore multinationals investing abroad,
increase markets in swaps and derivatives, and develop a market in Singapore dollar
debt both in securities and bond issues.

Parallel to these developments has been major initiatives for achieving
monetary integration in Asia, to protect the South East Asian currencies from the
fluctuations in the US dollar and the yen. One idea was the creation of a basket of
currencies which could offer protection not only from outside currencies but also from
each other's volatilities. Second, there was intra-bloc currency floatation. The third
aim was to anchor regional currencies against the US dollar and seek convergence
through a single Asian currency.
There has been a flurry of activity since March 1999 in Chiangmai, Kobe in January 2001, and in Chiangmai in May 2001, pressing for monitoring to limit exchange rate fluctuations. Singapore is central to this, despite suspicions surrounding her intentions. There are formidable obstacles to currency integration. First, there is little similarity in economic structures and policies to create compatibility. Monetary integration would have to overcome the poor-rich dichotomy before any correlation in inflation rates, interest rates, stock prices, unemployment levels, budget deficits, and even types of business cycles can be achieved. The 1997 crisis revealed the huge disparities in economic fundamentals and the diversity in political, bureaucratic, and economic institutions. Although individual South East Asian economies were duplicating manufacturing and trade items and competing with each other, there is insufficient economic cooperation. There is a protective streak in all. Singapore is conservative in all respects. To become global, it needs to shed its protective culture, adapt to new risks, absorb new innovative financial products, and gear towards regional strategies. Second, differences in historical, institutional developments are embedded and create difficulties in integration. The most stark contrast is in the banking developments in Singapore compared to Indonesia, and Thailand.

Banking: prudent growth and globalization

Four main banks have dominated the commercial banking and finance sector in Singapore since the 1960s. The four are the DBS, the Overseas Union Bank (OUB), the Overseas Chinese Banking Corporation (OCBC), and the United Overseas Bank (UOB). Western banks, which had been active in international trade and finance until the mid 1960s, were threatened by the emergence of powerful Chinese banking cliques formed through the merger of smaller banks catering to the various Chinese dialect groups in Singapore. The OCBC, the only pre-war bank to survive, began operations in 1949. Chung Khiaw Bank of the Aw Boon Haw family was established in 1947, and was absorbed by the UOB Group in 1971, one of the four major banking cliques in Singapore. The mergers and acquisitions of the 1970s and 1980s created further financial concentrations. OCBC, for example, acquired Four Seas Communications Bank and the Bank of Singapore.
UOB was the most active in its take-over strategy. Besides the take-over of Chung Khiaw Bank in 1971, Far Eastern Bank in 1984, and the Industrial and Commercial Bank in 1987, UOB possessed a joint-venture bank in Indonesia from 1990. UOB was the second largest banking group. DBS was the largest. OUB was the only Teochew banking group; the others were Hokkien. UOB absorbed Asia Commercial Bank in 1983 and International Bank of Singapore in 1984. The fourth group, the DBS, was formed in 1968, on absorbing the Economic Development Bank. Only Tat Lee Bank remained independent, concentrating on Singapore and Indonesia, before being taken over by Keppel Bank.

The concentration of financial activities in the four groups was intensified through the incorporation and assimilation of finance companies within them. The three main financial groups – OCBC, UOB, and Keppel – emerged through mergers between 1976 and 1988. The inclusion of finance companies into the large banking groups increased the oligopolistic pattern of finance in Singapore. In 1989, there were 13 bank affiliated finance companies in a total of 28 finance firms.

Between 1965 and 1988, the number of independent finance companies had declined from 96 to 31. Finance companies had grown in the 1950s and 1960s in consumer finance-housing mortgages, hire purchase loans. They were also involved in business finance, in lease finance, investments in real estate and stock markets. There were more legal restraints on consumer finance than on business finance.

It would be useful here to analyse in detail the growth of DBS both from the perspective of its global activities from the 1980s and particularly after 1997, acquiring distressed banks, finance houses and securities firms in Thailand, Indonesia as well as entering into joint ventures with foreign banks in the US, India, Sri Lanka, China and the Philippines. Increasingly the banking cliques DBS, UOB, OUB and OCBC moved from commercial banking to a diversified financial structure, including merchant banking, securities, and insurance. The increased flow of international funds from Japan, Middle East, USA and Europe led to increased interaction with stock markets, and with regional and global financial institutions.
DBS was incorporated in 1968 with more than 40 per cent equity held by the state. A real estate company was formed in 1969, followed by a merchant bank and finance subsidiary in 1970, and a securities firm in 1986. DBS had access to state and offshore funds, and its main aims were to finance manufacturing, undertake urban renewal programmes and promote tourism. From the early 1970s, DBS engaged in raising capital through the Asian Dollar Market (ADM) and Asian Bond Market (ABM), holding critical joint ventures with Japanese and American finance houses. Overall, in the early 1980s it was responsible for a third of the issues in the ADM and ABM.

The regional expansion by DBS was achieved through the creation of branches in Asia, as well as in the US and Europe, while the establishment of joint-venture banks through equity holdings and mergers with domestic banks in Indonesia, Thailand and the Philippines, gained pace in the 1990s. In 1977, the first overseas branch of DBS was opened in Tokyo, and by 1986 there were 589 correspondent networks in 72 countries. The emphasis was on financing manufacturing. In Singapore, a third of DBS’ loans in the 1970s and 1980s were for manufacturing. DBS engaged in offshore banking; in February 1985, negotiable certificates of deposits to the value of 3 billion yen were issued with Daiwa in Singapore. DBS was also active in Japan’s financial markets by the middle of 1985, and in 1986 another 4.85 billion yen was raised. DBS also established relations with American merchant banks operating in Tokyo. In absorbing the National Discount Company in 1986, DBS became a major dealer in underwriting issues of government bonds and treasury bills.

This involvement in the Asian market, dealing in debt securities, bonds and undertaking facilities in the 1980s, was crucial in establishing the bank as a major participant in the yen bloc. This brisk trade accelerated in the 1990s. DBS had an 11-year link with Daiwa Securities, Sumitomo bank and Nomura Merchant Bank from 1972, which was crucial for raising funds for industrial finance in Southeast Asia. This enabled DBS to become the first non-Japanese bank to issue yen


certificates of deposits, leading, in the 1990s to its involvement in fund management in northern Asia for Chinese manufacturing.\textsuperscript{12} A third of DBS revenues in 1996 were derived from these regional activities in Asia.

From 1988, DBS acted as banker for the Singapore Government in China. The consortium of DBS with Keppel Corporation and Sembawang Corporation was critical in innovative financing of Chinese development. In 1993, DBS and Tat Lee Bank provided a loan of US$ 420 million for automobile production in China. This was a joint venture between Volkswagon and the First Automobile Works, a Chinese state-owned enterprise.\textsuperscript{13} DBS fitted in with Singapore’s ambition to construct a regional role in Asia that would ultimately neutralise Malaysian antagonism towards the island republic.

DBS involvement in Indonesia and Thailand constituted its first moves into multinational banking. In 1990, DBS bought a 42 per cent equity stake with Tat Lee Bank in Bank Buana Indonesia. This secured entry into corporate and retail finance in Indonesia. DBS’ interests remained in international trade finance for large corporations. In 1991, DBS Merchant Bank had revolving credit facilities to the value of US$ 40 million in Indonesia. P. T. Gadjah Tunggal was the major corporate debtor, and DBS issued substantial credit for its expansion. Gadjah Tunggal, a tyre manufacturer, saw a growth in sales revenue from 269,652 million rupiah in 1992 to 746,824 million rupiah in 1995, and to 986,880 million rupiah in 1996.\textsuperscript{14} The 1997 crisis brought serious difficulties for Gadjah Tunggal and a take-over by Pirelli was launched. DBS faced serious defaults in Indonesia during the crisis. In Thailand, DBS had purchased equity in Thai Dhanu Bank, which later led to a merger in 1997, following the crisis. In 1997, DBS injected US$ 137.5 million into Thai Dhanu Bank, increasing its stake from 3.4 per cent to 50.27 per cent, although management control remained with Thai executives.\textsuperscript{15}


\textsuperscript{13} Business Times, 18 January 1993.


\textsuperscript{15} DBS, Annual Report, May 1998. See chapter 10.
The wish of DBS to emerge as a pre-eminent financier of hi-tech industries in Asia led to the creation of the Venture Capital Fund in August 1986 to finance investments in both domestic and foreign hi-tech industries. In 1983, DBS expanded its stock-brokering activities from Singapore to Hong Kong, Sri Lanka, and other countries in Southeast Asia. In 1984-85, DBS was responsible for securing 30 per cent of the total funds raised on the Singapore Stock Exchange and in 1987 it was responsible for 83.6 per cent of the new share issues, amounting to S$ 670.8 million. DBS also became the lead manager for share issues on Singapore’s second securities board, the SES DAQ, introduced in February 1987. With the creation of its own Asset Management Unit in 1990, DBS aggressively targeted the Asian stock market.

DBS formed joint ventures or acquired existing securities firms in Asia; it acquired its own securities firm in Singapore in 1987, while in 1993 it formed joint ventures with Sri Lanka, Thailand, Korea, India and the Philippines. The joint venture with Sri Dhana Finance and Securities in Thailand was finalised in 1994 with a 30 per cent stake. In February 1995 DBS held a majority stake of 75 per cent with Capital Trust to form the largest Indian stock-broker firm. In Indonesia, DBS operated a joint venture arrangement with Tat Lee Bank and Bank Dagang Nasional Indonesia. P. T. DBS Securities Indonesia saw a growth of 30 per cent in 1995. DBS also expanded into Shanghai where it was permitted to trade in ‘B’ shares. In Malaysia, there were serious obstacles to its entry. However, close ties were established with Public Bank. In the Philippines securities sector, DBS was assisted by its acquisition of fully licensed banking facilities in June 1996.

DBS achieved spectacular growth within two decades in its capacity as a state bank, with a broad regional mission in Asia to participate in innovative financing of industry and corporate growth. By 1994, it was the largest Southeast Asian Bank with assets of US$ 39.3 billion. In comparison, Bangkok Bank, had assets of US$ 30.65 billion. Sumitomo, the largest Asian bank held assets of US$ 486.9 billion. DBS’

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17 *Straits Times*, 25 November 1996.

18 *Business Times*, 16 September 1994.
business in Singapore recorded impressive profits (see Table 8.1) and these profits and large reserves enabled DBS to compensate for its losses in Indonesia and Thailand incurred as a result of the currency crisis in 1997.

It was this regional presence in Southeast Asia, prior to the 1997 financial crisis, that enabled it to participate in the restructuring of troubled banks in Thailand and Indonesia after 1998. DBS was able to take up majority stakes in Thai and Indonesian banks, assist in their recapitalization, and introduce new managerial hierarchies. This involvement, however, resulted in initial losses for its headquarters.

DBS had to face losses of US$ 260 million in 1998 over Thai Danu Bank, together with another loss of US$ 132 million in connection with revenue reserves, and another US$ 137 million because of depreciating asset values. Tables 1-5 illustrate the difficulties faced by Singapore banks as a direct result of the economic crisis in 1997 and their role as knight-errant for erring banks in the region.

In March 1999, DBS undertook further recapitalization of Thai Danu, having lost 8.1 billion baht in 1998. The recapitalization involved raising up to 10 billion baht through a share issue. The Thai Danu debts had meant that DBS suffered the worst losses among the four big banks in Singapore – S$ 7 billion. DBS links to large Chinese capitalists, such as Ng Teng Fong, also meant serious losses in financial and property markets. The bank’s involvement in the international expansion of Singapore state enterprises and investment groups, such as Singapore Technologies and Temasek Holdings, were lucrative compared to its joint ventures with private corporations, domestic and international, particularly in Indonesia and Thailand. The foregoing analysis illustrates the risks faced by even the most prudent of banks in Southeast Asia. Even DBS in the highly regulated banking environment of Singapore could not escape the crisis, because of its regional adventures both before and during the crisis.

A brief look at its performance between 1999 and 2001 captures this dilemma. In 1999, net profits of DBS group were S$ 223 million, after providing S$ 1 billion to
cover non-performing loans. Total non-performing loans leapt from S$ 1 billion to S$ 7 billion between December 1997 and December 1998.\textsuperscript{19} Forty one per cent of this was for Thai Danu. About three-quarter of the total provision of US$ 752 million in 2000 was for losses in Malaysia, Indonesia, Thailand, South Korea and the Philippines. Thus DBS role as a regional bank had catapulted it into losses, a direct consequence of the rescue of these troubled banks in Southeast Asia. UOB acquired Radanasin Bank in Thailand in November 1999. Both DBS and UOB had acquired medium size banks, so held only less than 7 per cent of the total capital and assets of the Thai financial sector. Their market share is low, and possessed branches located largely in Bangkok. However it has improved services incorporating new technology and internet banking and acted as a catalyst for improved corporate governance in Thai banking. These foreign banks have achieved a swift recapitalization of Thai banks, and by July 2000 had restructured npls and losses, reduced employees, and improved marketing and diversified through the introduction of new and innovative products. Competition has intensified as a result of the activities of DBS, OUB and Standard Chartered and also produced improvements in corporate governance. The insider knowledge of Thai banks held by DBS assisted in the screening and monitoring the banks’ lending relationships.

As reiterated earlier, this regional role of rescuing banks produced some negative results for performance at home. Subsequent to the acquisition of overseas banks in 2000 and 2001, the capital asset ratios of Singapore banks declined slightly. This led to the mergers among the five banking groups in 2001. They were merged into three large banking clusters, to achieve economies of scale and scope. The view was that while earnings were stable, it was unlikely to return to pre-1997 levels of profit. Hence expansion abroad was essential.

The corporations in Singapore were not overleveraged and hence their debt burden was moderate which enabled the banks to recover quickly from the 1997 losses. See tables 1.4-1.8 for evidence of this swift recovery. The fairly efficient regulatory framework and the conservative practices of the Monetary Authority of

Singapore and a stable currency had further eased any difficulties following the economic slowdown even after 2000.

The difficulties that remain are, its small domestic market, and a serious lack of competition in the financial sector because of the existing banking monopoly within the ‘Big Four’ banking groups. Furthermore there is a lack of access to diverse revenues since the capital markets are immature and underdeveloped. Their clear strategy has been to expand abroad particularly into China, where in 2005 DBS had acquired some equity in Chinese banks. This could increase risk as the financial regulations in China are lax.

Finally, for Singapore to build a credible international reputation, it needs an internationally competitive bank, involved in the corporate growth of South East Asia and China, funding an innovative R&D presence in the region and globally.