

THE GROWTH AND EXPANSION OF MULTINATIONAL BANKING IN THE SINGAPORE ECONOMY

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The role of Multi National Banks in international financial operations and their impact on Singapore's growth as a major financial centre in Asia are discussed in this paper by V. Kanapathy, Economic Advisor, United Malayan Banking Corporation Berhad, Kuala Lumpur, Malaysia.

This paper is extracted from a larger report prepared in 1978 for the New York based Centre for Transnational Corporations. At this juncture international banking had reached a stage of "take-off" in Singapore and the growing scope in the region was apparent then. At that time there were less than 100 banks and financial institutions in Singapore whereas today there are almost 250 comprising full, restricted and off-shore banks, representative officers, financial companies, discount houses and money brokers. The daily turnover in the Singapore Market which was only US \$ 350 million in 1971 had reached US \$ 5 billion over the last decade. In this same period the Asian Dollar market whose total assets stood at around \$ 50 million had soared to US \$ 86 billion by December 1981.

Also, by 1982, there were 24 foreign banks with full licenses and 13 locally incorporated banks permitted to transact the whole range of banking services; in addition to 13 banks with restricted banking; 61 offshore banks whose activities were confined to foreign exchange transactions and Asia Dollars covering mainly wholesale banking business with new residents; and 42 Merchant Banks; 46 representative officers of foreign banks and 4 representative officers of merchant banks.

This growing scope in the region is of interest to Sri Lanka with its attempts to get part of increasing business in the region and its recent moves into the sphere of Merchant Banking.

The notion of risk is inherent in banking, especially in international banking. With international banking business around US \$ 650 billion, credit risk, exchange risk, liquidity risk and country risk are forever a source of concern to governments and the Banking community. We are living in a rapidly changing world and events which have a profound impact on nation states are moving with the verve and veracity of a fiddler's elbow. But, international bankers are pragmatic men and they have shown that prudent risk-taking is at the centre of material progress. With the knowledge of customers and their political and economic environment, and with the resources and the expertise at their command, multinational banks have developed a capability in risk-management which has placed them in an advantageous position. Although initiated later than the expansionary activities of the multi-national industrial institutions, the transnational growth of banks during the last decade has been phenomenal. American banks, in particular, "had grown in a single decade from

a fringe activity for the US banking system to its center-piece". Their dramatic growth brought them new avenues for expansion and profit. Multinational banking has now become an established part of the international economic landscape, and Singapore was one of the beneficiaries.

Opinion on multinational banks (MNBs) is generally mixed. An essential characteristic of MNBs is their global mobility. A second differentiating characteristic is their sheer size. These combined qualities along with their energies, experience and other specialities for results generate differences in operation associated with economies of scale which cannot be matched by all host country banks. These attributes have made some view the internationalization of finance as productive and the wave of the future. They say that international finance is a natural and essential component in the new, dynamic, interdependent world economic order. In providing the mechanism for this flow of capital, MNBs supplement the activities of international

agencies. Indeed, in recent years, they have been a major source of international funding as demand far exceeded the lending capacities of international agencies. (It was reported that the World Bank had projected that net annual lending from private sources to developing countries needs to grow at about 12 per cent annually during the period 1975 - 1985).

There are others who view international finance capitalism and its growing autonomy with apprehension. Those sceptical of MNBs say that the international bankers' concern for their capital transcends national interest. They say that MNBs only desire the maximization of profits, having no regard to the actual welfare of host countries. Concerning abuses of the laws and regulations of host countries, it has been said they exploit whatever loopholes that may exist. On a broader front, arguments have been put forward to curb the activities of the Eurodollar and Asian Dollar markets in order to control international liquidity. It has been said that while the ratio between equity capital and deposits in local banks is in the region of 1:11, for MNBs operating in the essentially uncontrolled Eurodollar and Asian Dollar markets this proportion rises to 1:40. Critics say, that while there is little doubt that the MNBs have furnished an important new capital market for financing international imbalances, that they have lubricated the international capital market a little too well to the extent that they have become in themselves a source of instability. At the present level of international banking business i.e. US \$ 650 billion, it has been mentioned that as a cushion against potential bad debts, normal banking prudence dictates that MNBs should have increased their capital by US \$ 20 billion. Instead, critics argue they have relied on subordinated debt by moving heavily into the Eurobond and Asian Dollar Bond markets. It has also been argued that as net creators of credit the Asian Dollar and Eurodollar markets have helped feed world inflation, although in this respect the extent of the depositor multiplier and

leakages in the system has been the subject of endless debates between bankers and economists.

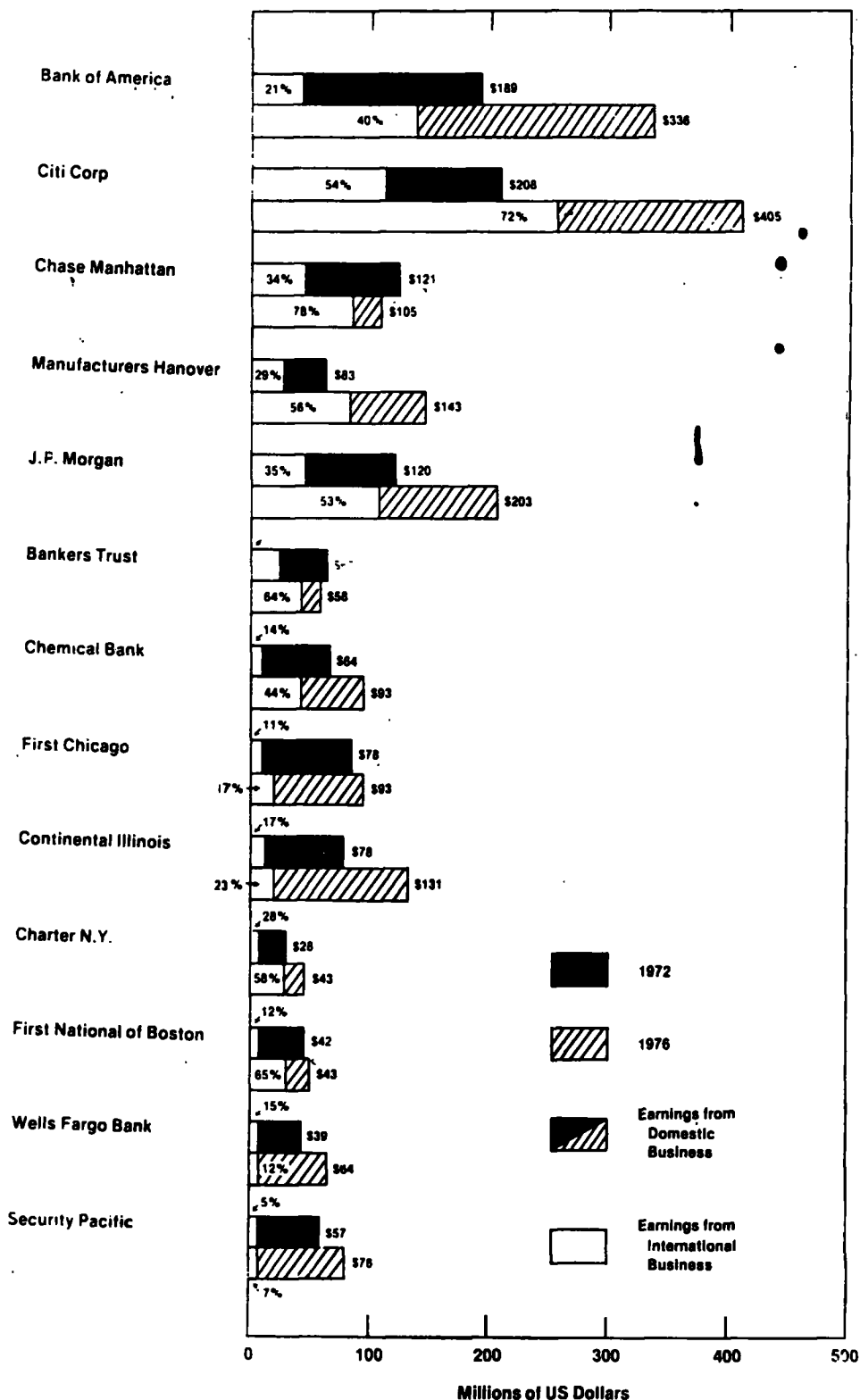
The reconciliation of such conflicts is not a major issue in the case of Singapore because of the nature and size of the economy and its aspirations. Multinational enterprises investing in Singapore are fully aware that the authorities expect strict compliance with the rules which are clearly spelled out. Consequently, the climate of antagonism is virtually absent and the opportunities for confrontation are minimal. Characteristically, the tensions created by multinational enterprises tend to be less in countries having their own thriving entrepreneurial class which itself has been engaged in international transactions and is prepared to be engaged in more of them. Singapore enjoys this situation.

Singapore's Evolution as a Financial Centre

Singapore's evolution as a regional centre of trade and finance has grown directly out of its geographical position, placed at the crossroads of international sea-lanes and air-traffic routes and surrounded by countries rich in natural and human resources. Exchange banks or imperial banks, as the MNBs were known in pre-independence times, have a long record of service which goes back to early colonial days when they had a virtual nonopoly of banking business and when they operated virtually free of external monopoly, as well. They came from various parts of the world and established in Singapore to service, ostensibly the foreign subsidiaries of their domestic clients. English banks were among the earliest to arrive and they are still one of the leaders in so far as branch coverage and local lending business are concerned. They were soon followed by some European banks. The first American bank to establish an office in Singapore was the First National City Bank (Citibank) in 1902.

It was, however, with the decline of Singapore's entrepot trade and the British army pull-out that the authorities

TOTAL, INTERNATIONAL AND DOMESTIC EARNINGS OF 13 LARGE BANKS FOR 1972 AND 1976



Source: "International Debt, The Banks, And U.S. Foreign Policy", A Staff Report prepared for the use of the Sub Committee on Foreign Economic Policy of the Committee on Foreign Relations United States Senate.

launched, after implementing an extensive industrialization programme, an all out effort to develop Singapore into an international financial centre. This course of action was taken in the expectation of generating substantial invisible earnings and additional employment and to acquire, presumably, the political clout that goes with financial power.

MNBs roam the world with substantial freedom, and if one witnesses a heavy concentration in Singapore it is partly due to the fact that this island centre is not hemmed in by regulations. Needless to say, international banking can best be carried on in a fiscally neutral way i.e. separation of domestic and international markets by the intelligent use of taxation and absence of exchange con-

related to control of interest rates and reserve requirements. Under Regulation Q the Federal Reserve Board has power to set maximum rates of interest which can be paid to depositors in certain circumstances. This regulation which still inhibits international business, coupled with the failure to adjust the interest rate in line with changing market rates were historically major factors in the development of the Eurodollar and Asian Dollar markets. Under Regulations D US banks are required to re-deposit part of their total deposits with the appropriate Federal Reserve Bank free of interest. Though from a domestic, retail business point of view such restrictions merit support, they amount to a tax when applied to wholesale inter-

to achieve this is by expansion of overseas operations, though not necessarily confined to offshore or tax-haven activities. In the case of Singapore, however, MNBs maintain a significant presence because it is a growing off-shore centre, and because the location forms a vital link in the chain of international representation. Incidentally, if a link is missing, business may go to competitors. Clients, too, wish their respective MNBs are represented in as many off-shore centres as possible in order to spread risk – not only political or economic risk, but also the risk of not being in the right place at the right time.

With the restrictions imposed in the mid-sixties on the use of local funds to finance overseas customers and for

Appendix 11

COMMERCIAL BANKS IN SINGAPORE

DOMESTIC BANKS: PAID-UP CAPITAL, SHAREHOLDERS' FUNDS AND TOTAL DEPOSITS

(Amount in Million S \$)

	Paid-up Capital	Shareholders' Funds	Total Deposits	Ratio of Net Profit to Paid-up Capital	Ratio of Net Profit to Shareholders' Funds	Ratio of Total Deposits to Paid-up Capital
1. UOB	155.6 (155.6)	332.4 (322.7)	1582.0 (1317.9)	13.6% (11.3%)	6.4% (5.5%)	10.2 (8.5)
2. OCBC	136.4 (136.4)	311.7 (297.2)	1539.6 (1529.4)	15.3% (16.3%)	6.7% (7.5%)	11.3 (11.2)
3. DBS	100.0 (100.0)	147.8 (135.0)	1200.5 (966.1)	18.1% (15.6%)	12.2% (11.6%)	12.0 (9.7)
4. OUB	77.0 (55.0)	121.6 (93.4)	1178.4 (1064.4)	11.6% (13.1%)	7.3% (9.7%)	15.3 (19.4)
5. ACBC	50.0 (50.0)	57.4 (56.3)	233.5 (185.4)	2.2% (1.8%)	1.9% (1.6%)	4.7 (3.7)
6. Tat Lee	36.0 (36.0)	43.9 (41.5)	189.8 (141.6)	10.3% (7.8%)	8.4% (6.7%)	5.3 (3.9)
7. Chung Khiaw	30.0 (30.0)	67.7 (63.6)	579.9 (462.5)	8.0% (7.0%)	3.5% (3.3%)	19.3 (15.4)
8. IBS	25.0 (25.0)	26.8 (26.0)	137.6 (107.6)	3.6% (2.4%)	3.4% (2.3%)	5.5 (4.3)
9. Four Seas	20.0 (20.0)	44.0 (41.8)	186.7 (170.6)	14.0% (13.0%)	6.4% (6.2%)	9.3 (8.5)
10. Bank of Singapore	12.5 (12.5)	17.2 (16.5)	46.8 (44.4)	5.6% (5.6%)	4.1% (4.2%)	3.7 (3.6)
11. Far Eastern	11.25 (11.25)	17.8 (17.0)	226.4 (192.6)	12.4% (12.4%)	7.9% (8.2%)	20.1 (17.1)
12. ICB	10.0 (10.0)	21.3 (18.7)	179.9 (169.1)	26.0% (28.0%)	12.2% (15.0%)	18.0 (16.9)
13. Lee Wah	10.0 (10.0)	19.2 (17.6)	81.8 (77.2)	10.0% (11.0%)	5.7% (6.3%)	8.2 (7.7)
TOTAL	673.8 (651.8)	1228.8 (1147.3)	7362.9 (6429.0)	12.7% (11.9%)	7.0% (6.8%)	10.9 (9.9)

NOTE:

(i) Figures in bracket denote 1976 figures.

(ii) Net Profit figure for Far Eastern Bank Ltd for the year ending 1977 is not available and thus the net profit figure for 1976 has been used again for 1977.

rol. The first to take advantage of these facilities were the American MNBs. These institutions, hamstrung back at home by regulatory straightjackets were seeking outlets to maximise their earnings and to utilise their surplus energies. (E.g. The McFadden Act of 1927 outlawed inter-state branching though the Edge Act corporations were allowed outside home states. Another regulation

national business).

Another major factor motivating MNBs to go abroad was the rapid growth of US foreign direct investment and trade in the 1960s. Proximity to customers and markets, existing as well as potential, became essential. They have to service the overseas branches of their corporate customers. Maintenance of market share is important to them and one way

non-American companies to raise money in the American market, commercial banks took advantage of the growing facilities that were being made available in Singapore. American banks unable to meet the financial needs of their American customers with overseas subsidiaries were motivated to set up branches in Singapore for gathering and relending expatriate dollar funds, or Asian

ASSETS, DEPOSITS AND NET EARNINGS OF MULTINATIONAL BANKS IN SINGAPORE

Dollars. And once some banks had established overseas operations, their competitors were obliged to follow. Unless they did so, they risked losing their domestic business to those banks better able to provide an inter-national service.

In the early seventies, the smaller-American banks or the regional banks, as they are sometimes called followed the path blazed by the large American money-centre banks. They started coming to Singapore, fired by three baits: a longing for prestige, a desire to meet the inter-national needs of domestic customers, and the considerable prospects of easy money in Asian Dollar lending. It is a well-known fact that, till very recently, MNBs earned more through their offshore overseas operations than their domestic activities. The attractiveness of the rewards of overseas operations has been reflected in the international earnings of all major American banks with large overseas operations. (See Appendix 1). Singapore's contribution in this respect has not been insignificant.

International business, too, gave American commercial banks freedom from uninhibited expansion into merchant banking, a freedom withheld from them at home by the Glass-Steagall Act. During the period 1969-74, many of the larger American banks spent many millions on acquiring merchant banks in Singapore. This is where the logic behind American multinational banking begins and ends. Otherwise, the thrust for overseas business was never part of any grand design.

While the US banks were earliest in the trans-nationalization process, the English, the Continental European and Japanese banks began energetic expansion programmes since the early 1970s. By the end of 1977, some 44 of the 50 of the world's largest banks were operating in Singapore. There were, at this time, 77 local and foreign banks, of which 37 were classified as full licence banks, 13 as restricted banks, and 27 as offshore banks. Though in size and numbers Singapore's financial community may look small compared with London (over 275 foreign banks) or New York

Year	All Commercial Banks	Multinational Banks	Percentage of Multi- national Banks to all Commercial Banks
Amount in Million S \$)			
ASSETS			
1973	30,392.6	23,312.5	76.7%
1974	41,054.0	33,057.7	80.5%
1975	52,189.2	42,440.0	81.3%
1976	64,089.4	52,007.6	81.2%
1977	77,920.3	64,764.2	83.1%
DEPOSITS			
1973	18,470.9	14,543.8	78.7%
1974	25,122.8	20,760.1	82.6%
1975	33,129.2	27,695.1	83.6%
1976	40,020.4	33,591.4	83.9%
1977	44,130.2	36,767.3	83.3%
NET EARNINGS			
1973	130.6	83.7	64.1%
1974	173.0	111.2	64.3%
1975	229.2	168.7	73.6%
1976	234.9	157.3	67.0%
1977	260.0	174.2	67.0%

(106 foreign banks), they compare well with the rest of the financial centres scattered in different parts of the world.

With a view to improving the attractiveness of Singapore as a financial centre several measures were adopted recently. A liberal but selective policy on admission of banks was adopted. On June 1, 1978 exchange control was completely lifted. Fiscal incentives were introduced to foster the growth of the Asian Dollar market. The rules governing offshore bank activities were revised to given them a bigger role in the Singapore economy. They could now offer credit and related services to local residents. The lending limit was doubled to \$ 30 million, though the rule that offshore banks cannot take fixed deposits of less than S \$ 250,000 or accept savings deposit in any currency still stands. This liberalization means there now remains little distinction between offshore and restricted banks. The upshot of all these changes is that with the offshore banks

being given greater flexibility in their operations one could now witness greater competition in the local scene. Some reference concerning outlook will be made in the concluding section of this paper.

THE IMPACT OF MNBs ON THE SINGAPORE ECONOMY

Attempts have been made by some researchers to provide the authorities with guides to their policy-making with respect to the use and structuring of transnational banking activities in the Singapore economy. These descriptive and analytical studies have provided information for increasing Singapore's negotiating capabilities in their interactions with MNBs. There appears to be, however, a case for conducting further research to deal with the impact of MNBs on Singapore and to deal with the structure and strategies of the MNBs. The research in so far as the latter project is concerned should be focussed on the expansion, goals, operating strategies,

and management procedures of MNBs based in Singapore. With regard to the former i.e. impact on the Singapore economy, a systematic cost-benefit study should provide useful information on the overall impact on the Singapore economy including the effects on employment, income distribution, capital in - and outflows, wealth creation and the like. An analysis of empirical data is essential to assess the impact of MNBs activities on the structure of Singapore banks and their competitive ability. It could also be evaluated in a subjective manner by those who have long years of experience of this area. As indicated earlier, multinational banking has become an established part of the international economic landscape. The research effort would help one to understand these financial institutions much better, and to comprehend more fully the differences between MNBs and local banking institutions in relation to the financial system of Singapore.

In evaluating MNBs and comparing them to local banks, it will be helpful to examine very closely how MNBs in their lending and other activities have influenced the development process in Singapore. They have certainly made a direct impact on lending activity and through that on the balance of payments, employment and the like. In addition, MNBs activity has also had a positive effect on the financial system and capital market evolution in Singapore. An analysis of existing empirical data demonstrates that MNBs conduct their local activity in a highly competitive environment in which there is a clearly noticeable trend towards increased competition. Local banks are no more sheltered in a cosy regulated cave. They have been pushed out to bask in the competitive sunshine. Apparently, this strategy is beginning to pay dividends with the local banks responding to the challenge. (See Appendix 11). However, concerning the share of business, statistics indicate that MNBs enjoy the lion's share. During the period 1972-77, for instance, assets of foreign banks (including unrestricted and off-shore) in Singapore rose from 68.9 per cent to 83.1 per cent of total Singapore bank assets. Deposits rose

during the same period from 69.8 per cent to 88.3 per cent, and loans and advances from 65.5 per cent to 78.8 per cent. Net earnings of MNBs as a percentage of total earnings rose from 53.9 per cent to 67.0 per cent in 1977. (See Appendix 11).

It may be too early to appraise adequately all the ramifications of MNBs. Nonetheless, the weight of the evidence so far available seems to indicate that the net effect of MNBs has been favourable to the Singapore economy. Politicians and government officials have expressed a favourable attitude towards MNBs in Singapore because, among other things, they have created increased affluence by the spending power of the banks and their staff, and in the taxation of profits. With the provision of fiduciary services - trust, company and investment management, and a number of other specialist functions - an impressive level of expertise has been developed in liaison with lawyers and accountants. It is the general consensus, however, that there is room for further training and development. Some mention has been made by both MNC's and MNBs that the average Singaporean does not manifest the imaginative and innovative characteristics of his Hong Kong counterpart. This may or may not be true assessment. If true, then measures must be adopted to change the training and educational process to ensure continuity of the ingredients which had produced Singapore's leadership, and this would provide additional opportunities for talented men intending to specialise in the sphere of international banking and finance.

The fear that local commercial banking would become less competitive if MNBs were permitted to expand their activities has not been substantiated. On the contrary, competition has been intensified. The creation of the International Bank of Singapore (IBS) is a classic example. IBS, in addition to providing a complete array of commercial banking services as well as having a licence to deal in ACUs, was also established to obtain a share of the potentially lucrative business abroad. On balance, however, MNBs have offered

a wider range of banking services and have increased credit extended to consumers who otherwise may not have had an opportunity to take off. Evidence on the profitability of MNBs versus local banks is not mixed. The former's performance has been consistently better.

In this section reference should also be made to the Asian Dollar market which has completed its tenth year of operations. With the complete lifting of exchange control since 1 June, 1978 all limits and restrictions on Singaporeans entering the Asian Dollar market were removed. Therefore, a study of the impact of this market on the economy is significant. There are currently 82 Asian Currency Units (ACUs) in Singapore with total assets in September, 1978 standing provisionally at US \$ 24.12 billion. ("ACUs are not institutions as such but a book-keeping unit of those financial institutions which have the approval to operate in the Asian Dollar Market"). On its first anniversary in November, 1969 only eight ACUs were in existence of which five commenced operations with total assets amounting to US \$ 106 million. Though the number of ACUs had grown steadily the year was of special significance. It was during that year that the establishment of an "offshore" banking zone in the city took place. Consequently, in 1973 alone the number of ACUs went up by 22.

The predominance of the interbank lending which rose to US \$ 17.83 billions in September, 1978 reflects Singapore's role as a funding centre for MNBs international activities. These activities have been facilitated by the six international brokers and the totally liberalised Singapore foreign exchange market. Although there is still a heavy concentration of interbank activities, transactions with nonbank customers have also increased. By August, 1978 the amount lent was about US \$ 5.6 billion. Multinational corporations located in Singapore and Singaporean financial and manufacturing institutions are now customers of the Asian Dollar market. During recent times the Asian Bond market and the US Dollar Negotiable Certificate of Deposits have also been developed as

an integral part of the Asian Dollar market. The first Asian bond was floated by the Development Bank of Singapore for US \$ 10 million. Subsequently, banks and companies in Singapore have been in the bond market. With the Asian bonds acquiring a more Asian character opportunities for local managers and underwriters to develop placing power and expertise to handle these issues have been increased. The growing sophistication of the local investors in the development of their funds is further manifested by the recent increase in nonbank cutomers' investments in the Asian Bond market, and more recently, in the US Dollar Negotiable Certificate of Deposits.

From the above discussion one can note that offshore MNBs' activities are spread widely over the region, outside Singapore. There are, however, some who participate in local lending as well. As indicated earlier, research effort should be extended to examine the relationship of MNBs and the subsidiaries of MNCs located in Singapore. Indirect impacts are as important as direct impacts. For example, the choice of borrowers to whom MNBs extend credit in Singapore can be a significant factor in the determination of the industrial structure and the levels of technology. Reference was made in the introductory paragraphs of this paper on the issue pertaining to the endless debate between bankers and economists about MNBs contribution to international inflation.

An assessment of the actual contribution made may be helpful. These, are of course, only a few of the possible areas of impact associated with MNBs. One could list a vast array for research and examination. Whatever the outcome of this research exercise may be the policy-makers and the people of Singapore appear to be happy with the presence of MNBs. In the ultimate analysis it is this favourable reaction which counts.

Regulatory System

The evolution of multinational banking as indicated earlier is marked by its newness and its rapidity. Bank regulatory systems, even in most home countries, have evolved primarily in response to domestic banking development and are oriented largely to the regulation of domestic banks. Only now explicit attention is being focused on possible new regulations of such banks in these home countries and international monetary agencies. It has been said that multinationals would follow any rules that are clear and understandable. This school also says that multinationals would obviously try to argue against any rule that will not benefit them. They will also try to get rules set in their favour if they can, but will follow any rule that is set. There are others who have indicated that there is evidence to suggest that MNBs are capable of developing techniques which, in effect, by-pass the intent of banking regulations in both host and home countries.

The prime purpose of banking regulation and examination is to protect the depositor and to maintain a stable banking system. In Singapore, the regulatory control over financial institutions is concentrated on the Monetary Authority of Singapore (MAS) and as of today the banking industry can be said to be solid and secure. Through a system of checks and balances the authorities have attempted to ensure that the present regulatory system works well.

Insofar as the response by MAS to the rapid emergence of multinational banking activity is concerned, it cannot be said to be hesitant or sporadic. Therefore, one cannot argue convincingly that there exists a 'policy-lag'. Further, as the regulatory authorities of the home countries of MNBs also have a responsibility for regulation the opportunities to deviate from the rules are limited. Nonetheless, loop-holes do exist and Singapore has devoted a lot of energy to MNBs accounting and disclosure. Some dissatisfaction with current MNBs disclosure

practice has been expressed by certain institutions and the Hong Kong situation was cited. As Mr. Lee Kuan Yew mentioned in a recent interview, Singapore cannot be as unregulated as Hong Kong. The Prime Minister said Hong Kong has a different style of government and a different approach to life and business. This is a fact. There is, however, a distinct disadvantage in being over-regulated and this is not the situation in Singapore. It would, however, be interesting to evaluate the regulatory efficacy utilizing, for example, economic and socio-political variables to examine whether the costs in any way outweigh the benefits.

CONCLUSION

In conclusion, some mention has to be made about the possible long-term development of MNBs operations in Singapore. Crystal gazing in these areas is hazardous but it is a known fact that the world of offshore has come to stay. More and more wealthy Asian individuals and MNCs are turning to offshore financial centres to restore an element of flexibility in their financial affairs. Singapore is rapidly gathering the capability to provide such services efficiently and in direct competition with Hong Kong.

A factor which may contribute to the growing stature of Singapore as a leading financial centre is the possibility of the region making further strides in economic expansion, though it may be hamstrung temporarily by such factors as protectionism and the resultant threat to the dynamism of world trade. Many hold the view that South-east Asia will be one of the growth centres in the last quarter of the twentieth century. The vast natural resources, cheap and abundant labour, fast expanding markets and the comparative absence of xenophobic tendencies of most nations in the region have attracted many multinational corporations, especially in the area of oil exploration and mineral exploitation which, incidentally, require long-term funds. Earlier, reference was made to the World Bank projection of 12 per

cent annual growth during 1975-1985 in net annual lending from private sources to developing countries. With demand for new financing having not reached saturation point as in Africa or Latin America Asian customers of ACUs continue to make a sustained demand for funds. Based on this, some banking authorities hold the view that this region may be the Number One seat for the growth of international banking in the next decade, with Singapore and Hong Kong playing a central role. They reckon that Singapore, which accounted for nearly 200 per cent rise in overseas branches in the last seven years, would be the focus point for funding and money flow transactions. Insofar as the mobilisation of funds is concerned, Singapore has introduced new instruments such as floating and fixed rate of US Dollar Negotiable Certificate of Deposit for tapping funds of longer maturity. A small number of Singapore banks has also in their portfolio other offshore money market instruments such as Bankers Acceptance which already has the incentive of the 10 per cent concessionary tax rate. With closer cooperation of ASEAN countries, the Asian Dollar market in Singapore would be further developed as an intermediation centre between the banking systems in ASEAN and the international markets. It has also been reported that with the development of ASEAN, the ACUs in Singapore can play an active rôle in promoting transactions in local currencies. Of course, much of the success in these areas depends on the degree of preparedness to cooperate and the extent of the fear or suspicion entertained by the rest of the ASEAN members of Singapore's financial hegemony.

One cannot resist mentioning, at least in passing, that Singapore may face increasing competition from other countries. A possible distant threat can be

New York. Ideas of setting up such centres are now being taken seriously by US bankers led by Citicorp. The aim of the plan is to set up a separate tax haven within the United States through which the US banks would be able to conduct much of the business which are at present carried out through operations in other offshore centres such as the Cayman Islands and the Bahamas. These places allow a US bank to use an address which is treated by the Federal Reserve as an overseas branch but which does not require the bank to set up a full operation and transfer its own people to the offshore site. Though the emphasis of the arguments of US bankers has been on this aspect of the development, one cannot ignore the potential implications on Singapore. The US banks may siphon certain types of banking business which is now conducted through their Singapore branches to these proposed new offshore centres. While Singapore will remain an important outpost for Asian activities because of its geographical position and expertise, the incentive to expand could be reduced of the so-called "domestic international banking facilities" (DIBFs) as proposed by Citicorp takes off the ground.

American banks have started to look at their international business as a whole, rather than a series of separate, unconnected operations. They also now tend to look at their operations functionally and no more geographically. Another point that has to be noted is the fact that international earnings of US banks had declined relative to domestic earnings. Solomon Brothers of New York noted that the top 10 US banks increased the earnings on their international business by only 8 per cent in 1977, whereas domestic business brought a rise of some 11 per cent in earnings. As the US banks provide the backbone of Singapore's Asian Dollar market, such developments may have to be watched rather closely.

The future of Singapore as an offshore centre will, nonetheless, continue to be promising because of the rich potentialities of Southeast Asia. Some have also indicated that the tendency for national governments to interfere with MNCs should also be borne in mind. Many suspect such interference to grow as in most parts of the world, thus encouraging MNCs to seek more congenial fiscal and regulatory regimes. Available evidence shows that the offshore activities in Singapore will continue to provide an efficient, flexible and out-of-the ordinary service and these will therefore continue to make it a profitable area to operate. This is corroborated by the fact that though the expansion in the number of branches and offices which MNCs maintain in offshore centres has tended to slow down with the recent duller economic climate, increases have been registered in Singapore. This is mainly attributed to the fast expanding situation locally. The fiscal and other concessions made recently to assist the growth of offshore banking activity may act as an additional impetus. The possible tax changes in Hong Kong may further improve Singapore's position as a major financial centre in Asia.

Incidentally, though Singapore is an island centre, issues such as pressure on housing, social, medical and educational facilities are not at all significant. The balance of the economy is not distorted because, in addition to the excellent local services available, there is not much competition for premises and locally-recruited staff. Further, the influx of the new banks had not resulted in the same cake being shared out in smaller portions as the newcomers generally introduced additional business.
