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Historical Institutional Analysis of Ethnic Financial Institutions: A Study of the Chinese Banks in Sarawak

CHEN Tsung-Yuan*

Abstract

This paper examines the development of Chinese banks in Sarawak from the perspective of historical institutionalism, and explains its implications in terms of "ethnic economy" theory.

The Chinese banks in Sarawak are small and medium in size and mainly catering for the local Chinese business community. They are conservative family business concerns and adopt a policy of stable growth. As such, they are unable to cope with changes and requirements to withstand competition in the industry.

The study argues that the small size of Chinese banks in Sarawak and their difficulties in coping with competition have not allowed them to meet the needs of the emerging multinational business sector. In consequence, they are the targets of mergers and acquisitions under a policy directed by the government. This process and the resultant rigid banking rules and regulations have in turn raised problems for local Chinese businesses in their attempts to set up new ventures or to maintain existing ones.

Key words: Sarawak Chinese banks, ethnic economy, ethnic financial institutions.

Introduction

It is a common rule that banks and financial institutions are reluctant to serve "small" customers or the disadvantaged groups out of concerns of risks and uncertain returns. The small Chinese businessmen in need of modest initial capital find a way to overcome this through the support of banks owned by persons of their own dialect origin. This is a proven advantage when dealings are based on "enforceable trust". It is this trust that becomes an important social capital within a given dialect community (Zhou, 2004).

In the context of Sarawak, the banks of the Chinese minority have played an essential role in the economic success of different dialect groups of the community. As in other places,

* Dr. CHEN Tsung-Yuan is attached to the Graduate Institute of Development Studies, National Cheng Chi University of Taiwan. E-mail: kurtchen1979@yahoo.com.tw

the Chinese in Sarawak rely heavily on their own capital and social relationships to nurture businesses and to manage risks. This habit of self-reliance is further strengthened by the existence of banks and financial institutions organized by the major dialect groups.[1]

The banking system of Malaya was introduced by the British during the colonial period and became relatively well developed after the Second World War. Almost all local banks were started and operated by Chinese families or business associates. The inception of the New Economic Policy (NEP) in 1970 in favour of the Bumiputras[2] and the mergers and acquisitions of financial institutions from the 1990s have decimated the number of Chinese banks in Malaysia and reduced the proportion of Chinese equity holding (Chin, 2004).

The Chinese banks in Sarawak are of moderate size and serve mainly the local economy and Chinese community. They are conservative and their operation policy is to maintain stability. As such, they are unprepared for changing conditions or to withstand growing competition from larger and more aggressive banks. The eventual exit of Chinese banks from the financial sector in Sarawak is their inability to respond to an emerging trend that favours large capitalization and a diverse range of sophisticated services to satisfy the needs of the changing domestic and international business environments. Hock Hua Bank and Wah Tat Bank are typical examples. Both were well-established and enjoyed a steady growth in their business but were eventually taken over respectively by Public Bank and Hong Leong Banks in 2000 in line with the government policy of merging local banks. A study of this process of change may help us to understand the economic behaviour of Chinese business in Malaysia.

This study adopts an institutionalism approach to analyse the development of the Chinese banks in Sarawak and to show that the changing fortune of the Chinese is attributable not to cultural or ethnic causes but rather to complex historical factors and social developments. The brief literature review with intent to formulate an organizing framework is followed by a discussion of the development of the Chinese banks in Sarawak. The next section is an account based on a questionnaire survey to examine the socio-economic interactions between Chinese banks and Chinese business.

The Chinese Ethnic Economy: A Historical Institutional Analysis of Chinese Banks in Sarawak

The first Chinese bank in Sarawak was established in 1905. By 1965, six different banks were established in the two largest towns of Kuching and Sibu by the Hokkien (Fujian), Foochow (Fuzhou) and Cantonese (Guangfu) business leaders. However, none has managed to survive to this day (Table 1).

Table 1. Chinese Banks in Sarawak

Bank	Dialect group	Year established	Liquidation or acquisition	Headquarters
Kwong Lee Bank	Cantonese	1905	1982 – Acquired by a banker-cum-industrialist from Peninsular Malaysia and renamed MUI Bank	Kuching
Sarawak Chinese Bank	Hokkien	1913	1935 – a victim of the Great Depression of the late 1920s and early 1930s	Kuching
Bian Chiang Bank	Hokkien	1924	1975 – the Wee family withdrew and the Bank was renamed Bank of Commerce	Kuching
Wah Tat Bank	Hokkien	1929	2000 – Merged with Hong Leong Bank	Sibu
Hock Hua Bank	Foochow	1952	2000 – Merged with Public Bank	Sibu
Kong Ming Bank	Foochow	1965	1992 – Acquired by EON Bank	Sibu

Source: Annual reports of the various banks

Questions as to why Sarawak Chinese banks have disappeared from the industry and the impact on the Chinese business community are relevant issues that still await further investigation. Several studies on these issues have been carried out elsewhere in Southeast Asia and different explanations have been put forward based on cultural, social, political, and geographical perspectives (see Table 2).

Table 2. Explaining Chinese Ethnic Economy in Southeast Asia

	Local	Global
High Chineseness	Type I (Culturalist theory) • Local adaptation of the Chinese culture • Descriptions on the migration history or case studies on immigrant communities Cultural explanation to the ethnic economy	Type III (Networking theory) • Transnationalism or Cosmopolitanism • Chinese culture is an ideology without borders, and is reflected in its ethnic-centric social networking practices Social explanation to the ethnic economy
Low Chineseness	Type II (Structuralist theory) • Political-commercial alliance • How a minority ethnic group is able to grow under discriminative environments and policies Political explanation to the ethnic economy	Type IV (Globalization theory) • Impacts of a globalized economy • Investigating the reconfiguration of overseas Chinese economies and changes in organizational governance Geographical explanation to the ethnic economy

Source: Summarized by author

The most common attempts to explain the development of the Chinese ethnic economy in Southeast Asia are by means of the cultural and structuralist theories. The culturalists try to explain variations of economic performance among ethnic groups through their distinct characteristics, including social values and moral teachings of each group. Some scholars claim that Confucian ideas adopted by the Chinese such as the Golden Mean, sincerity, honesty, mutual respect and trusts are conducive to economic development. The argument is that "transaction costs" could be reduced between parties as they seek mutual benefit. The networking and social relationships or *guanxi* valued so much by Chinese society also facilitate commercial activities and intensify economic interactions as a whole. It is this idea that leads to the concepts of the "Chinese Economic Area" and "Chinese Cross Border Networks" (Redding, 1990; Kotkin, 1992; Weidenbaum and Hughes, 1996).

In contrast, the structuralists argue that the idea of a "Chinese Network" is nothing but an unrealistic assumption. Terence Gomez (1999) points out that culturalist theories and the concept of the Chinese network lack theoretical backing. He cites the argument of Francis Fukuyama (1995) that trust among the Chinese people rarely extends outside their family. The equal inheritance system commonly practised by the Chinese also provokes competition that is not beneficial to long-term business development. In fact, it is the cross-ethnic networks instead of the cross-Chinese dialect networks that are important. In Malaysia, the co-operation between the Malays and Chinese in politics and business has become increasingly common and influential. This type of cross-ethnic alliance that is largely based on rent seeking is changing the nature of ethnic economic development. In view of the business re-alignment of ethnic groups in response to new official policies, the Chinese network should be interpreted as a response to this external environment.

The Asian financial crisis in 1997 was a watershed in the development of Chinese business. The crisis has compelled a re-examination of the substantive relation between "culture" and "Chineseness" and economic development. The ideas spelt out by structuralist scholars have once again gained momentum (Gomez, 1999; Chan and Ng, 2000; Li, 2000). However, these ideas have largely overlooked the role of Chinese banking establishments, their history and the trajectories of development of individual banks as well as their influence on Chinese business.

This intellectual stand-off neither facilitates the integration of ideas nor helps us to understand the complicated development of recent Chinese capitalism in Southeast Asia. Current conclusions do not explain the true development of an ethnic economy but a more integrated approach may yield some insights on the subject.

An integrated approach has been proposed in some recent studies in which the theory of institutionalism may provide a dynamic "structuration" that may resolve the debate. 刘宏/Liu

Hong (2003: 196-197) argues that institutionalism is an interpretation that considers culture and structure as two interacting forces within a society, emphasizing that the institutional framework may provide structure to our daily lifestyle while reducing uncertainties. Yen Ching-Hwang (2008: 137-138) further points out that the development of commercial activities by Chinese enterprises in Southeast Asia was all closely associated with certain political environments. Chinese businessmen were able to respond sensitively to the changing business situations and acted accordingly, and they applied different tactics to compete. This situation can be interpreted more comprehensively under existing historical and cultural contexts.

The distinct historical encounters experienced by Chinese immigrants gave rise to the emergence of different dialect communities and their local networking relationships. The "history" of an ethnic group is a record of its past as well as an account of the course of its interactions with other groups and external environments. The study of historical facts may allow us to analyse and explain the different social structures within each country and region, and the forms of organizations they correspond to.

In summary, the key to advancing beyond a partial understanding and explanation lies in studying corporate behaviour under different historical scenarios through which we may learn how such macro-economic factors really affect an ethnic economy. For a better understanding of the development of Sarawak Chinese economy, this study proposes an integrated analytical framework based on the historical institutionalism approach (Figure 1). As far as Sarawak Chinese banks are concerned, an examination of the history of their development may reveal the trends and strategies through which the Chinese community seeks to advance and to respond to changes in the economy of the state.

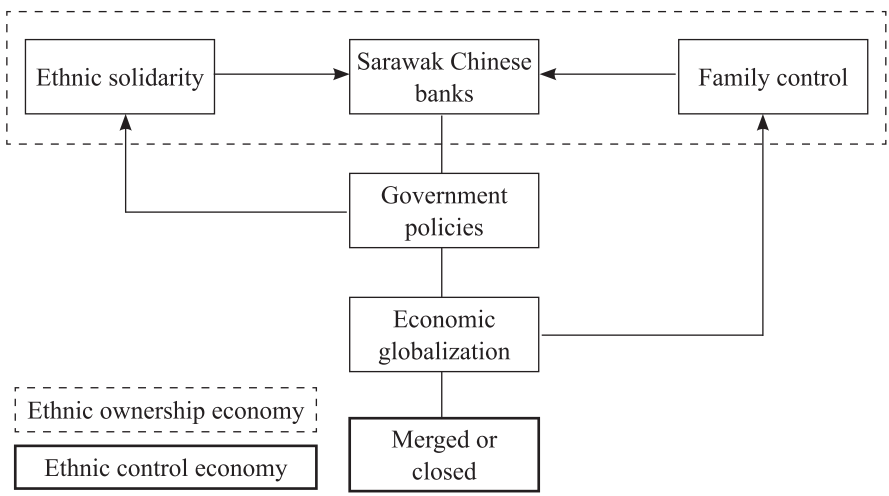

Figure 1. Illustrating the Rise and Fall of Chinese Banks in Sarawak: The Historical Institutionalism Approach

The analytical outline shown in Figure 1 indicates the manner in which Chinese banks in Sarawak, having survived the vicissitudes of business in the twentieth century, finally exited from the financial market in the year 2000, thanks to government policies and economic globalization as well as their distinctive family and ethnic-based operation. These factors interact at different intervals to influence the performance of Chinese banks. In the case of Sarawak, family and ethnic ties among the Chinese had contributed to the initial growth of banks. As these banks grew in size and encountered changes in the political and economic environments, the early advantages of these banks began to work against their favour and hampered business growth. This was most apparent during the 1997 financial crisis when the Malaysia authorities decreed that small banks merged with the larger ones to adapt to global financial market needs, a move that led to the eventual demise of the Chinese banks in Sarawak.

Sarawak Chinese Banks: From Rise to Demise

The Chinese banks in Sarawak evolved from traditional forms of financial institutions common among the Chinese overseas and played a critical role in the accumulation of capital. These banks had served small businesses that were denied access to sources of finance from European-owned commercial banks. They had served the community well when the Sarawak economy was based on petty trade and the production of commodities. Following the advent of globalization and structural transformation of the economy under a Bumiputra-dominated government, the weakness of these banks was exposed and their long-term prospects were compromised.

Pioneer Stage of Development (1903-1945)

The period between 1903 and 1945 was the pioneer stage in the development of Chinese banks in Southeast Asia. A total of 15 Chinese banks were founded in Singapore, Malaya and Sarawak, 13 in Thailand, and five in Indonesia. Although the larger ones had branches in other parts of Southeast Asia, Hong Kong or South China, their early path of development was unsteady and banking scandals were not uncommon (Brown, 1994: 160).

The first Chinese bank in Singapore, Kwong Yik Bank, was established in 1903. The Sarawak Chinese soon followed two years later with Kwong Lee Bank. In the Malay States, the Kwong Yik (Selangor) Banking Corporation was set up in 1913 (Lee, 1990: 38). In the days when few banks existed, the people had kept their savings in their own possession or entrusted them to the local Chinese shopkeepers or remittance houses. The larger towns had private remittance houses to help the early Chinese communities to remit money to China.

Out of these remittance houses had evolved the earliest Chinese banks to meet the expanding needs of the trading and commercial class (安焕然/An Huan Ran, 1998: 307). A distinctive feature of the early Chinese banks was their association with the various dialect groups (see 吴主惠/Wu Ju Huei, 1983: 168-169). The founders of Ban Hin Lee Bank were Hokkien businessmen while the Kwong Yik (Selangor) Bank were Cantonese. Some also operated remittance houses and pawn shops. These pioneer dialect-based banks had run on the basis of personal trust rather than on pledges secured on collateral.

As ethnic financial institutions, these early Chinese banks played an essential role in the formation and accumulation of Chinese capital in Sarawak in the past. They thrived on the basis of trust and cultural affinities operating in the context of the ethnic economy.[3] Intense social and economic interactions within the Chinese community and personal trust provided the business platform by which these banks would service the various needs of business proprietors, petty traders, and others.

The economic history of Sarawak witnessed the existence of six locally registered Chinese banks. The Kwong Lee Bank that began operation in 1905 was set up by Cantonese businessmen from Singapore and followed a policy of cautious lending and charging high interest rates that worked out at a monthly compound rate of 4 per cent, or approximately 52 per cent per annum. As it collected interest payments in advance, the bank effectively provided little assistance to capital accumulations among local Chinese businessmen (蔡增聪/Chua Chen Choon, 2004: 261). The Sarawak Chinese Bank was the next to appear in 1913 but ceased operation in 1935. This bank left hardly any records or any trace of its existence. Of much significance to the Chinese economy was the Bian Chiang Bank founded by Wee Kheng Chiang and his business associates in 1924. Wee was the leading local businessman of his day and was the driving force behind the bank. Capitalized on $100,000 of which four-fifths were held by Wee, the business focus of the bank was on credit lending and currency exchange. Loans were granted for genuine businesses and banking relationships were based on personal credibility with almost no pledge of collateral security. Taking of deposits then was not a core business function as private persons would hardly accept the idea of keeping their savings in the bank. The scope of business of Bian Chiang Bank was consequently rather limited (林煜堂/Lam Chee Kheung, 2005: 60; see also Lam, 2012).

Although the early Chinese banks grew and contributed to the economic development and capital accumulation of the Chinese community, they were neither tightly supervised nor managed according to stringent administrative rules. The collapse of the share market in Wall Street in October 1929 that brought about the Great Depression affected the prices of Southeast Asian commodities. Heavy losses suffered by Chinese merchants dragged down the business volume of the Chinese banks. By the early 1930s, Chinese banks operating in Malaya, Singapore and Sarawak had taken steps to reduce inefficiencies commonly associated with Chinese family businesses. Reforms were introduced that led to the adoption of corporate structures and modern business management (Brown, 1994: 170). However, hardly had the situation improved when the Second World War broke out to deal yet another blow to the economy.

The brutal Japanese invasion of Southeast Asia, though brief, was destructive. Damages suffered by the Chinese banks were immense. In Singapore and Malaya, the Japanese military government installed the Yokohama Specie Bank and the Bank of Taiwan as official local banks. Chinese banks were strictly regulated and their assets were confiscated. Although the Overseas Chinese Bank, the Sze Hai Tong Bank, the United Overseas Bank and many others were allowed to operate, their funds were controlled by the Yokohama Specie Bank. In addition, the Japanese military authority arranged trusted personnel to supervise local banking activities and to closely monitor their operations (黄汉森/Wong Hon Sum, 1996: 113; Kratoska, 1998: 214-222).

The Japanese army occupied Sarawak and soon seized all the three Chinese banks in operation then. The business activities of Bian Chiang Bank, Kwong Lee Bank, and Wah Tat Bank were suspended by the Japanese and the Yokohama Specie Bank was appointed to terminate their operation. They were later merged to become Kyoei Bank. This new bank did not possess tangible assets and the currencies issued by the Japanese military authority became valueless after the war. The assets of the Chinese banks that had been built up before the war vaporized and were completely lost (林煜堂/Lam Chee Kheung, 2005: 60-61). When the Japanese were finally driven out of the state, the future of local banks was bleak as they attempted to revamp their business almost from scratch.

The Banking Industry from 1945 to 1997

From the end of the Japanese Occupation to the Asian financial crisis of 1997, Sarawak's banking industry experienced dramatic changes in the institutional and economic environments. The outbreak of the Korean War in 1950 raised rubber prices to record levels and energized Chinese business and the banking industry. However, as rubber was a global commodity subjected to wide fluctuations in prices, the stimulus of high demand for rubber to the local economy was short-lived (Law, 1962) .

The end of the Korean War saw the rise of the timber logging industry as a major economic activity in Sarawak as it replaced rubber as the primary export. The hefty financial investments of the logging business were largely drawn from Hock Hua Bank. The prosperity of the timber business then had reportedly enabled the Foochow community to accumulate great wealth, and Hock Hua Bank and other financial institutions helped to propel the new phase of development of Sarawak (田英成/Chan Eng Seng, 1999; 陈琮渊/Chen Tsung Yuan, 2006).

The period of the mid-1950s and early 1960s saw the formation of political parties. It was the British colonial government that encouraged political consciousness possibly to groom Sarawakians for independence through merger with the Federation of Malaya (Leigh, 1974: 40-56; 黄建淳/Huang Jiann Chen, 1999: 741-742). This period also coincided with the beginning of the timber industry. Chinese merchants who were engaged in political activities or the timber industry were able to build up close ties with the government and gained access to business opportunities and licences. These developments contributed directly to the business of Chinese banks (Ross, 2002: 132-137; Porritt, 1997: 372). As a result, a new generation of bankers, among them Ling Beng Siew and Wee Hood Teck, was able to reach out to local "high society" (personal communication, Then Jyou Kiong, 13 June 2012).

Sarawak joined Malaysia in 1963 and its banks came within the purview of Bank Negara Malaysia (Central Bank). Sarawak Chinese banks continued to grow and a new bank was established[4] in the midst of political uncertainties in the 1960s and a time when foreign banks were beginning to dominate the financial sector of the country. By 1966, foreign banks were responsible for 70 per cent of the cash deposits and total loans of commercial banks (Lee, 1990: 272-273). After the communal riots of 13 May 1969, the NEP was introduced to promote the economic interests of the Bumiputra communities. The operations of foreign and domestic banks were regulated and a quota system was implemented by which 30 per cent of the capital share of banks was to be allotted to Bumiputra interests.

Following the financial crisis of the 1980s, the government initiated reforms in financial supervision. The passing of the Banking and Financial Institutions Act of 1989 (BAFIA) marked a critical turning point in the country's banking industry. This act empowers the Ministry of Finance as an approval authority and Bank Negara to authorize mergers, share acquisitions, and act on major decisions affecting the banking industry (Bank Negara Malaysia, 1989: 51-52). The reforms set in motion a wave of bank mergers that changed the face of the financial landscape of Malaysia.

Over the years, official involvement in the banking industry through the instrument of institutional shareholding held by state-owned trusts and pension funds, central and municipal government trust funds has shifted control and ownership of many local banks away from their Chinese founders. Chinese dominance has since been decimated by an officially orchestrated programme of takeovers of small local banks by a few designated key financial institutions. This process and the injection of government funds through government-linked subsidiaries and Malay corporations have effectively transferred control of the banking sector to Bumiputra interests. At the same time, a Malay financial elite has emerged to take control of the ownership and management of several formerly Chinese-owned banks (Lee, 1990: 158-159; see also Haggard, 2000). Between 1970 and 1990, eight out of the ten largest local banks, formerly dominated by Chinese and foreign capitals, have been absorbed by Bumiputra or state-owned companies (Gomez and Jomo, 1999: 62). While a few large foreign banks were spared from the restructuring exercise, they nevertheless accounted for only one-tenth of bank branches and one-fifth of national bank assets in 1995.

The prospects of many local banks had hinged on how well their management handled issues of politics. But the majority had no choice but to merge with larger banks (Brown, 2006: 115). The pressure under this new trend of development of the financial sector was such that the prospects awaiting the small Chinese banks in Sarawak were almost certainly bleak. A banker stated that they "had no choice but to reach out to our Iban and Malay friends to take up shares in order to fulfil the quota and to protect our management" (personal communication, former manager of Hock Hua Bank, Kuching, 18 July 2008).

The Chinese banks in Sarawak were conservative in their management and localized in operation. At the same time that they benefited from their dealings with influential people with government connections, they had also to learn how to return their favour. They were also reluctant to venture into Kuala Lumpur partly because of their belief that serving the needs of politicians might compromise their profits. They therefore preferred to give out petty loans to many customers rather than large loans to a few. This was because small bad loans were manageable while a single large one might drag the bank into insolvency (personal communication, former CEO of Hock Hua Bank, Sibu, 16 July 2009). The nature of family business management also afforded few opportunities for expansion and development. The limited scope and size of business, coupled with officially enforced control measures, almost certainly spelt trouble for the small Chinese banks in Sarawak. As it was increasingly difficult to obtain new banking licences since the 1970s, the small family banks became targets for takeover bids by those with powerful connections with ruling elites.

The 1970s and 1980s saw the disappearance of three Sarawak Chinese banks. Bian Chiang Bank, founded by the Wee family, ceased operation in 1975. It had been managed by the third son of the founder and a Malaysian citizen, but control rested with a Singaporean son who was the Chairman of United Overseas Bank of Singapore and a non-citizen. In the early 1970s the Central Bank of Malaysia directed the Bank to restructure its board of directors to comply with the official rule for Malaysian control of local banks. Despite the wealth of the Wee family, attempts to safeguard family interests were ruled out by a technicality and control of the Bank was taken over by a Bumiputra group of companies in 1975. Kwong Lee Bank was owned and managed by the Lim family until 1982 when it was acquired by a Chinese tycoon of the MUI Industry Group in Kuala Lumpur. The bank was renamed MUI Bank and later became Hong Leong Bank. Kong Min Bank was sold to National Proton Car Distributor in 1992 to become EON Bank. As the transfer of ownership required official blessings, the transferees were almost certainly individuals or groups with political connections (see Gomez, 1999:101-112)

Merger of Banks in the Aftermath of 1997 Asian Financial Crisis

At the end of 1996, there were 36 commercial banks (20 local and 16 foreign), 39 finance companies, and 12 investment banks in Malaysia. The Asian financial crisis of 1997 prompted the government to merge small banks with designated major ones to eliminate the structural weakness of the banking sector. In 1998 the 39 financial companies in the country were to be merged and reduced to eight in number; a year later, another 58 financial institutions were to be merged into six major banks; and in early 2000, these banks were to be combined to form ten conglomerates (陈尚懋/Chen Shang Mao, 2003: 145-148). By the end of 2000, when the first phase of mergers was completed, each bank had a share capital of more than RM2 billion, and their combined assets stood at more than RM25 billion. The merger of 54 banks into ten banking conglomerates which began in 2003 further consolidated the assets of these banks (林淑惠/Lin Shu Hui, 2006: 21).

The phases of mergers had significant impacts on Chinese banks. Among other measures, the raising of capital requirements by the government effectively reduced the number of Chinese banks to two. These are Public Bank and Hong Leong Bank which still remain under Chinese control. Interestingly, these two Chinese banks have managed to ride a "golden age" of rapid growth in the face of pro-Bumiputra policies. Even before the Asian financial crisis in 1997, they have been able to gain government support through well-established political relationships and to enjoy significant growth through maintaining majority share ownership and management control. Nevertheless, it is apparent that both are progressively losing their "Chinese" character. The share held by the founder of Public Bank has dropped from 60 per cent in 1988 to 40 per cent in 1997 and the Bumiputra share has increased accordingly (Brown, 2006: 120-121). As the only option for those banks that fail to accumulate the required capital sum after 2000 is to cease operation or be absorbed by the larger banks, it is inevitable that Bumiputra interests will consolidate their dominance of the industry at the expense of Chinese interests and usher in the dramatic decline of the latter.

The history of development of Chinese banks in Sarawak is being re-written by official financial policies and the external environment. This history is marked by the fading away of the once dominant Chinese-owned banks from Malaysia's banking industry. Chinese banks in Sarawak have moved from an "ethnic ownership economy" towards an "ethnic control economy"[5], characterized by increased internal division and competition and towards greater convergence of interests with other ethnic groups for mutual benefit. Changing circumstances are leading the Chinese business community to seek opportunities beyond the usual intra-ethnic ties to develop inter-ethnic co-operation for purposes of political expediency. Collaborations with various influential parties have resulted in wealth accumulations among a small group of Chinese capitalists, but few have been able to increase their involvement in the banking and financial sector. The discussion that follows will examine the feelings and attitudes of the Chinese business community towards the mergers and acquisitions of the Chinese banks in Sarawak, and the effects of this process on their business.

Chinese Banks and Chinese Business in Sarawak

A study was carried out between April and July 2010 based on a random sampling of Chinese business persons aged 30 and above who have had experience in dealings with Chinese banks in Sarawak. The purpose was to find out the performance of the Chinese banks and its working relationships with the local Chinese business community, and the consequences of their withdrawal from the market.

A questionnaire was distributed to 150 selected respondents in the major towns of Kuching, Sibu and Miri via surface mail, fax, and interview. A total of 37 completed questionnaires or 25 per cent was returned (15 from Kuching, 13 from Sibu, and 9 from Miri).

The respondents were employers, proprietors and senior managerial personnel of selected Chinese business enterprises, comprising ten Foochows (Fuzhou), nine Hakkas (Kejia), six Hokkiens (Fuzian or Minnan), five Teochews (Chaozhou), three Henghuas (Xinghua), three Cantonese (Guangfu), and one (Kinmen or Jinmen). The most "senior" business person among the respondents started his business in 1952 and the most "junior" in 2003. They were engaged in an array of businesses dealing with frozen food warehousing, sale of liquor, construction, shipbuilding, departmental stores, real estate, entertainment, electrical engineering, advertising, motorcycles and fittings, food processing, stationery and newspapers, import and export trade, lumber, plantations, home appliances and the service sector. Most of their businesses were registered under limited liability companies (19), followed by sole proprietorship (8), partnership (6), and private companies (4). The majority were small and medium in size while a couple were listed companies. Their workforce varied from a handful to more than 300 employees and their annual turnovers ranged from less than RM0.25 million to more than RM5 million.

The Sarawak Chinese business community showed an overwhelming preference in their dealings with local Chinese banks (Table 3). Large business companies tended to deal with foreign banks. In general, few would patronize Bumiputra-owned and government-controlled banks. The interdependence between Chinese banks and Chinese business community was clear.

Of the 37 respondents, 31 patronized Chinese banks in Sarawak whereas six new ones did not. Fifteen of them chose to deal with Hock Hua Bank, five each with Wah Tat Bank and Bian Chiang Bank, four with Kong Ming Bank and two with Kwong Lee Bank, in a clear indication that long-established ties and mutual support were important considerations for the Chinese business community. The top rank of Hock Hua Bank was due to strong dialect loyalties. This bank served the Foochows from its early days and provided solid support to their business enterprises. Equally important was the use of the local Chinese dialects in transactions for easy communication and promotion of business ties. Other considerations were friendly service, low interest rates, convenient location, and personal ties with the bank staff. The client companies relied on the banks to service their savings and deposits, the issuance and clearance of cheques, and applications for loans, credit and overdraft facilities, among others.

Chinese banks also provided a familiar, friendly and efficient “face” and treating all as equals in which distinctions of class were absent. Transaction procedures were simple and unlike those in foreign banks that were complicated and cumbersome. An important consideration for their business was that these banks were helpful and sensitive to the needs of their Chinese clients. A great advantage of the Chinese banks was that they knew their clients better than other banks. The managers were friendly and had more authority to make decisions. To many Chinese customers, the ease of getting loans from banks was a major attraction. Many Chinese businesses valued the extension of mortgage loans from local Chinese banks on easy terms and conditions of repayment.

Yet, the Chinese banks of Sarawak were too small to satisfy the needs of the large modern business enterprise. They lacked the capital resources to advance major loans. Other shortcomings included the limited range of services such as the inability to extend credit limits and the offer of certain preferential treatments.

In summary, the scale and types of Chinese-owned companies had a major influence on their dealings with local Chinese banks. Those small and medium sized companies having limited needs and demands tended to deal with local Chinese banks, whereas the larger Chinese enterprises having diverse and more demanding needs dealt more regularly with foreign and Bumiputra-controlled banks. The Chinese banks were further constrained by the difficulty in setting up new branches. Over time, foreign and Bumiputra-controlled banks have cornered increasingly large shares of the market.

Chinese businessmen are generally supportive of bank mergers as they believe that the new banks have strong capital and liquidity and can provide bigger loans with acceptable interest rates. As lifting of control over the opening of bank branches will stimulate competition among the banks, the business community expects to benefit from better terms on loans and repayments (Table 3).

Table 3. Opinions of Chinese Businessmen on Mergers of Chinese Banks in Sarawak

Opinions	Strongly agree		Agree		Acceptable		Disagree		Strongly disagree		Total	
	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%
Larger amount of loans	3	8.1	12	32.4	13	35.2	5	13.5	4	10.8	37	100
Flexible terms and conditions for collaterals	2	5.4	7	18.9	14	37.8	10	27.1	4	10.8	37	100
Flexible means for retirement of loans	2	5.4	9	24.3	12	32.4	10	27.1	4	10.8	37	100
More efficient services	5	13.5	14	37.8	11	29.7	3	8.1	4	10.8	37	100

However, their optimism is tinged with the anxiety over collateral arrangements or tougher terms and conditions on loan repayment than before. The reduction in the number of banks may limit the freedom of choice or transactions may become more complicating. The local bank staff may lack authority and have little leeway in making important decisions. Small businesses may find it difficult to obtain financing and overdrafts from the big banks. Chinese small and medium business may have problems in getting the loans they need due to the quota system enforced under the NEP.

In short, there is an anxiety in the Chinese business community over the "withdrawal" of Chinese banks from the market, as there is now little room for negotiations on financial dealings with big banks. The merger of banks does not necessarily promote co-operation between the Chinese and the Bumiputra business communities. Small and medium-sized Chinese businesses may find foreign banks unapproachable and unacceptable for their stringent procedural requirements.

Almost all respondents expressed a positive attitude towards the contributions of the Chinese banks to the economic development of Sarawak. However, the almost complete exit of Chinese banks from the market has aroused anxieties among most of them. Leaving aside the difference of opinion between big and small businesses, the common stand is the preference for the system of the past by which banks operated by dialect groups to serve their respective communities (Table 4).

Table 4. Opinions on the Role of Chinese Banks in Sarawak

Opinions	Strongly agree		Agree		Acceptable		Disagree		Strongly disagree		Total	
	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%
Willingness to help Chinese business	14	37.8	16	43.3	7	18.9	0.0	0.0	0.0	0.0	37	100
Withdrawal of Chinese banks is unfavourable to the development of Chinese business	3	8.1	13	35.2	7	18.9	14	37.8	0.0	0.0	37	100
Withdrawal of Chinese banks is unfavourable to my company	3	8.1	9	24.3	6	16.2	18	48.7	1	2.7	37	100
Chinese banks have taken better care of customers of the same dialect	3	8.1	14	37.8	8	21.7	12	32.4	0	0	37	100

On the pretext of coping with global competition, the small banks in Malaysia, many of which were founded and operated by the Chinese, have been forced to merge with a few designated major banks that operate from their headquarters in Kuala Lumpur. Size of operation is equated with organizational efficiency and competitiveness but at the expense of close social relations and personal loyalties of local enterprises that are the hallmark of small Chinese banks. As professional managers in their headquarters rely on statistical analysis in making decisions, the approval of loan applications by Chinese businesses in Sarawak is likely to be more difficult than before. The limited scope of operation of the small Chinese banks and their failure to withstand global competition had indeed rendered them ineffective in servicing the needs of the few Chinese enterprises that are emerging as multinational corporations. To these corporations, the impact of the takeover of the local Chinese banks is at best marginal or even viewed as a positive development. In contrast, it is the smaller Chinese companies that have much to lose from the merger of the small banks on which they have relied upon for support in a mutual win-win situation. It is this business community that has found it increasingly difficult to set up new businesses and in sustaining their operations.

Conclusion

The Chinese banks in Sarawak were small and medium-sized family concerns that were set up to serve local businesses of similar ethnic origin. Even though these banks have contributed to the economy, they have been swept aside by the tide of history arising from changing political and economic circumstances. The major factors that had hampered the adjustment of the Sarawak Chinese banks to changes were conservative family management and a reluctance to expand outside the state for fear of dilution of their interests.

In retrospect, the rise and fall of the Chinese banks in Sarawak passed through three phases. The first was the pre-war period when Chinese banks contributed to the development of local business and economy. The second was the post-war period to 1997 when Chinese banks benefited initially from the brief boom in rubber export in the early 1950s and development of the export economy prior to merger with Malaysia. Joining Malaysia in 1963 and the introduction of the NEP in 1970 led to increased state interference in the economy and subsequent decline of Chinese banks when a few passed out of control of the founding families. The final stage was triggered by the Asian financial crisis of 1997 and the adoption of the policy of the amalgamation of financial institutions to face international competition. The result was the takeover of all the Chinese banks in Sarawak by designated banks. This eventuality has come about partly because of the inherent weakness of Chinese family business and its management.

One may understand the development of the economy of the Chinese in Sarawak as the transformation of one type of social economic order to another, a manifestation of which is the disengagement of Chinese capital in the banking industry largely as a result of the subordinate political position of the community. The absorption of Chinese banks in Sarawak cannot be understood simply as a case of economic incompetence of these banks but rather that of ethnic politics. As a minority, the Chinese are under-represented in politics and have little power in decision making. Two Chinese-owned banks have survived the merger and acquisition exercise to remain as symbols of ethnic presence in the banking industry. However, they no longer possess the authentic identity of Chinese financial institutions of the past.

Notes

1 These banks were identified by the dialect origins of the owners and some were staffed and patronized entirely by people of the same dialect group. The senior management of these banks worked closely with each other; their directors were related by family, some even by marriage (see石沧金/Shi Cang Jin, 2005: 53).

2 The term comes from Sanskrit, which means “sons of the soil”. The May 13 Incident was officially attributed to the uneven distribution of wealth and the stereotypical image of the Chinese “control” of the Malaysian economy. The Government declared a state of emergency and promulgated “New Economic Policy” in 1970 aimed at the elimination of poverty and the re-structuring of society to promote national unity. A programme of preferential treatment for the Bumiputra was introduced purportedly to allow them to catch up with the non-Bumiputra (Chinese and Indians) (Malaysia Government, 1971).

3 Language barriers and other problems made it difficult for Chinese merchants to deal with Western banks.

4 Kong Ming Bank was established in Sibu on 16 January 1965 with a registered capital of RM5 million and paid-up capital of RM2 million. Its management consisted of Ling Beng Siew, his younger brothers including Chairman Ling Beng Sung, Director-cum-Manager Ling Beng Hui, Directors Ling Beng King and others. Family feuds led to prolonged litigations among the siblings, the resignation of Ling Beng Shew from the board of directors, and the subsequent decline of the bank.

5 "Ethnic ownership economy" is determined based on industry ownership and emphasizes the dominance of a certain ethnic group in the industry; "ethnic control economy" refers mainly to the participation, not ownership, of certain ethnic groups in the economy (Light 2005: 651).

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