The Asian Dollar Market as template for later strategies

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The method

The Asian Dollar Market is more than an episode in banking history. It established a method that Singapore has applied repeatedly. The first step was to identify a gap in the global market, in this case the absence of a dollar market during Asian business hours. The second was to find a private partner willing to commit capital, here Bank of America. The third was to remove the specific legal and fiscal obstacles that prevented the business from taking place in Singapore, chiefly the withholding tax. The fourth was to ring-fence the new activity so that its privileges and risks did not spill into the domestic economy. The fifth was to extend the incentive step by step as the market grew and competitors reacted.

Each element of this method can be found in later chapters. The Global Trader Programme, discussed in Chapter G.I, offered concessionary tax rates to commodity trading companies that brought their trading activities to Singapore. The futures exchange SIMEX, discussed in Chapter D.II, used the time zone argument in its link with the Chicago Mercantile Exchange. The tax incentives for funds and family

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offices examined in Chapters E.III and E.V combine exemptions with conditions of substance. In each case the state acts as architect of a market whose actors are largely foreign, a role that Chapter C.III describes for industrial policy.

Speed, clarity and conditions

Three features distinguish the method from simple tax competition. The first is speed. The decision to launch the market was taken and implemented within months, after which adjustments followed the market closely. The second is clarity. The ACU framework drew a sharp line between offshore and domestic business, which made the rules easy to apply and easy to explain to foreign banks. The third is conditionality. The exemptions were tied to approval by the authorities, to separate accounting and to restrictions on dealings with residents. Incentives were granted to identified institutions for identified activities, with the authorities retaining the power to withdraw them.

The same features also carry risks. A centre that competes through tax concessions depends on the continued tolerance of other states. From the 1980s the Bank for International Settlements encouraged greater transparency in offshore financial centres, as Schenk has shown.[1] Later initiatives against harmful tax competition, the exchange of information for tax purposes and the global minimum tax narrowed the room for incentives further. Chapter E.II describes the end of banking secrecy for foreign tax purposes. The concessionary regimes that survived are those that require real activity in Singapore.

Other offshore centres follow

Singapore's success inspired imitation. The Philippines introduced an offshore banking system by presidential decree on 30 September 1976, with a tax of 5 per cent on the net income of offshore banking units from transactions with non-residents.[2] The United States allowed its own banks to establish International Banking Facilities at the start of the 1980s, with rules that confined them to non-resident business so as not to interfere with domestic monetary policy.[3] In 1986 Tokyo established the Japan Offshore Market, with Taipei, Bangkok and Labuan following

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as later entrants.[4] None of these centres displaced Singapore. Its head start, the depth of its interbank market and the reputation of its regulator gave it an advantage that later entrants found difficult to overcome.

The end of the divide in 2021

The separation between ACUs and Domestic Banking Units lasted more than half a century. By the 2010s it had lost much of its purpose. Exchange control had been abolished in 1978, the Singapore dollar had been partly opened to non-residents and international prudential standards covered both sides of a bank's balance sheet. MAS announced in June 2015 that it would remove the divide.[5] The Banking (Amendment) Act 2020 implemented the change, which took effect on 1 July 2021. Since then uninsured non-bank deposits have been ranked in insolvency according to their currency of denomination, while the asset maintenance ratios apply to Singapore dollar deposits.[6]

The ACU thereby disappeared from the statute book, although its logic survives in the distinction between Singapore dollar and foreign currency business. When MAS celebrated its fiftieth anniversary in 2021, the Prime Minister noted that total assets in the Asian Dollar Market exceeded 1.4 trillion US dollars and that Singapore was the world's third largest foreign exchange centre after London and New York. In April 2025 average daily foreign exchange turnover in Singapore reached 1.485 trillion US dollars, 60 per cent more than in April 2022, which gave Singapore a global share of 11.8 per cent behind the United Kingdom and the United States.[7] The foreign exchange market is the direct descendant of the dealing rooms that opened to bridge the gap between the Asian and European business days in 1968.

Notes

1. Schenk, "The origins of the Asia dollar market 1968–1986", abstract (cambridge.org, accessed November 2026), on "the efforts of the Bank for International Settlements to encourage greater transparency in offshore financial centres in the 1980s". ↩

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2. Chia, “Tax Implications and the Asian Dollar Market”, (1978) 20 *Mal LR* 16, at p. 20, quoting a Philippine Presidential Decree of 30 September 1976 under which transactions of offshore banking units with non-residents “shall be subject to a five per cent (5%) tax on the net income from such transactions”. ↩

3. Bernauer, “The Asian Dollar Market”, p. 58, on the International Banking Facilities established to allow US banks to compete with offshore centres, which were required “to lend only to non-residents”. ↩

4. Ngiam, “Singapore as a Financial Center”, p. 359: “In 1986, Tokyo set itself up as a global financial center with the establishment of the Japan Offshore Market. Other latecomers in international financial markets are Taipei, Bangkok, and Labuan.” ↩

5. On the announcement by MAS in June 2015 of its intention to remove the DBU–ACU divide and its response to the consultation of February 2017, see Allen & Gledhill, “MAS proposes amendments to Banking Act to remove DBU-ACU divide and other changes” (allenandgledhill.com). ↩

6. Adrian Ang and others (Allen & Gledhill), “Banking Act amended to rationalise banking regulation and enhance prudential oversight”, Chambers and Partners, 22 August 2022: the Banking Act was amended by the Banking (Amendment) Act 2020 “to rationalise banking regulation by removing the divide between the Domestic Banking Unit” and the ACU, effective 1 July 2021; uninsured non-bank deposits ranked in insolvency “by the currency denomination of the deposits”; asset maintenance requirements applying to “Singapore dollar non-bank deposits, instead of DBU non-bank deposits”. ↩

7. Lee Hsien Loong, speech of 7 October 2021: “Today, with total assets in the Asian Dollar Market exceeding US$1.4 trillion”, Singapore is “the world’s third largest foreign exchange centre after London and New York”. Monetary Authority of Singapore, “Singapore Strengthens Position as Third Largest Global FX Centre”, media release, 1 October 2025: average daily turnover of “US$1.485 trillion” in April 2025, an increase of 60 per cent from April 2022,

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a global share of 11.8 per cent against 9.5 per cent in April 2022, third largest "after the UK and the US". ↩

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