# The Asian Dollar Market of 1968

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In October 1968 the Singapore branch of Bank of America began to accept deposits in United States dollars from non-residents and to lend them on to borrowers outside Singapore. The operation was booked in a separate set of accounts, the first Asian Currency Unit, which enjoyed an exemption from the withholding tax that Singapore otherwise levied on interest paid to non-residents. The amounts were modest. At the end of the first year the unit had total assets of only 30.5 million US dollars. Within thirteen years, however, the market that grew from this beginning held more than 85 billion dollars. Singapore had become the principal offshore banking centre of Asia.[1]

This chapter examines the Asian Dollar Market, the offshore market in foreign currencies that turned the young republic into a financial centre for the Asian time zone. It begins with the Eurodollar market in London, of which the Asian market was an offshoot, and with the time-zone argument that made Singapore a plausible location. It then describes the legal device of the Asian Currency Unit and the tax incentives that accompanied it, follows the growth of offshore banking through the 1970s and asks what the episode teaches about the method by which Singapore has since built its financial sector. The founding of the Monetary Authority of

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Singapore, which took over the supervision of the market from 1971, is the subject of Chapter C.V.[2] The strategy of industrialisation into which the financial centre fitted is examined in Chapter C.III.

The comparison with Geneva is instructive from the outset. The Geneva volume describes how Swiss banks prospered after 1945 by attracting the private wealth of clients who sought a stable currency, political neutrality and discretion. Singapore in 1968 could offer none of these advantages in a comparable degree. It had been independent for three years, had no central bank and was about to lose the British military bases that supported a large part of its economy. What it could offer was a location in time, a willingness to legislate quickly and a government that treated the financial centre as a matter of national strategy. The Asian Dollar Market shows how far a small state could go with these assets alone.

## Essentials

The Asian Dollar Market is the Singapore-based offshore market in US dollars and other foreign currencies that began in October 1968, when Bank of America opened the first Asian Currency Unit (ACU) at its Singapore branch. An ACU was a separate accounting unit of a bank, authorised to take deposits from and lend to non-residents in currencies other than the Singapore dollar. Singapore exempted the interest paid to non-resident depositors from the 40 per cent withholding tax in 1968 and cut the tax on offshore profits of ACUs from 40 to 10 per cent in January 1973. The market grew from 30.5 million US dollars and one ACU at the end of 1968 to 85.9 billion dollars in 1981, with 108 ACUs by March 1980. The separation between offshore and domestic business remained the organising principle of Singapore banking regulation until the Banking (Amendment) Act 2020 removed the divide between Domestic Banking Units and ACUs with effect from 1 July 2021.

# Notes

1. Kenneth Bernauer, “The Asian Dollar Market”, Federal Reserve Bank of San Francisco, *Economic Review*, Winter 1983, no. 1, pp. 47–63, at p. 47: “From a

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small base of $30.5 million, the market's size in its major center – Singapore – reached $85 billion at the end of 1981." ↩

2. Barbara Quek, "The Making of the Monetary Authority of Singapore: How the MAS Became Singapore's Central Bank", *BiblioAsia*, vol. 18, issue 3, October–December 2022: the Monetary Authority of Singapore Bill was passed in September 1970 and MAS was "set up in 1971". Wikipedia, "Hon Sui Sen" (accessed November 2026), gives Hon as first Chairman of MAS from January 1971. ↩

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