The Depression and the merger of 1932

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Banking under a currency board

The Chinese banks operated within a monetary system that offered them no protection. Under the currency board, local money could exist only if fully backed by sterling reserves. The board issued notes in exchange for sterling and could neither lend to banks nor supervise them. Huff calls this arrangement an extreme version of the classical gold standard, under which a deficit in the balance of payments translated immediately into a contraction of the money supply. In Malaya the base money supply contracted by almost a half between 1919 and 1922 and by a third in the two years from the end of 1929.[1]

The European exchange banks could fall back on their head offices in London or Hong Kong, which had access to wholesale credit markets and could act as a central bank for their branches. The Chinese banks had to rely exclusively on their own resources. They therefore normally kept about half their deposits liquid and placed those funds with the European banks. Huff concludes that something like half the finance mobilised by the Chinese banks ended up as mere liquidity.[2] Prudence of this

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kind protected depositors in ordinary times. It also kept the banks small and transferred a share of local savings to the European institutions with which they competed.

The slump in Malaya

The Depression struck Malaya with exceptional force. Its terms of trade more than halved between 1925 and 1929 and had more than halved again by 1932, while its real exchange rate more than doubled between 1929 and 1932, which on Huff's definition signals a steep real devaluation. On Huff's index, with 1929 equal to 100, the terms of trade stood at 244.2 in 1925 and at 47.1 in 1932.[3] Rubber estates, smallholders, traders and the manufacturers who depended on their purchasing power all suffered together.

The Chinese banks shared in the general distress. Their deposits, which stood at Straits $37.0 million at the end of 1929, fell by almost a fifth by 1932, while their assets declined by 22 per cent over the same period. Writing in 1966, the economist S. Y. Lee observed that practically all the local Chinese banks, and some overseas banks, were in financial difficulty.[4]

Sterling leaves gold

The decisive blow came from the exchange markets. When Britain left the gold standard in September 1931, the currency board took the Straits dollar with it. The Netherlands Indies, tied to the guilder, and Hong Kong, on silver, did not devalue with sterling. The branches of the Ho Hong Bank and the Oversea-Chinese Bank in those territories had taken deposits in local currency and converted them largely into Straits dollars. When the Straits dollar fell against the guilder and the Hong Kong dollar, their liabilities exceeded their assets.[5]

The losses were large in relation to the banks' capital. One history of Malayan banking puts the foreign exchange losses of the Ho Hong Bank after 1930 at over $2 million. Depositors reacted quickly: between the end of 1931 and mid-1932 deposits in the Ho Hong Bank halved, while those of the Oversea-Chinese Bank fell by 30 per

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cent. The Oversea-Chinese Bank also suffered a run on its office in Rangoon. Huff describes the unhedged foreign exchange positions as an elementary mistake, compounded by the withdrawals that news of the losses provoked.[6]

The exposure to Tan Kah Kee

A second weakness lay in the loan books. All three Hokkien banks had lent heavily to a single borrower, Tan Kah Kee, the rubber magnate and manufacturer whose enterprises had earned him the title of the "Henry Ford of Malaya". Tan had arrived in Singapore in 1890 and built a conglomerate of rubber plantations, factories, real estate and shipping. By 1931 the contraction of demand in Malaya and in the Asian markets to which his companies exported had put his manufacturing business in serious trouble, while the fall in rubber prices reduced the value of his estates.[7]

The concentration was the product of the dialect bank itself. Tan was the most prominent Hokkien leader of his generation, connected by marriage and business to the directors of the banks. Lee Kong Chian, vice-chairman of the Chinese Commercial Bank, had joined Tan's company in 1915 and married his daughter in 1920. Each bank knew Tan well as a person, while none could see his total borrowing. Yap Pheng Geck, a banker of the time, later recalled that only in 1931 did the local banks find that collectively they had lent Tan too much.[8] Personal trust told the bankers whether Tan was honest. Only a view of his whole balance sheet could have told them how much he owed to everyone else.

The merger

The answer of the Hokkien community was amalgamation. The Oversea-Chinese Bank, unable to stay afloat on its own, proposed a combination with the Ho Hong Bank. The stronger Chinese Commercial Bank was then drawn into the scheme. OCBC's own history credits Lee Kong Chian, then vice-chairman of the Chinese Commercial Bank, with leading the amalgamation, while another account gives the leading role to Tan Ean Kiam of the Oversea-Chinese Bank. The public announcement spoke of the mutual desire of directors and shareholders. In fact two of the three banks were in considerable distress.[9]

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The new Oversea-Chinese Banking Corporation was formed on 31 October 1932 with a paid-up capital of $10 million. The National Library gives its authorised capital as $40 million.[10] The sources diverge on the later steps. One account dates the merger agreement to 14 December 1932 and the amalgamation of Ho Hong to 31 December 1932, while the start of operations is given as 2 January 1933 by one source and as February 1933 by another.[11] The most plausible reading is that the corporation was constituted in October, that the transfer of the businesses was agreed in December and that the merged bank opened at the beginning of 1933.

The new bank was led by the men who had built the three Hokkien banks. Lee Kong Chian became vice-chairman in 1932 and chairman in 1938, a post he held until shortly before his death in 1967 (another account says until his death). The young Tan Chin Tuan, a clerk and later assistant secretary of the Chinese Commercial Bank, was appointed manager of the merged bank in 1933. He also took charge of the Eastern Realty Company, a subsidiary that managed the properties mortgaged to the bank.[12] The detail is revealing, since a considerable part of the merged bank's assets consisted of property taken over from borrowers who could no longer pay. The bank needed a specialised vehicle to manage it until values recovered.

The merger also changed the relationship between the bank and the business empires of its founders. Lim Peng Siang, whose Ho Hong group had spanned shipping, rice, oil mills and cement, sold his shipping interests to the Straits Steamship Company in 1931 for Straits $900,000 and used the proceeds to reorganise his oil mills. His cement works at Ulu Pandan, opened in 1918 with an investment of more than Straits $1 million, closed in 1932. In 1936 he sold most of the shares of the Ho Hong Steamship Company to OCBC.[13] The sequence shows how the Depression dissolved the old model of the merchant group with its own bank. The bank became the stronger institution and, in some cases, the owner of what remained of the founders' businesses.

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Banking without a lender of last resort

Huff's assessment of the crisis is that a regulator able to monitor the banks' foreign exchange positions and their total exposure to large borrowers could probably have prevented what became a near systemic collapse of Chinese banking in Malaya. He also notes a paradox. The large reserves that the Chinese banks kept in the absence of a central bank were a partial substitute for one. Only one Chinese bank in Malaya and the Philippines failed outright during the Depression.[14] The merger itself was a private lender-of-last-resort operation. The sounder bank and the community's leaders absorbed the losses of the weaker banks so that no depositor run could bring the whole Hokkien banking system down.

The colonial state did not follow up the crisis with a banking statute. Malaya chose a cautious path of reforms to the currency board and the introduction of effective bank regulation only in the 1950s.[15] Chapter V of Part C traces the path from these reforms to the Monetary Authority of Singapore.

Notes

1. W. G. Huff, "Currency Boards and Chinese Banking Development", 2003, p. 3: local high-powered money existed only if 100 per cent backed by foreign reserves; currency boards "could not act as a lender of last resort, nor did they regulate the banking system" and "amounted to an extreme version of the classical gold standard"; W. G. Huff, "Currency Boards and Chinese Banking Development", 2003, p. 4: base money supply "contracted by almost a half between 1919 and 1922 and by a third in the two years beginning at the end of 1929". ↩
2. W. G. Huff, "Currency Boards and Chinese Banking Development", 2003, p. 9: each Chinese bank had to rely exclusively on its own resources; Chinese banks "normally kept 50 per cent of their deposits liquid and in Malaya deposited these with European banks", which had access to an external wholesale credit market; W. G. Huff, "Currency Boards and Chinese Banking

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Development", 2003, p. 9: "Something like half of the finance mobilized by Chinese banks ended up as no more than liquidity.". ↩

3. W. G. Huff, "Currency Boards and Chinese Banking Development", 2003, p. 11: Malaya's terms of trade "more than halved between 1925 and 1929 and by 1932 had more than halved again"; "Between 1929 and 1932 Malaya's real exchange rate more than doubled", a rise in the real exchange rate indicating "a real devaluation"; W. G. Huff, "Currency Boards and Chinese Banking Development", 2003, table 1, p. 20: Malaya terms of trade (1929 = 100): 244.2 in 1925, 47.1 in 1932. ↩

4. W. G. Huff, "Currency Boards and Chinese Banking Development", 2003, table 2, p. 21 (deposits of banks incorporated in the Straits Settlements, Straits $37.0 million in 1929; index 81.6 in 1932) and pp. 6 and 13 (deposits fell "by almost a fifth" from 1929 to 1932; assets "declined by fully 22 per cent", citing B. K. Short, "Indigenous banking in an early period of development: the Straits Settlements, 1914–1940", *Malayan Economic Review*, vol. 16, 1971, p. 62); W. G. Huff, "Currency Boards and Chinese Banking Development", 2003, p. 13, quoting S. Y. Lee, "The development of commercial banking in Singapore and the states of Malaya", *Malayan Economic Review*, vol. 11, 1966, p. 89: "practically all the local Chinese banks as well as some overseas banks were in financial difficulty". ↩

5. W. G. Huff, "Currency Boards and Chinese Banking Development", 2003, pp. 13–14: "In September 1931, when Britain left the gold standard, so too, under the currency board system, did Malaya. But Indonesia, linked to the guilder, and Hong Kong, on the silver standard, did not devalue along with Britain."; W. G. Huff, "Currency Boards and Chinese Banking Development", 2003, p. 14: branches "had taken deposits in Hong Kong and Indonesian currency but apparently converted these mostly into Straits dollars", so that departure from gold "left them with greater liabilities than assets". ↩

6. Saran Singh, "A Brief History of Banks in the Straits Settlements and Malaysia 1840–1986 (Part II)", 2011: Ho Hong Bank lost over $2 million in foreign exchange after 1930; W. G. Huff, "Currency Boards and Chinese Banking Development", 2003, pp. 13–14: "Between the end of 1931 and mid-1932

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deposits in the Ho Hong Bank halved and in the Oversea-Chinese Bank fell by 30 per cent"; the Oversea-Chinese Bank "experienced a run on its Rangoon office" (citing Short, 1971); W. G. Huff, "Currency Boards and Chinese Banking Development", 2003, p. 14: "The Chinese banks' unhedged foreign exchange portfolios were an elementary mistake.". ↩

7. W. G. Huff, "Currency Boards and Chinese Banking Development", 2003, p. 14: "all three Chinese banks had lent heavily to a single borrower, Tan Kah Kee", a rubber magnate sufficiently active in manufacturing "to be called the 'Henry Ford of Malaya'"; Wikipedia, "Tan Kah Kee" (accessed November 2026): born 21 October 1874 in Jimei, Fujian; moved to Singapore in 1890; built a conglomerate with rubber plantations, manufacturing, real estate and shipping; died 12 August 1961; W. G. Huff, "Currency Boards and Chinese Banking Development", 2003, p. 14: by 1931 contraction in demand made it clear that Tan's manufacturing empire "was in serious trouble", while low rubber prices contracted the value of his rubber holdings. ↩

8. Wikipedia, "Lee Kong Chian" (accessed November 2026): born 18 October 1893 in Nan'an, Fujian; joined Tan Kah Kee's company in 1915; married Tan's daughter Tan Ai Leh in 1920; vice-chairman of the Chinese Commercial Bank; OCBC vice-chairman from 1932 and chairman from 1938; died 2 June 1967; W. G. Huff, "Currency Boards and Chinese Banking Development", 2003, p. 14, quoting Yap Pheng Geck, *Scholar, Banker, Gentleman Soldier*, 1982, p. 31: "The local [Chinese] banks found that collectively, they had lent him [Tan] too much". ↩

9. OCBC, "Milestones" (ocbc.com, accessed November 2026): in 1932 the three predecessor banks merged during the Great Depression, "with Lee Kong Chian leading the amalgamation"; Wikipedia, "OCBC Bank" (accessed November 2026): Lee Kong Chian played a central role; Tan Ean Kiam, co-founder and managing director of the Oversea-Chinese Bank, led the merger; W. G. Huff, "Currency Boards and Chinese Banking Development", 2003, p. 13: although the public statement "referred to merger and the 'mutual desire of directors and shareholders', in fact two of the three banks were in considerable distress". ↩

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10. National Library Board, Singapore Infopedia, “Oversea-Chinese Banking Corporation” (SIP_2018-04-04_094138): formed on 31 October 1932 with an authorised capital of 40 million Straits dollars and a paid-up capital of 10 million Straits dollars; merger agreement signed on 14 December 1932; operations began on 2 January 1933. ↩

11. Wikipedia, “OCBC Bank” (accessed November 2026): the three banks merged on 31 October 1932; Saran Singh, “A Brief History of Banks in the Straits Settlements and Malaysia 1840–1986 (Part II)”, 2011: paid-up capital of the new bank $10,000,000; Saran Singh, “A Brief History of Banks in the Straits Settlements and Malaysia 1840–1986 (Part II)”, 2011: merger agreement 14 December 1932; Ho Hong amalgamated into OCBC on 31 December 1932; Wikipedia, “Ho Hong Bank” (accessed November 2026): OCBC began functioning on 2 January 1933; Wikipedia, “OCBC Bank” (accessed November 2026): the bank began operating in February 1933. ↩

12. Wikipedia, “OCBC Bank” (accessed November 2026): Lee Kong Chian was vice-chairman from 1932 and chairman from 1938 until just before his death in 1967; Wikipedia, “Lee Kong Chian” (accessed November 2026): chairman from 1938 until his death; ISEAS, “Biographical Notes: Tan Chin Tuan (1908–2005)”, 2023, p. 1: by September 1926 Tan was assistant secretary of the Chinese Commercial Bank; in 1933 he was chosen as manager of OCBC following the merger; he oversaw the Eastern Realty Company Limited, a subsidiary of OCBC that managed properties mortgaged to the bank. ↩

13. Wikipedia, “Lim Peng Siang” (accessed November 2026): Ho Hong Portland Cement Works opened at Ulu Pandan in 1918 with an investment of over Straits $1 million and closed in 1932; in 1931 he sold his shipping interests to the Straits Steamship Company for Straits $900,000 and reorganised Ho Hong Oil Mills; in 1936 he sold most of the shares of Ho Hong Steamship Company Ltd. to the Oversea Chinese Banking Corporation. ↩

14. W. G. Huff, “Currency Boards and Chinese Banking Development”, 2003, pp. 14–15: a regulator “would have been able to monitor the banks’ foreign exchange positions and have had a knowledge of their loan portfolios as a whole”, which could probably have headed off “a near systemic collapse in

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Malaya's Chinese banking sector"; W. G. Huff, "Currency Boards and Chinese Banking Development", 2003, p. 13: the large reserves suggest a prudent response in the absence of a central bank; "In the 1930s depression only one of the Malayan and Philippines Chinese banks failed entirely". ↩

15. W. G. Huff, "Currency Boards and Chinese Banking Development", 2003, pp. 17–18: after the war Malaya followed "a more cautious … policy of reforms in the 1950s to the currency board system and introduction of effective regulatory measures" (citing P. J. Drake, *Financial Development in Malaya and Singapore*, 1969, pp. 69–72). ↩

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