

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

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## 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,

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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.<sup>1</sup>

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<sup>2</sup> 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 Sibul 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	<p><u>Type I</u> (Culturalist theory)</p> <ul style="list-style-type: none"> <li>Local adaptation of the Chinese culture</li> <li>Descriptions on the migration history or case studies on immigrant communities</li> </ul> <p>Cultural explanation to the ethnic economy</p>	<p><u>Type III</u> (Networking theory)</p> <ul style="list-style-type: none"> <li>Transnationalism or Cosmopolitanism</li> <li>Chinese culture is an ideology without borders, and is reflected in its ethnic-centric social networking practices</li> </ul> <p>Social explanation to the ethnic economy</p>
Low Chineseness	<p><u>Type II</u> (Structuralist theory)</p> <ul style="list-style-type: none"> <li>Political-commercial alliance</li> <li>How a minority ethnic group is able to grow under discriminative environments and policies</li> </ul> <p>Political explanation to the ethnic economy</p>	<p><u>Type IV</u> (Globalization theory)</p> <ul style="list-style-type: none"> <li>Impacts of a globalized economy</li> <li>Investigating the reconfiguration of overseas Chinese economies and changes in organizational governance</li> </ul> <p>Geographical explanation to the ethnic economy</p>

Source: Summarized by author