

# Has minority foreign investment in China's banks improved their cost efficiency?

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## Abstract

Since 2001, foreign investors have been permitted to acquire minority ownership stakes in China's banks. This paper assesses whether there is any evidence of a cost efficiency payoff in those banks that have taken on foreign investment. Data Envelopment Analysis is first used to generate measures of cost efficiency for China's banks over the period 2001-2006. A second stage regression is then performed to determine whether foreign investment has an impact on cost efficiency. The results indicate a positive impact, although one that is only marginally significant. Policy implications are discussed.

**JEL codes** - C24, D24, F21, G21,

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