

Are foreign banks the efficiency benchmark in China's banking sector?

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Abstract

Since the end of 2006, wholly foreign-owned banks (WFOBs) in China have been extended national treatment. Divergent perspectives have been offered regarding the likely outcome that direct competition between WFOBs and domestic banks (DBs) will have. This paper seeks to shed light on the impact of market entry by WFOBs by using data envelopment analysis (DEA) to compare the technical, allocative and cost efficiency of 17 leading WFOBs and DBs at year-end 2007. The results indicate that while both groups have similar levels of technical efficiency, WFOBs lag behind DBs with respect to cost efficiency because they use a less than optimal fixed asset / employee ratio. These findings suggest that the solvency fears sometimes expressed for DBs as a result of direct competition with WFOBs should not be overstated.

JEL classifications – F23,G21, G28

Keywords: China, domestic banks, wholly foreign-owned banks, efficiency

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