

CITY UNIVERSITY OF HONG KONG

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Globalization of Chinese Banks:

Issues and Challenges

中資銀行全球化的問題與挑戰

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ABSTRACT

The Chinese policy to “Go Global” was first announced in 2001: a sensible outcome of the 1970s’ financial reforms (Horrocks, Ramaswamy & Rupp, 2008) and improved China’s efforts towards gaining foreign investment by persuading Chinese firms to “go out”. Thus, the 2008 global financial crisis presented Chinese banks with a rare opportunity to go global, marking the shift in global economic trajectory from a weakening United States economy to a swiftly growing Chinese economy (Yeung and Liu, 2008). However, this caught the Chinese banking industry in the middle of reform, and the banks were entering foreign markets and facing different kinds of obstacles and risk management issues.

This research aims to:

- (1) identify the degree of relevance/importance of different objectives, obstacles, risk management issues, factors underlying foreign market entry strategies, and factors underlying the “Going Out policy” and the “Belt and Road Initiatives” for Chinese banks’ globalization,
- (2) evaluate whether Chinese banks’ globalization follows existing international business theories
- (3) find out the differences of perception among Chinese banks, non-Chinese banks and non-bank financial institutions pertaining to objectives, obstacles, risk management issues, factors for foreign market entry strategies, and national directives when undertaking overseas operations, and
- (4) discover the differences between Chinese banks operation in Hong Kong verse those Chinese banks operating onshore/offshore pertaining to objectives, obstacles,

risk management issues, factors for foreign market entry strategies, and national directives when undertaking overseas operations.

The methodology of this research involves 14 semi-structured interviews with senior management and regulators in the finance industry, as well as a survey of 227 middle managers in the finance industry from Hong Kong and other countries.

Statistical analysis such as ANOVA test, Chi-square test, Levene's test, and pairwise t-test was adopted.

The key findings from both interview and survey results include:

1. **“Follow customers overseas” and “Adhere to national directives” are the most critical objectives for Chinese banks’ globalization.**
2. **“Talent pool shortage” and “Banking regulations” as the critical obstacles for the globalization of Chinese banks.**
3. **“Policy risk” and “Compliance risk” are found to be the key risk management issues for Chinese banks’ globalization.**
4. **“Regulatory restrictions on bank entry in the host country” and “the economy of the host country” are the most critical factors of foreign market entry strategies**
5. **“RMB internationalization” and “Geopolitics” are the most relevant objectives for the Going Out strategy and the Belt and Road Initiative.**
6. Survey respondents agree **“RMB internationalization is a necessary condition for the globalization of Chinese banks.”** and **“globalization of Chinese banks is a necessary condition for RMB internationalization.”**, while the interviewees think otherwise.
7. Both results from interviews and survey suggested that **globalization of Chinese banks and RMB internationalization will accelerate in the coming 5 years.**

For the comparison results, when comparing with Chinese banks, it is found that Non-Chinese banks attached more importance on the objective of “acquiring advanced technology and management skills” and “contagion risk” for risk management issues. Non-Chinese banks also attached more importance on “regulatory restrictions on bank entry in the host country” for foreign market entry strategy and perceived the Going Out strategy and OBOR policies as an attempt to “export China's industrial overcapacity”.

Furthermore, when comparing with Chinese banks, non-bank financial institutions perceived much less obstacle in “IT infrastructure” and attached less importance on “tax rate of host country” for foreign market entry strategy.

Moreover, when comparing with non-Chinese banks, non-bank financial institutions attached less importance on the objective of “cost reduction”, as well as “IT infrastructure” for critical obstacles of Chinese banks.

For the comparison between Chinese banks operating onshore / offshore and Chinese banks operating in HK, it is found that Chinese banks’ managers from onshore / offshore markets attached more importance on the objective of “maximizing profit”, “diversifying the bank’s risks” and “cost reduction”. The results also show that they attached more importance on “economies of scale and scope” when choosing their foreign market entry strategy. On the other hand, Chinese banks’ managers from HK perceived more obstacles to Chinese banks’ globalization from “talent pool shortage” and “cultural differences” than Chinese banks’ managers from onshore / offshore markets. They also attached higher relevance to “geopolitics” as the objective of Going Out strategy and OBOR policies than onshore / offshore Chinese banks. In addition, a higher percentage of Chinese banks in HK believed that

“globalization of Chinese banks is not a necessary condition for RMB internationalization”.

The results also show that Chinese banks in HK are more agreed on “ownership-specific advantage” (e.g. “talent pool”) and “location-specific advantage” (e.g. cultural difference) in eclectic theory than onshore / offshore Chinese banks.

Furthermore, Chinese banks in Hong Kong may agree more on internationalization theory as respondents of Chinese banks in Hong Kong believe “talent pool shortage” and “cultural difference” are the major obstacles to Chinese banks’ globalization, which resonates with internationalization theory.

For theoretical implications, this research reinforced the eclectic theory’s view about the essential roles of ownership advantage as the findings reported “talent pool shortage” as the most significant obstacle. The present study also reinforced the important part played by internalization advantage as it is found that “follow customer overseas” as the key objective of the globalization of Chinese banks. Nonetheless, the present findings revealed that location-specific advantage such as “economy of the host country” is a necessary but not sufficient condition for the entry decision made by the Chinese banks. Furthermore, the present study supported the view of internationalization theory as both “talent pool shortage” and “cultural differences” are identified as two of the relevant obstacles of Chinese banks’ globalization.

For managerial implications, the suggestions collected from the semi-structured interviews with the 14 interviewees (listed in section 6.2) provide valuable insight on how to address the issues and overcome the challenges faced by Chinese banks in their pursuits of further globalizing operations overseas.

Last but not least, there are several areas for future research on Chinese banks' globalization: 1) motivational factor of national directives such as OBOR when examining further globalization of Chinese banks; 2) examining different possible ways to overcome these manpower and skillset shortages; 3) how improved information and gathering networks serve to increase efficiency over client contacts, improve effectiveness of transfer-pricing, and possibly reduce profit variability; and 4) discovering different possible ways to reduce psychic distance as suggested by internationalization theory. Apart from the above research areas, future studies may adopt the longitudinal design to explore the process of globalization over time, or focus on examining only one theme out of the seven identified in this research. A similar research can also be carried out for a different industry, e.g. insurance industry, to determine whether Chinese companies from a different industry have experienced similar issues and challenges in terms of their operations in overseas markets as identified in this research.