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The Impact of Foreign Bank Entry on Chinese Banks and Financial Liberalization: Recent Evidence

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Abstract

Opening the market to foreign investors is an action which the Chinese government will take under the pressure of economic globalization. However, the impact on domestic firms and market needs to be investigated. This study uses disaggregate measures (foreign exposure index) to analyze how the entry of foreign banks affects domestic banks and the financial markets unlike previous studies which tend to employ aggregate measures (foreign banks number and foreign bank assets share). The results show that the entry of foreign banks has a significantly positive impact on the performance of domestic banks, which is in favor of the process of domestic financial liberalization.

Keywords:

Notes

1 Financial liberalization is a process where the control of financial institutions is released from the central government. As a result, financial institutions are more market-driven rather than government-driven. (Yi & Ding, [2007](#)).

2 Demand deposits are checking accounts. With proper ID you can go to the bank it’s drawn on and “demand” that they cash it immediately. Fixed deposits are deposits which are kept for a specific period and have got a maturity date.

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