

Abstract

We find empirical evidence that the Chinese banking system has benefited from the entry of foreign investors through higher profitability and increased efficiency of the banking system. Foreign participation, which consists of a minority stake in a Chinese bank (in contrast to the typical pattern in emerging countries), appears to be most effective when the foreign bank acts as a strategic investor. Purely financial investors contribute little, if anything, to bank performance.

Key words: China, banking system, foreign participation

JEL classification: G21, G28