INTERNATIONAL COMPETITIVENESS OF CHINA’S BANKING INDUSTRY:
A MULTI-DIMENSIONAL EXAMINATION

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In the Faculty of Humanities

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<tr>
<td>PBOC</td>
<td>People Bank of China</td>
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<tr>
<td>CBRC</td>
<td>China Banking Regulatory Commission</td>
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<td>ICBI</td>
<td>International Competitiveness of the Banking Industry</td>
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<td>CLCBs</td>
<td>Chinese Large Commercial Banks</td>
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<td>ABC</td>
<td>Agricultural Bank of China</td>
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<td>BOC</td>
<td>Bank of China</td>
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<td>BOCom</td>
<td>Bank of Communications</td>
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<td>CBs</td>
<td>Commercial Banks</td>
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<td>CBI</td>
<td>China's Banking Industry</td>
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<td>LCB</td>
<td>Large commercial Bank</td>
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<td>CCB</td>
<td>China Construction Bank</td>
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<td>ICBC</td>
<td>Industrial and Commercial Bank of China</td>
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<td>CPBs</td>
<td>China Policy Banks</td>
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<td>PBs</td>
<td>Policy Banks</td>
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<td>ADBC</td>
<td>Agricultural Development Bank of China</td>
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<td>CDB</td>
<td>China Development Bank</td>
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<td>EXIMB</td>
<td>The Export-Import Bank of China</td>
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<td>LiFBs</td>
<td>Locally Incorporated Foreign Banks</td>
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<td>FBs</td>
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<td>JSCBs</td>
<td>Joint-Stock Commercial Banks</td>
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<td>CBHB</td>
<td>China Bohai Bank</td>
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<td>Industrial Bank</td>
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<td>China CITIC Bank</td>
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<td>CMB</td>
<td>China Merchant Bank</td>
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<td>CZB</td>
<td>China Zheshang Bank</td>
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<td>EGB</td>
<td>Evergrowing Bank</td>
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<td>HXB</td>
<td>Hua Xia Bank</td>
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<td>PDB</td>
<td>Shanghai Pudong Development Bank</td>
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<td>SDB</td>
<td>Shenzhen Development Bank</td>
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<td>AMCs</td>
<td>Asset Management Companies</td>
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<td>CCBs</td>
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<td>Rural Commercial Banks</td>
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<td>CCBs</td>
<td>City Commercial Banks</td>
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<td>RCCS</td>
<td>Rural Credit Cooperatives</td>
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<td>FLCs</td>
<td>Financial Leasing Companies</td>
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<td>VBs</td>
<td>Village Banks</td>
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<td>NIE</td>
<td>New Institutional Economics</td>
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<td>Abbreviation</td>
<td>Full Form</td>
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<tr>
<td>IET</td>
<td>Institutional Exchange Theory</td>
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<td>CGCR</td>
<td>Great Cultural Revolution</td>
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<td>GCR</td>
<td>Global Competitiveness Report</td>
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<td>GCI</td>
<td>Global Competitiveness Index</td>
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<tr>
<td>CCP</td>
<td>Chinese Communist Party</td>
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<td>ECB</td>
<td>European Central Bank</td>
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<td>FDR</td>
<td>Financial Development Report</td>
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<td>FDI</td>
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<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
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<td>GLF</td>
<td>Great Leap Forward</td>
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<td>IMF</td>
<td>International Monetary Fund</td>
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<td>IMD</td>
<td>Institute of Management Development</td>
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<td>IPO</td>
<td>Initial Public Offering</td>
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<td>ATP</td>
<td>After-tax Profits</td>
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<td>PBT</td>
<td>Profit before tax</td>
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<td>OPBT</td>
<td>Overseas PBT</td>
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<td>PTP</td>
<td>Pre-tax Profits</td>
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<tr>
<td>M&amp;As</td>
<td>Mergers and Acquisitions</td>
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<tr>
<td>NFCI</td>
<td>Net Fee and Commission Income</td>
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<tr>
<td>IO</td>
<td>Operational Income</td>
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<tr>
<td>ICCB</td>
<td>International Competitiveness of CB</td>
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<tr>
<td>NPLs</td>
<td>Non-Performing Loans</td>
</tr>
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<td>NPLR</td>
<td>Non-Performed Loan Ratio</td>
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<tr>
<td>OECD</td>
<td>Organisation for Economic Co-operation and Development</td>
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<td>QFII</td>
<td>Qualified Foreign Institutional Investor</td>
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<td>PRC</td>
<td>People’s Republic of China</td>
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<td>PWC</td>
<td>PricewaterhouseCooper</td>
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<tr>
<td>TAs</td>
<td>Total Assets</td>
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<td>TDs</td>
<td>Total Deposits</td>
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<td>Total Liabilities</td>
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<td>Total Saving</td>
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<tr>
<td>QE</td>
<td>Quantitative Easing Policy</td>
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<td>RMB</td>
<td>Renminbi</td>
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<td>ROE</td>
<td>Return on Equity</td>
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<td>Return on Assets</td>
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<td>RCCs</td>
<td>Rural Credit Cooperatives</td>
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<tr>
<td>SIFIs</td>
<td>Systemically Important Financial Institutes</td>
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<tr>
<td>SMS</td>
<td>Small-middle Size</td>
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<td>WCY</td>
<td>World Competitiveness Yearbook</td>
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<tr>
<td>WTO</td>
<td>World Trade Organization</td>
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<tr>
<td>WEF</td>
<td>World Economic Forum</td>
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<tr>
<td>AHP</td>
<td>Analytic Hierarchy Process</td>
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ABSTRACT

Of this thesis submitted by Zhijun Xiu for the degree of MPhil and entitled
“International Competitiveness of China’s Banking Industry:
A Multi-dimensional Examination Perspective”
Manchester Business School
The University of Manchester

For the last three decades, the CBI has played an irreplaceable role for the years’ economic growth miracle in China. Recently, the CBI has been remarkably rising up in the world financial markets; and several of China’s LCBs have unquestionably been confirmed as the new giants in the world financial market. Particularly, Chinese bankers are now thought of as much more ambitious and confident to “going out” as opposed to before the crisis. Consequently, the banking internationalisation and globalisation have been accelerated further.

Accompanying the globalisation of the world economy and the internationalisation of Chinese CBs, the research in terms of the international competitiveness of the CBI and Chinese CBs has become urgent and significant. The motivations and targets of this research are to understand the status quo of international competitiveness of the CBI and Chinese CBs; to recognise the actual gap in the aspects of international competitiveness between Chinese CBs and the Western advanced CBs; to find out the issues and main causes that existed in and determined the international competitiveness of Chinese CBs; and to work out the approaches to solve the issues and boost the international competitiveness of the CBI and Chinese CBs.

According to the analyses of the international background, domestic context and specific situation, and the review of previous relevant literatures in terms of the international competitiveness and international competitiveness of CB, the general framework of this research is based on the fundamental theory – New Institutional Economics (NIE), especially the Institutional Change Theory (ICT), and applied four key factors – Business Scale, Profitability, Asset Quality and Overseas Business Margin, as well as some necessary macro and micro-specific determinants, to multi-dimensionally examine and comprehensively evaluate the real level of international competitiveness of the CBI and some Chinese CBs during the last three decades, in particular during the last decade since 2003. This basic framework established the theoretical foundation for this research; it is the general framework that is jointly consisted of the constitution, determinants and evaluation sub-frameworks of international competitiveness of CB. In this research, the international competitiveness of CB mainly includes: Business Scale International Competitiveness, Profitability International Competitiveness, Soundness International Competitiveness and Overseas Business International Competitiveness. These four aspects of international competitiveness of CB can be all measured by relative indicators that can be calculated through relative financial data; thus, the international competitiveness of CB could be then synthetically, directly and externally evaluated and reflected.

Basically, the determined framework of international competitiveness of CB is referred to reveal how the international competitiveness of CB is determined. According to the value theory of dialectical-materialism, object development is decided by its internal and external causes; therefore, in this research, the scale, management, technology and international administration are considered as the major internal factors to determine the international competitiveness of CB, while the governmental functions, horizontal industrial competition, market supply and demands, and industrial trend at home and abroad are suggested as the major external factors to reflect the international competitiveness of CB. Based on the determined framework and the internal-external cause theory, as well as considering the cross-border competition as
the mainstream of the international competition for CBs, it can be seen that the deciding model and evaluation model are combined together to set up the overall models for evaluating and reflecting the international competitiveness of China’s CBs. According to the results calculated by the models, the separate and joint evaluations are made to jointly estimate the real level of international competitiveness of Chinese CBs; then the internal and external critical analyses are taken into consideration to reveal how the internal and external major factors reflect and influence the international competitiveness of CBI. Finally, a set of approaches in terms of how to further improve and boost the international competitiveness of the CBI and Chinese CBs are accordingly suggested.

The findings of this research present that the historical evolution of China’s banking is fundamentally driven by the institutional changes and the shifts of administrative ideologies of the CCP; and intrinsically influenced by the dominant culture of Confucianism in China. The international competitiveness of the CBI has been increasingly improving, in particular since 2003; the development of the CBI has been actually always adhering to the reform and opening-up guideline in terms of “Crossing the River by Touching the Stones”, and the internationalisation of the CBI has been mostly suggested to insist on a strategy of “Incremental Approach”, which also represents the Way of the Golden Mean (Zhong Yong Zhi Dao) of Confucian ideology and acting philosophy. According to the evaluation results, Chinese CBs hold a very strong IC on the Business Scale and Home-base Profitability; their Soundness IC has bee also hugely improved; however, if comparing with their foreign advanced peers, such like HSBC and JP Morgan etc., their overseas business IC has been relatively much weaker; this means that the internationalisation of CBI and Chinese CB still has a long way to go to strategically catch up and explore.

Additionally, other sense of the banking industry is also highly recognised. The real essence of China’s banking reform has been eventually designed by the elites and ultimately influenced by the special interest groups. The fundamental issues of the banking sector have been not completely handled; the financial ecology of the banking business has been one of the greatest factors for the banking performance; the international competitiveness of Chinese CBs has been mostly country-specific and home-based; and the whole banking system has been seemingly-seriously captured by the housing market and the municipal platform debts; hence, these huge potential operating risks have been seriously concerned. Conclusively, the international competitiveness of Chinese CBs would have been significantly damaged if the banking industry could not be further improve the regulatory regime, optimise the business environment, reform the corporate governance structure, consummate the operational system; and work out the deep and ingenerate issues such as lending mechanism, profitability model, risk management, technological innovation, political intervention, internationalising strategy, etc.

Even though this researcher has taken great efforts to make his own contributions in this project, the findings and conclusions are still thought to be not sophisticate and significant enough; hence, further research of this specific theme will be more deepening and focusing, in particular on the improvement of the research methodology, the data collection and the financial ecology of the CBI.

**Keywords:** CBI, Chinese CBs, International Competitiveness, Internationalisation, NIE, Institutional Change Theory (ICT), Confucianism, CCP, Ideology Country-specific, Financial Ecology, Property Right
DECLARATION

No portion of the work referred to in the dissertation has been submitted in support of an application for another degree or qualification of this or any other university or other institute of earning.

(ZHIJUN XIU)

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A working paper entitled “The Competitiveness, Efficiency and Global Strategies of the CBI: A multi-dimensional Examination” originated from this thesis was awarded as one of the four best papers in the PhD Forum for Finance and Economics 2010 held in LSE in terms of “Chinese Financial Reform and Sustainable Economic Development under the Global Crisis” that supported by CSSA-UK and Chinese Embassy in the UK. This paper was an initial portion derived from this research project, but further improved and expanded to fulfil the synergy for the achievements of this thesis.
DEDICATION

To God – Thanks be in the name of the Father, the Son and the Holy Spirit
To my parents, my wife and my son – I will make you proud
To the people – Who love me and help me
ACKNOWLEDGEMENTS

My heart was fully brimming with immense thankfulness of people while this study was completely fulfilled. I deeply realise that I would have hardly worked out this PGR project without the people who spiritually and academically supported me with kindness and wholeheartedness during my PhD period from 2009 to 2013 in Manchester Business Scholl, the University of Manchester.

Hence hereby, first and foremost, I would like to sincerely express my cordial gratitude to my supervisors, in particular to Dr. Hong Liu, for the great supervision, spiritual heartening, thoughtful patience, critical advice and constructive comment throughout this doctoral-level research; it is my honour to be supervised by them during my PhD.

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Particularly and most importantly, I want to pour out my love to my family, which is owed by the most success of mine, and I can do nothing without their self-giving and deep loves. My wife Amy Li, the love of my life, toughly took the most burden of our family and never complained but always impelled me on my PhD study; and my smart son, Mingbo, his adoration and faith are always the greatest impetus for my works and life.

Last and painfully, I really hope I could say Sorry to my father, who I was even unable to stay with before he went the heaven; and my mother, who I was seldom to accompany during the last years. Even though they are proud and understanding of me, my heart is still filled by blush of less filialness. Their unconditional love and upbringing I would never pay back to them!
CHAPTER 1: INTRODUCTION

In this chapter, the research background is firstly introduced and expressed, including the international background and domestic context; then addressed the research motivations and questions; following the outlining in terms of how the international competitiveness of CB in the world, especially in the USA and EU, has been developed, then generally delivering the research findings and explained why the international competitiveness of Chinese CBs has been different and specific. Finally the thesis structure is announced.
1. Research Background

“The banking system, so far as its formal organization and centralization is concerned, is the most artificial and most developed product turned out by the capitalist mode of production”

--- Karl Marx: Capital (Vol 3, P.433)

1.1 International Great Background

Banking industry, since its creation, has become more and more an irreplaceable role in national economy. However, the banking industry is as a “double-face monster”, which cannot only extremely promote the national economy development, but can also overwhelmingly destroy the economy, too. While the whole world, in particular the Western developed ones, were really enjoying the huge wealth-making and striking the economic booming contributed by the banking sectors, the latest worldwide financial crisis, which was triggered by America’s sub-prime mortgage crisis in 2007 and later on swiftly spread over the world and eventually become an unprecedented financial tsunami, has let them to extra-painfully witness again the devastating power of the banking monster. The latest world financial crisis has disastrously caused the biggest and longest economic recession since the Great Depression. Likewise, thanks to this massive financial meltdown, the world financial layout and order has been consequently changed; the supremacy of Western philosophy in terms of Money, Banking and Finance have been seriously questioned; the Anglo-America’s business models have been not really convincing any more. While the power of the western financial markets has been dramatically fading off, the emerging markets, particularly represented and centred by the BRICS, have been phenomenally rising up. Consequently, the world financial barycentre and focus has been significantly shifting to the new emerging economic entities.

Many people have hit out the “Too-Big-To-Fall” banks, which have been mainly blamed for causing this worldwide financial catastrophe. However, we should not forget that once upon a time the mega-bank business model had been advocated to a great high degree since the 1990s thanks to the economic globalisation, financial deregulation and banking innovation. The “Too-Big-To-Fall” banks are also called systemically important financial institutions (SIFIs), which stand for the financial institutions with very large scale, universal businesses and comprehensive facilities. It highly praised that bank conglomerating would create much better returns for shareholders due to the economy of scale, organisational competitiveness, institutional efficiency and marker power. Therefore, mega-banks philosophy had led to a tremendous wave of M&A and resulted in a very high level of banking concentration in the last two decades. Before the crisis 2007, the western countries, especially the US and the EU, were really conceived by the huge financial successes and believed that they had found the best way to develop and promote the world financial markets. Henceforth, the western philosophy of finance and banking business models had been followed by almost the rest countries in the world. Unfortunately, the latest global financial crisis has proved that most of those beliefs were just like a “pure fiction” (Wilmarth, 2009). In reality, from the late 1990s until 2007, mega-banks fostered an organizational culture of short-termism and aggressive speculation in most financial markets, rode in the full tide of excessive liquidity that swept global markets and leveraged their balance sheets to unsustainable levels. These actions had hugely
boosted the carry trading, executive compensation and great returns to their stakeholders. Nevertheless, those behaviours had as well resulted in what that had finally become a “ticking time bomb” in the global financial system (Avgouleas, 2010). More unbelievably, the former western super multinational banks, which were thought to be unbeatable, were also unexpectedly fragile during this financial crash; and even lamented by the world that they had made the “biggest moral hazard of our times”, and shamed the free market principles and the modern banking institutions.

Even though the latest global financial crisis has seemly passed, the global economy continued to experience a painful recovery. The growth of global economy was still slightly moderated to 3.1% and 3% in 2012 and 2013, while the international trade remained largely similar during the last two years. The foundation of the major emerging economies has been rather unstable; and the economic and financial risks have been rising up. In other words, the global economy and international financial markets remaining turbulent shown that the global financial markets have not yet exactly gotten rid of the hammering from the tsunami 2007. These circumstances can be learnt from the World Economic Outlook (2012, 2013 and 2014). For instance, the aggregate output of developed economies was grown by just 1.3% in 2013; the annual economic growth was just 1.9% in the USA, down by 0.9 percentage year-on-year; in the Europe, the states were still fighting with high unemployment rate (round 12% percent) and the Debt problems. Similar to the major emerging markets, the economic growth momentum was likewise weakened due to the great financial fragility; its integrate output grew by 4.7%, which was below the average growth rate of 6% during the period of 2007-2012. Additionally, the monetary policies of major economies have adopted multiple rounds of QE to stimulate their economic recovery.

1.2 Domestic Financial Context

Remarkably, there had seemingly been a place during and after the 2007 crisis - China, who had firmly and boldly executed a colossal QE policy (RMB 4 trillion of fiscal money with more than 10 trillion of bank lending, which were about 38% of GDP of 2009). Consequently, the world was shown once again a miraculous recovery as China’s previous miracles. China’s economy has, therefore, been relied on as the locomotive of the world economy recovery. The CBI, which also told the world a big story during the crisis, has been confirmed to be strongly rising up in the world financial market; and Chinese bankers, who had to carefully take in preaching of their western “Mentors” before, have never been so ambitious and confident in “going out”. Hence, the paces of internationalisation of the CBI have been obviously accelerated further since 2009.

In the last several years, China’s economy stunningly kept a sound and rapid development. The rational annual growth of economy was again recorded thanks to the increasing home consumption, steady investment growing and the strong rebound of exports and imports. In 2013, China’s GDP was recorded RMB56.88 trillion, up by 7.7% year-on-year; the industrial output increased by 9.7% year-on-year thanks to the added value of large enterprises; the per capita disposable income of rural and urban residents were grown by 12.4% and 9.7% year-on-year, respectively; the economic and financial restructuring was further improved thanks to the great increase in domestic consumption, total fixed investment consecutively growing and international trade surplus steadily outstanding.
Undoubtedly, the CBI has made a dramatic progress since the reform and opening-up launched three decades ago, when the banking sector was mostly thought being technically insolvent. During the last decades, the CBI played an absolute pivotal role in the mainland’s spectacular economic growth story. Especially after joining WTO in 2001 and completely opening up the financial market in 2006, the Chinese CB’s competitiveness has been confirmed to be significantly improved thus far. By the end of 2013, the total assets of the banking sector amounted to RMB151.4 trillion, while the total liabilities and the owner’s equity reached RMB141.2 trillion and RMB10.2 trillion, respectively; the scale of the banking sector's assets strikingly reached around 90% of the total financial assets and 271% of the GDP in China. Accompanying the rapid economic growing in the last three decades, the banking sector has made remarkable, substantial and sustainable improvement on the large amount of non-performing loans (NPLs), the low profitability, the rigid organizational structure, the capital inadequacy and the business mindsets. Dramatically, the Chinese 5 large commercial banks (LCBs) and several joint-stock commercial banks (JSCBs) have been recognised by the world as the new banking giants standing up in the world financial market. According to the Bankers’ statistics in 2014, for the last two years, there were 5 Chinese banks in the world top 25 banks by Tier1 capital, total assets and pre-tax profits; 5 Chinese banks in the world top 20 banks by market capitalisation; and fantastically, the two Chinese banks-ICBC and CCB-were consecutively ranked as the world top 2 by market capitalisation and pre-tax profits since 2008. Else, the agents’ ratings (by FitchRatings, Moody’s and S & P’s) of Chinese banks were clearly much better than before. As the most profitable banks in the world, Chinese CBs have been gradually speeding up its internationalisation steps, aiming to further increase the market power and develop new benefit points in the worldwide.

Has this crisis really been “good” for China (Wolf, 2009)? Has the CBI really been facing an opportunity as “once seeing a blue moon?” Have Chinese CBs really been good enough to do the businesses internationally? As to these matters of China’s economic situation, nobody would be soberer than Mr. Wen Jiabao, the former China’s Premier, who had acknowledged that China’s economy had been also attacked heavily by the “once in hundred years” (Greenspan, former Fed Chairman, 2008) global crisis, and the recovery of China’s economy had been not yet stabilized, balanced and consolidated (“Summer Davos”, 2009, Dalian, China). Even though several China’s banks were ranked in the top position of the biggest banks by capitalisation and total assets, and some Chinese LCBs and SJCBs were as the most profitable banks in the world, their most profits were made from home market, relatively very little profits contributed by overseas businesses, and even frequent huge losses occurred. This truth absolutely suggests that the competitive advantages of most Chinese CBs are still country-specific and home-based. But some might be ashamed to admit that China’s bankers have neither completely known the masks of Western markets nor most of the necessary skills to be playing games in the world financial gambling house. The way to become a real world-class CB has been still far away for Chinese CBs to go. Particularly, the financial market in China still has severe concerns occasionally appearing after the state-directed lending spree and anxious fiscal injection following the latest world crisis.
1.3 Significance of the IC Study of CB

Financial globalisation is an important component of economic globalisation. Since the General Agreement on Trade in Service (GATS) was made in 1999, financial internationalisation has been promoted much further. Under such background, the opening up degree of financial industry in countries must be increasingly boosted, and international competition of financial industry must be increasingly intensified. The competition in CB service markets must also become the focus of international economic competition.

Basically, all kind of international competition, especially international economic competition, is mainly for making more benefits for the nation or society. As long as the economic competitive action increased the total revenue or employment or consumer's surplus value, the competitive action is recognised as the efficient and encouraged way. The welfare results of CB’s international competition are mainly dependent on and determined by the international competitiveness of CB; in other words, the stronger the international competitiveness of CB of a country, the more the welfare it could get from the international competition. However, if the international competitiveness of CB in a country is relatively weak, the results of the welfare received from international competition would be uncertain; in other worlds, the results of welfare of international competition could be either positive or negative; thus, it faces bigger risks in the international competition. According to the above analysis, if the CBs in a country have stronger international competitiveness, the country would actively advocate the opening positive effects of the banking service market, and by all means force other countries to open up their markets. In contrast, if the CBs in a country have a rather weak international competitiveness, they would take into consideration more the negative effects of opening up its CB’s service market; thus, the country would hesitate before completely opening up the domestic banking service market. In reality, these different attitudes of international competition of CB are just the typical reflection of the interests of CB pursued in the international competition. Especially, since the banking industry is the basic support industry in a country, it is involved in all aspects of the country's economic actions. Banking is normally recognised as the economic lifeblood of a country; and its international competition would be increasingly paid attention to and intensified aiming to make the biggest living and developing space for their CBs. Conclusively, the international competition of CB has the strong connotation of economic welfare; and its distribution results are mainly determined by and depended on the international competitiveness of CB. Under such global economic and financial background, as well as the welfare distribution of CB’s international competition, the significance of international competitiveness of CB has been pretty obvious; especially when international competition of CB has become the new important economic linkage among the countries, the study in terms of the international competitiveness of CB has seen as the research topic focused by the scholars in the field.

Since the economic reform and opening up launched in China, the reform of the CBI has been increasing deepening. Actually, the reform of the CBI has been mainly focused on the institutional reform of SOCB; namely the corporate governance of the CBs has been specially reformed in order to promote the institutional diversification of the CB’s internal ownership; then further to boost the business efficiency of the CB’s operation and management. China’s banking service market has become the center
of international competition of CB thanks to the remarkable economic growth and great financial development in China. By 2016, the commitment of completely opening the markets in China will be coming; then, the international competition of CB both at home and overseas would be much fiercer. Therefore, it is absolute significant to study the international competitiveness of the CBI and Chinese CBs; and this study should be closely combined with the banking reform policies and fully consider the impacts of the relevant industrial measures. To understand the real level of the international competitiveness, and the most reasonable way to further improve and boost the international competitiveness of the CBI and Chinese CBs, not only influences the surviving situation of Chinese CBs itself, but also deeply affects the whole development of China’s economy.

1.4 Research Thinking and Motivation

Even though the latest world financial crisis has significantly changed the world financial market situation and structure, the trends of the world economic globalisation would not be radically changed. The commercial banking sectors are still the competitive targets to be specially focussed on. Accompanying the world economic globalisation, the economic relationship among the countries has become increasingly closer and the economic geographical border has been gradually fading out. The world economic globalisation has shown that the economic international competition has become progressively fiercer, while the economic international cooperation has been linking more and more among the countries. Basically, the economic international competition is the mainstream form of economic globalisation, while the economic international cooperation is just like an exterior and veil.

For the development of world economic competition, financial market has been always the international competitive focus. Commercial banking, as the core of financial businesses, has been inevitably become the key to financial international competition. For China’s economy miracle, the CBI has been playing an irreplaceable role and its development has been also hugely promoted. Nowadays, China banking sector has become one of the most attractive market. However, this situation has also led the market to be one of the most international competitive places, especially since China joined the WTO and completely opened up the financial market. Currently, Chinese CBs are not just competing with home counterparties, but have to also fight with foreign rivals domestically and internationally. Hence, facing the increasing fierce international competitive environment, especially with Chinese CBs “going out”, have Chinese CBs been strong enough to stand in the international competition? This is the unavoidable and must-answered question for Chinese bankers. Therefore, the international competitiveness of Chinese CBs must be studied; this case is also to provide the key topic subject for this research.

Basically, the main thinking of this research can be expressed as:

A: To expound the research significance of international competitiveness of Chinese CBs;
B: To review the lacking areas of the previous relative studies of the IC of Chinese CBs;
C: To establish the basic theoretical framework and evaluation model for the IC of Chinese CBs;
D: To evaluate and analyse the real level of IC of Chinese CBs;
E: To analyse the internal and external factors that affect and determine the IC of Chinese CBs;
F: To provide the suggestions in terms of how to further promote the IC of Chinese CBs in the future.

Concretely and specifically, the motivation of this topic research can be stated as follows:

- The latest worldwide crisis has taught the bankers a dear lesson in terms of financial deregulation and banking over-innovation, as well as a rare chance for the internationalisation of the CBI. Chinese CBs must quicken their pace of bridging the gap between their western peers and them, if they can further enhance their international competitiveness.
- The contemporary commercial banking model has been critically challenged again and the ongoing international competitiveness improvement has been highly established as the must-do work to further strengthen the Chinese banking entity.
- The tides of international banking M&A would continuously rise up; banking would become more centralised; the banking regulation would be getting more stern, and the financial innovation would likely become more restricted in the future; hence, how to further improve the international competitiveness of the CBI and Chinese CBs must be carefully considered in order to take the right course of actions.
- China’s banking system has been challenged more and more by the financial globalisation and banking internationalisation; and it is very significant to discuss how to rationally and scientifically examine the real level of international competitiveness of Chinese CBs and make further efforts to boost it.
- To analyse how the institutions influencing the banking movement and situation, to evaluate the real level of the international competence of the CBI, to assess the overall effectiveness of the banking reform, to improve the market restriction, and to suggest the initial global competitive strategies, are extremely meaningful for the ongoing banking reform-deepening and internationalisation; these are both the launching-target and end-result of this research.

1.5 Research Objectives and Framework

Therefore, with the above purposes, if not arbitrary, the following three main questions are deeply explored and thoughtfully developed in this research as the research objectives:

A. What are the main factors that influence the CBI development?
B. What is the real level of the IC of Chinese CBs? This includes two sub-questions:

- How to establish the rational evaluation model to estimate the IC?
- How to further improve the IC and bridge the gap behind the world-class CBs?

With the intention to answer the above questions, it should take a worldwide angle to critically think about them and find out the effective approaches. According to the analysis, in terms of the international background, domestic context and specific cases, and the review on the previous relevant studies in terms of the international competitiveness of CB and Chinese CBs, the general framework of this research is based on the fundamental theory – New Institutional Economics (NIE), especially, Institutional
Change Theory (ICT). The study framework applies four key factors – Business Scale, Profitability, Asset Quality and Overseas Business Margin, as well as some necessary macro and micro-specific determinants, to multi-dimensionally examine and comprehensively evaluate the real level of international competitiveness of the CBI and some Chinese CBs during the last three decades, in particular during the last decade since 2003. This basic framework established the theoretical foundation for this research; it is the general framework that jointly consists of the constitution, reflection and deciding sub-framework of international competitiveness of Chinese CBs. In this research, the constitution of the IC of Chinese CBs mainly includes four aspects: Business Scale International Competitiveness, Profitability International Competitiveness, Soundness International Competitiveness and Overseas Business International Competitiveness. The four aspects of the international competitiveness of Chinese CBs can be all measured by relative indicators that can be calculated through relative financial data; thus, the international competitiveness of Chinese CBs could then be synthetically, directly and externally evaluated and reflected.

Basically, the deciding sub-framework of international competitiveness of CB is referred to reveal how the international competitiveness of Chinese CBs is determined. According to the value theory of dialectical-materialism, object development is decided by its internal and external causes; thus in this research, the business scale, operational management, technology and overseas business administration are considered as the major internal factors that mainly determine the international competitiveness of the CBs, while the governmental functions, horizontal industrial competition, market supply and demands, and industrial trend at home and abroad are suggested as the major external factors that have important impacts on the international competitiveness of the CBs. Based on the deciding sub-framework and the internal-external cause theory, as well as considering the cross-border competition, which is the mainstream of the international competition for the CBs, therefore the deciding model and evaluation model are combined to be used as the basic models for determining and evaluating the international competitiveness of Chinese CBs. According to the results calculated by the models, the separate evaluation and overall evaluation are made to jointly evaluate the real level of international competitiveness of Chinese CBs; then, the internal and external analysis are taken into consideration to reveal how the internal and external major factors reflect and affect the international competitiveness of the CBs. Finally, a set of measurements in terms of how to further improve and boost the international competitiveness of Chinese CBs are suggested.

In fact, a number of papers have analysed the revolution of the world and Chinese CBs; and the previous relevant empirical studies have also evaluated the situation and discussed the influential factors of international competitiveness of the world banking and the CBI. However, it is hard to make rational conclusion and convincing findings to make sense of the real level of international competitiveness of the CBI. Although this research has made the hardest efforts for that, there are still some shortcomings that need to be further improved in the future.

If combining the features of CB business and operation to analyse the banking situation, it can be learnt that in the internal factors the business scale is the base that determines the international competitiveness; the management is the core factor that determines the international competitiveness;
the international business level is the important factor that reflects the international competitiveness; and technological level is the back-up factor that promotes the international competitiveness of CB. In particular, these factors of the four aspects have the positive relationship with the international competitiveness of CB. After analysing the linkage between the constitution and the determinants of international competitiveness of CB, it is coherent that the business scale international competitiveness is mainly determined by the business scale and size; the profitability and soundness international competitiveness are mainly determined by the management level and asset quality; the overseas business international competitiveness is mainly determined by international business development; and the technological factor has the important effect on the profitability and abroad business competitiveness. Nevertheless, due to the factors that have different degree of influence on the constitutions and determinants of the international competitiveness, the weighting coefficients of each variable should be different, i.e. the weighting coefficient of overseas business margin and business scale should be the biggest and second biggest, then the coefficient of asset quality and home-base profitability should be followed.

1.6 Findings Outline and Explanation

According to the separate evaluation of international competitiveness of CBI and some Chinese CBs, the findings shown that Chinese CBs have had stronger scale international competitiveness, even sometimes the strongest by far. Their profitability international competitiveness has been complex, it means that Chinese CBs have very strong profitability international competitiveness at home, but still weak overseas according to their performances in the last few years; their overseas business competitiveness still lags behind the advanced CBs in the west. Likewise, despite the asset quality being significantly improved accompanying their marketization and privatization, the banking system and the CBs performance is still not completely stable; and the real situation of the banking soundness is still partially covered due to the financial ecology; therefore, the soundness international competitiveness has also been complicated and seriously concerned. Like wise, the joint evaluation of the international competitiveness demonstrated clearly that Chinese CBs were still obviously lagging behind the advanced CBs of the world in terms of overseas business international competitiveness. This implies that their international competitiveness has been more home-base specific, not really international and global. Hence, in order to change the disadvantaged competitive situation, the international competitiveness of Chinese CBs must be further comprehensively improved and boosted.

If just evaluating the international competitiveness of the CBI and Chinese CBs, it is certainly not enough to reach a proper conclusion; so it still needs to further analysis on the internal and external causes that could deeply influence the international competitiveness of the CBI. Just as it is discussed above, the management factors, including domestic and international management are the core factors for determining the international competitiveness of Chinese CBs; thus, the management analysis of the CBI should be the prime focus as the most important internal factor. According to the NIE and the ICT, it should not be difficult to deduce and infer that the ownership of Chinese CBs has been by far the most intrinsic and underlying cause, which has led the management situation of the CBI. For the external cause analysis, the specific financial ecology in China, in particularly the governmental functions and the
industrial competition, should be strongly recognised as most external influential cause for affecting the international competitiveness of Chinese CBs.

According to the NIE and the ICT, the political and economical institutions deeply influence the banking development and movement in a country. Additionally, to discuss any circumstances or phenomena in China, Chinese culture and social context should be also specially thought over. In reality, banking sector does not live alone; it is embedded in a society and always affected by other parts. When talking about a circumstance in a society, the local culture is always considered as one of the most fundamental influential factors. Based on the historical evolution in China, Confucius philosophy and Confucianistic ideology should be unquestionably respected as the dominant culture in the Chinese society. Commonly established, the culture of Chinese civilisation originates from the Yellow River, which initially created the Chinese societal structure with the distinction of a self-sustainable and self-sufficient agricultural economy. Eventually, Confucius philosophy has become the dominant moral and political ideology of the ruling class in China since the era of the Emperor Hanwu (C. Liu, 156-87 BC, West Han Dynasty) who accepted the scholar, Dong’s (Dong Zhongshu, 179-104 BC) suggestion to “eliminate other schools to solely respecting Rushu (Confucianism)”. Henceforth, Confucianism has been commonly accepted as the Chinese societal guidance and a sophisticated ethical system in the most time of the abiding history of China, even making a deep influence on East Asia, South-east Asia and some states in Europe and America.

Therefore, the research findings claim as well other points of the CBI that should be also highly recognised. In China, the social traditions and culture, especially the Confucius ideology, has deep influences on the people’s life and their thinking way. The economy reform and opening up has been comprehensively led by the administrative philosophy and political ideology of the Party in power in China. Actually, the real essence of China banking reform has been eventually designed by the elites and ultimately influenced by the special interest groups. The fundamental issues of the banking system have still not been completely handled: e.g. the financial ecology of the banking business is still one of the greatest factors for the banking performance; the international competitiveness of Chinese CBs is still mostly country-specific and home-based; and the whole banking system has been seemingly seriously captured by the housing market and the municipal platform debts; hence, these huge potential operating risks have been a serious concern. Conclusively, the international competitiveness of Chinese CBs will have been significantly damaged if the banking industry does not be further reform the regulatory regime, perfect the business environment, improve the corporate governance structure and consummate the operational system. Particularly, if the deep and ingenerate issues, such as lending mechanism, profitability model, risk management, technological innovation, political intervention, internationalising strategy, etc. are not appropriately worked out, the future international competitive situation of the CBI will be much worse.

Conclusively, under the increasingly complex and fierce international competition, the CBI and Chinese CBs have to be constantly improved and intensify its international competitiveness all-roundly. This topic research has the necessary, practical and positive significance for the CBI internationalisation. Due to this research contents and scale, it should cover three aspects to make sure the research integrity:
A: The determinants of international competitiveness of Chinese CBs, this aims to find out the formative of the international competitiveness, especially, the reasons of leading to international competitiveness disadvantages;

B: The evaluation of international competitiveness of the CBI, this aims to know the real international competitiveness of Chinese CBs;

C: The strategic approaches the international competitiveness, this aims to work out a set of realistic solution specifically for further improving the international competitiveness, and bridge the gap behind the world-class advanced CBs. These targeting measurements and strategies are not just rational in theory, but also are exercisable in reality.

For this research theoretical view, this research should be at lest clear-cut on three aspects:

A: The research status quo of international competitiveness of CB in the world, in particular in China, this aims to review the major previous relative study results, orientation, degree and methodologies in order to make the references, but avoid the research duplication;

B: The combination with historical and realistic background of the CBI developing evolution, this aims to more objectively make sense of the IC and obtain the reasonable conclusion;

C): The global angle and development view of studying the international competitiveness of Chinese CBs, this aims to make a parallel comparison between the international competitive advantages of Chinese CBs and worldwide outstanding CBs in order to find out the gap, shortcoming and the deficiency between them to make further improvements.

1.6 Thesis Structure

After throughout the above introduction, the rest of this thesis is structured as:

Session 2 takes the relevant literature review, sets up the research theoretical frameworks and directions;

Session 3 expresses the research methodology;

Session 4 evaluates and analyses the IC of the CBI and some Chinese CBs;

Session 5 provides the initiative thoughts and plausible suggestions for further improving and boosting the IC of the CBI;

Session 6 concludes and declares the future relevant research proposal.
CHAPTER 2: LITERATURE REVIEW

In this chapter, the previous related studies of competitiveness, international competitiveness and international competitiveness of CB, as well as the international competitiveness of the CBI are comprehensively reviewed; and some dominant relevant theories and measurements are critically highlighted; then the researcher has attempted to make his own conceptual argument in terms of the annotation and explanation for the international competitiveness of CB; and then the research theoretical fundamental and evaluation framework are stated; finally, the research directions and targets of this thesis are declared.
2. Literature Review

"Who can best adapt to increased foreign competition? Who can quickly adapt to the information age? The stakes are high. To the winners go the profits, while the losers lag behind."

-------- Samuelson & Nordhaus: Economics (Vol16. Ch1)

With the economic globalisation, financial internationalisation and industrial age 4.0 coming up, the CBI has to inevitably face the increasingly fiercer international competition. Chinese CBs must compete with their foreign rivals at home and abroad, thus, the Chinese banking governors and bankers were faced with the imminent task of studying, evaluating and boosting the real international competitiveness of the CBI and Chinese CBs.

Basically, to study the international competitiveness of the CBI, it is required to firstly define the competitiveness, international competitiveness and international competitiveness of CB; then review the existing relative studies and make critical comments; and finally to further discuss and more deeply research the relevant issues of international competitiveness of the CBI and Chinese CBs.

2.1 Conceptual Arguments of Competitiveness

Academically, the theoretical foundation of competitiveness is the competition theory in economics. Early in ancient Greece, the concept of "competition" and "monopoly" was inspired by Aristotle’s “Politics” (1965); but, the profound meaning of "competition" and "monopoly" was not made until 1776, when Adam Smith’s masterpiece “The Wealth of Nations” was published. Smith emphasised that a country must have comparatively lower productive costs if it wants its export holding the competitiveness and to make extra profits. Ricardo’s “comparative advantage theory” (1817) similarly argued the international trading surplus way. At the beginning of 20th century, Schumpeter brought forward the innovation concept of competition, which formed the dynamic and evolitional competitive points.

In reality, the “competition” as a natural phenomenon has existed much earlier than humans; but human society gave it a richer connotation. Normally, “competition” connotes fighting for survival; however, nowadays, the “competition” being talked mainly means the match of strength and the capability for pursuing the profits among the different groups. The profit pursued could be political, economical or other forms; and the final result is dependent on the strength or capability of the agents; hence, “competitiveness” implies the strength or capability owned by the economic entity to compete with other economic counterparties. Usually, people would be confused about the difference between the concept of “strength” and capability”, so they are very often alternated in reality. Actually, the strength means how many resources the economic entity has and how good the resource quality is; while capability stands for the efficiency of the economic entity conducting some actions by using the resources. Strength is the base of capability, but capability could underline or undermine the strength; thus, “competitiveness” should, rather, be defined as the capability in the competitive process. Normally, a firm could have
stronger competitiveness on some aspects; meanwhile, its competitiveness could be also weaker on other ways; in fact, there are very few firms, which have strong competitiveness on all aspects. Therefore, competitiveness is synthesised by the competitive aspects and non-competitive aspects when a firm’s competitiveness is discussed. In reality, some firms have the edge in competitiveness on more aspects while others have the edge in competitiveness on less aspects; but for any firm, as long as it could live and develop in the competition, this signifies that the firm has its own surviving space with a special kind of competitiveness.

If to further classify the competitiveness based on the practicability, it could be divided into real competitiveness and potential competitiveness. The real competitiveness means that it is achieved and presented; and it can be usually recognised and evaluated by a series of indices (e.g. financial data) and indication (e.g. brand name); while the potential competitiveness implies the yet unrevealed capability that a firm has in term of competitiveness that can be shown on some aspects in the future. Due to the potential competitiveness being a close reflection of the possible real competitiveness, it is hard to be calculated and recognised; hence, here the competitiveness is mainly denoted as the real competitiveness. There has been also another ideas on the field, such as the competitiveness being divided into hard competitiveness and soft competitiveness (Joseph, 1990); but the two have similar meanings with the definition of real and potential competitiveness; likewise, Porter (1990) classified the competitiveness into three types: national competitiveness, industrial competitiveness and enterprise competitiveness. In this research, the competitiveness is mainly focused on the real, hard and enterprise competitiveness.

2.2 Conceptual Arguments of International Competitiveness

To discuss the connotation of international competitiveness, it must firstly need to clarify the difference between the definition of competitiveness and international competitiveness. Basically, the main difference between competitiveness and international competitiveness is comes down to two aspects: the scope and the connotation. For the scope, the competitiveness can be divided into domestic competitiveness and international competitiveness; hence, the international competitiveness is a form of competitiveness; but the competitiveness does not mean the certain international competitiveness. For the connotation, the international competitiveness represents higher level competitiveness, and it has much richer connotation. To compete internationally, this requires higher and stronger competitiveness; the scale and technology of international competitiveness are evidently to require much higher than the relative requirements for domestic competitiveness. Especially since a firm could have strong competitiveness in the home market, but it would be much weaker while it competes internationally.

Looking back at the evolution of the conceptualisation of international competitiveness, it was mostly referring to enterprise international competitiveness. Then accompanying the economic globalisation and technological development, the concept of international competitiveness has been evolved from micro-level to macro-level; and its connotation has been from single and simple to diversified and extensive. The study of international competitiveness has become one of the hottest topics of the world economy for a long time. However, there are still a lot of arguments about the definition and concept of international competitiveness.
competitiveness; the reasons are because of the variation on the subject, the complication of structure and the extensiveness of international competitiveness, as well as the different understandings and explanations of its connotation and meanings. For instance, if based on different competitive participants, international competitiveness could be divided into National competitiveness, Industrial Competitiveness, Enterprise Competitiveness and Product Competitiveness. Additionally, OECD (1992) classified international competitiveness into three levels: macro-competitiveness, which denotes the legal, educational and technological competitiveness; micro-competitiveness, which denotes the ability of firms to enlarge market share and increase profits; and structural competitiveness, which denotes technical infrastructure, investment structure, productive types, externality and other relative competitiveness.

2.2.1 Dominant Studies of International Competitiveness in the Field

As to the economic interpretation of international competitiveness, international trade should be the earliest, most influential and representative form of it. Actually, the formal concept of international competitiveness is first advocated by World Economic Forum (WEF) and International Institute for Management Development (IMD) in 1980. They suggested that international competitiveness is a country’s capability of providing better quality, lower cost products and services than its rivals. Since then, they have on numerous occasions revised the definition of international competitiveness. In their published Global Competitiveness Report (GCR) 1 2009, WEF defined the concept of International Competitiveness as “the set of institutions, policies, and factors that determine the level of productivity of a country”. Based on WEF’s identification of the concept of international competitiveness, the determinants of international competitiveness are complex and open-ended; hence, its Global Competitiveness Index (GCI) captures this specification by providing a weighted average of many different components. These components were grouped into 12 pillars that affected different countries depended on the stage of country’s economic development 2. These pillars were also organized into three subindices: the Basic Requirements Subindex, which groups those pillars that are most critical for the countries in the factor-driven stage; the Efficiency Enhancer’s Subindex, which encompasses those pillars that are most critical for the countries in the efficiency-driven stage; and the Innovation and Sophistication Factors Subindex, which contains those pillars that are most critical for the countries in the innovation-driven stage 3.

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1 The GCR is a yearly report published by the WEF. Since 2004, the GCR ranks countries based on the GCI, which is developed by X. Salai Martin and E. V. Artadi. The GCI integrates the macroeconomic and the micro/business aspects of competitiveness into a single index.

2 WEF classifies three different stages to represent the degree of country’s economic development. The 1st stage is factor-driven, which means competing based on their factor endowments: primarily unskilled labour and natural resources; the 2nd stage is the efficiency-driven, which means to develop more efficient production processes and increase product quality; the 3rd stage is the innovation-driven, which means the countries are able to sustain higher wages and the associated standard of living.

3 The concrete of the pillars organised in the three subindices and the specific weights attributed to each subindex in every stage of development can be obtained in WEF’s GCR 2009.
In WEF’s *Financial Development Report (FDR)* 2009, a country’s financial development can be measured across seven pillars, including Institutional Environment, Business Environment, Financial Stability, Banking Financial Services, Non-banking Financial Services, Financial Markets and Financial Access. The above pillars are also classified into three subindices of the *Financial Development Index* (FDI): the Financial Policymakers, Intermediaries and the End of Capital User. Conceptually, the FDI is applied to measure the degree of depth and efficiency of the provision of a country’s financial services, including the foundational allowance of the development of financial intermediaries, markets, instruments, and services.

In IMD *World Competitiveness Yearbook (WCY)* 2009, the international competitiveness of nations and enterprises was analysed and ranked depending on the management of their competence in achieving the increased prosperity. However, IMD suggests that the international competitiveness cannot just reduce to the GDP and the productivity, but also to the enterprises. This is due to that they must cope with political, social and cultural aspects of a nation; hence, nations need to provide an environment that can most efficiently promote the international competitiveness of enterprise.

Basically, the study of international competitiveness by the WEF and IMD could be featured as a kind of systemic general research that is mainly applied to macro-level analysis; the international competitiveness they studied is the state’s international competitiveness; its analysis results could let people to have a more general understanding on the status of a state’s international competitiveness; its basic maxim of value judgement is whether it adheres to market economy principles. In short, the research ideas, orientation, methods and results on the issue of international competitiveness by WEF and IMD have a leading significance, high value of academic, empirical application and research reference. However, due to them have mainly studied international competitiveness on the macro-level, their studies were shown to cover a wide range and rough methods; and the direct significance of their research on the industrial and enterprise international competitiveness was relatively weaker.

According to Porter’s competitiveness Theory (1990, 2009), international competitiveness is the comparative advantages of a nation that is taken to compete in the world markets. International competitiveness labels the level of productivity of a country’s economy; the level of productivity arising from the local or domestic industries of a country is fundamental to the country’s international competitiveness. The level of industry's productivity ultimately depends on improving the microeconomic capability of the economy and the sophistication of local competition. The pivotal idea of Porter’s competitiveness theory is represented by his very famous “Diamond Framework”, which suggests that the level of international competitiveness of a country is determined by four basic factors (so-called the National Diamond), which comprises *Factor Conditions* (e.g. natural endowments, human resources, capital availability and infrastructures), *Demand Conditions* (e.g. strict quality, safety, environmental standard consumer protecting law), *Related and Support Industries*, and *Context for Firm’s Strategy and Rivalry*, which provides the underlying conditions or platform for industry to gain competitive advantage; as well as two auxiliary factors, which are *Government Policy and Chances* that support and compliment the system of industrial competitiveness, but do not create long-lasting competitive advantages. In order to maintain industrial competitiveness, Porter suggested the rules of competition, which are embodied in
five competitive forces: the entry of new competitors, the threat of substitutes, the bargaining power of buyers, the bargaining power of suppliers and the rivalry among the existing competitors. With the collective strength of the five forces, firms in an industry are capable of earning extra investment return. Likewise, Porter claimed that if a firm can hold a relative position within its industry, it would make better return against its competitors; but this positioning relies on two fundamental types of competitive advantage possessed by the firm: low cost or differentiation. Additionally, Porter inspired the Value Chain Model, which is fruitfully applied to analyse the specific activities of a firm in order to create a competitive advantage in the markets. This value chain includes Inbound Logistics, Operations, Outbound Logistics, Marketing & Sales and Service; and each or all of these activities may be vital in creating values that exceeds the cost of production or services.

For Porter's theory of international competitiveness, it has many new discoveries and initial contributions compared with other relevant theories. Firstly, porter's theory is a complete, matured, systematic and coherent theoretical system, which takes three levels, namely national, industrial and within enterprises, to analyse further the international competitiveness. Secondly, his theory has developed the static comparative advantage (e.g. Ricardo’s comparative advantage theory; Heckscher & Ohlin’s H-O theory) to the dynamic international competitive advantage, which suggests that a nation’s international competitive advantage is mainly dependent on its advanced elements; and its international competitive advantage is created but not determined by the advanced elements. Thirdly, Porter’s theory stresses more the significance of domestic demands, i.e. the scale, level and structure of domestic demands of a state could directly lead to its international competitive advantage. Fourthly, Porter’s theory in terms of “National Diamond” model, “Industrial Cluster” effect and value-chain analysis method all belong to the initial innovations.

Certainly, like other influential theories, Porter’s international competitiveness theory is not perfect. The shortcomings of Porter’s theory could be epitomized such as: firstly, he has paid more attention to the national and industrial international competitiveness, he hardly emphasised the international competitiveness of enterprises; secondly, Porter’s theory mainly analysed the competitive advantage based on the internal business process, and suggested what strategies the enterprise should be taken to gain the competitive advantage, but neglected the analyses of the deep internal factors that determine and lead to the different international competitiveness of enterprise; third, Porter’s theory has not stressed enough the relative price factor, even seldom mentioned this factor, which could also lead to the change of international competitiveness of different states.

### 2.2.2 Other Influential Studies of International Competitiveness in the Field

For OECD’s view, international competitiveness is claimed as a set of indicating measurements of a country’s advantages or disadvantages in trading its products in international markets. The indicators of relative competitiveness are regularly produced by the OECD and published in the Economic Outlook, which is based on the export unit values of manufactures, unit labour costs in manufacturing and consumer price indices. The indicators of international competitiveness applied by the OECD is partially
from the common general analytical framework based on the Armington approach (1969a), which built
links among the foreign trade variables (export and import volumes) and measures their influencing price-
competition. To measure a country’s competitive position in its home and international markets, the
OECD calculates three sets of indicators, including Import Competitiveness, Export Competitiveness and
Overall Competitiveness, respectively.

Fagerberg's (1988) view of international competitiveness suggests referring to the ability of a country in
fulfilling its central economic policy goals, in particular to achieve the growth of income and employment
without running into balance-of-payment difficulties. He claimed as well that establishing the linkage
between the improvement of the balance-of-payment position in an open economy and the influencing
factors of the process is what a theory of international competitiveness must guide. Among the
measurements of international competitiveness of a country (e.g. Profitability by Eliasson, 1972; Market
Share by Chesnais, 1981; Price or Cost Development by EMF, 1984, etc.), he found that growth in
relative unit labour cost is the most popular and influential measurement, and if the unit labour cost
increases in a country more than others, it is argued that the market share of the country at home and
abroad will be reduced; and then the economic growth would be hampered and the employment situation
would worsen. Additionally, he presented some available empirical evidences from the studies (e.g.
Fetherston et al 1977; Kaldor, 1978; Kellman, 1983) to support his claim (similar to a popular belief) that
increasing unit labour cost could undermine the international competitiveness of a country.

Buckley et al (1988) argued international competitiveness at two levels: the firm’s level and the national
level. For the firm’s level, they cited the definition of international competitiveness from the Report by the
Select Committee of the House of Lords on Overseas Trade (1985) (The Aldington Report), in which the
international competitiveness of firm is better summarised and tailored. A firm is thought to be competitive
if it can produce products and services with superior quality and lower costs than its competitors at home
or abroad; in other word, the international competitiveness is a firm’s capability to keep long-run profit
performance, compensate its staff and contribute superior returns to its shareholders. They also
mentioned the definition of international competitiveness made by the European Management Forum
(1984), which defined international competitiveness as "the immediate and future ability of, and
opportunities for, entrepreneurs to design, produce and market goods worldwide whose prices and non-
price qualities form a more attractive package than those of foreign and domestic competitors". For the
national level, they presented the definition of international competitiveness that is also quoted from the
Aldington Report (1985), which suggested that the international competitiveness of a nation is a nation’s
ability to generate the resources required to meet its national needs; and adopted by Scott and Lodge
(1985), who argued that a nation’s international competitiveness refers to a country’s ability to create,
produce, distribute its services and products in order to make superior returns on its resources in
international trades. In their paper, they were mainly concerned with the international competitiveness at
the level of firm but also essentially reviewed macro-measurements of international competitiveness.
Basically, they categorised the measurements of international competitiveness into three groups to
describe different stages in the competitive process: competitive performance, which measures the
outcome of the operation; competitive potential, which describes the inputs into the operation; and
management process, which assesses the management of the operation. Additionally, they claimed that by using this perspective, international competitiveness cannot be considered as a static concept, but rather as an ongoing process; and the change in international competitiveness could be evaluated critically.

In the *China International Competitiveness Report 2001*, the international competitiveness was defined as a state’s capability to create added value and keep wealth constantly growing. This report basically followed the evaluation method and system of WEF and IMD, but focused on deep analysis and study of the international competitiveness of China. It was the most influential study on the issue of international competitiveness of China.

Even though there have been a lot of definitions of international competitiveness, most of them are substantially not different. Commonly, they include three main points: firstly, it is a kind of capability to provide products/services and create wealth during international competition; secondly, it normally represents the situation of being stronger than its rivals on some aspects; thirdly, the productivity and the relative costs are the most important factors of influencing the international competitiveness, and the productivity is the main determinant. Nevertheless, if the IC was understood just as being stronger than its rivals, then some of its meaning could be lost. Actually, the economical entity could either have stronger or weaker or even possibly equal international competitiveness than its competitive rivals in reality.

According to the above definition of international competitiveness, it should be generally divided into three levels: the first level is the nation’s international competitiveness that stresses the comparison of different country’s general capability, which can be usually shown by the status of international trade and international investments; and the influential power of politics and economy of a state in international affairs. The second level is the industrial international competitiveness, which emphasises the comparison of development of international competitiveness of the same industry in different states; but it needs to be represented more by international competitiveness of enterprises. The third level is the international competitiveness of enterprises of different states that belongs to same industry. It is clear from the relationship among the three levels that the nation’s international competitiveness should be represented by the industrial international competitiveness, which also needs to be further represented by the international competitiveness of enterprises; hence, the international competitiveness of enterprises is the core of the international competitiveness. Based on the above deep analysis, the international competitiveness of enterprises is the major research target in this thesis.

However, there are also other quite different conceptual explanations of international competitiveness (e.g. Durand and Giorno, 1987; Jin 2003; Pei, 2004; Smit, 2010) from different perspectives and angles. Particularly, Krugman (1994) thought of international competitiveness as a “Dangerous Obsession” and claimed the jargon “competitiveness” as being “meaningless”, when it is applied to address national economies. Rinehart’s (1995) ideologically treated the international competitiveness as: “the necessity of competitiveness has been hammered by governments, corporations, and the media to the point that it is taken for granted, a fact of life that is so obvious that we unthinkingly acquiesce to its dictates” (P14).
Furthermore, Lee argued that “competitiveness is merely the most recent incarnation in a conceptual lineage for debating national economic development whose origins may be traced back to the first half of the nineteenth century” (P224); and this means nothing new is represented by the contemporary concerns with competitiveness (Fougner, 2006). Palan (1998) even made critiques on the relation between the state’s competition and the international competitiveness, and said that they present contradictions, place increasing stress on state’s finance, exacerbate existing tendencies for growing income divergence and lead inadvertently to further financial deregulation (P325). Similarly, Fougner (2006) argued that a critical problem of international competitiveness, like a governmental problem, might contribute to the required devaluation of the concept; and subsequently, result in a de-competitiveness of the state (P169).

2.3 Specific Arguments of International Competitiveness of Enterprise

International competitiveness of enterprises is a major branch in the study of international competitiveness in the field. The framework of international competitiveness of enterprises studies an approach to promote the international competitiveness based on enterprise’s internality. For the theoretical evolution of international competitiveness of enterprises, there have been several main different schools, including the Resource-based View (Penrose, 1959; Wernerfelt, 1984; Elleström, 1992; Foss and Knudsen, 1996; Cappelli and Crocker-Heffer, 1996;), the Competence View (Knudsen, 1995; Loasby, 1995), and the Core Competence View (Prahalad and Hamel, 1990, Lévy-Leboyer, 1996; Bergenhenegouwen et al., 1996; Thompson et al., 1996; Stasz, 1997; Bjørnævold, 1999, 2000) etc. Among them, the theory of Core Competence has been dominant and well-known.

Initially, Prahalad and Hamel (1990) inspired the concept of Core Competence, which they expressed as the root system of a large tree that provides nourishment, sustenance and stability for a diversified corporation. Basically, they defined the core competence of enterprise as “the collective learning in the organisation, especially how to coordinate diverse production skills and integrate multiple streams of technologies” (P5). They suggested three ways to indentify core competencies in a company: firstly, if it can provide potential access to various markets; secondly, if it can make a significant contribution to the perceived customer benefits of the end products; thirdly, if it can be difficult for competitors to copy or imitate. However, they also mentioned the ways of losing them, including not having an intelligent alliance or source strategy if it has not made a choice in terms of where to build its competence leadership, and forgone opportunities of establishing competence evolved in existing businesses. They argued that building up the core competence is the resource of a company’s long-term competitive advantages. The short-term competitiveness of a company relies mainly on the pricing and functioning of its present products; but the long-term competitiveness of a company relies on its lower costs and the core competence being built up to react and deal with the unforeseeable product and service tendency faster than its competitors. Just as Snyder and Ebeling (1992) argued that core competence is a functional sense; the real core competence of a company is the tangible value-added activities; the “advantageous technologies”, “well goodwill”, “customer fidelity” etc are not the core competences but the outcome of building up core competence. In particular, they suggested that fostering the core competence should insist four principles:
i. Avoid listing a set of core competence but focusing on one or two key operational activities;

ii. Senior management should make consensus on the core competence and extensively execute it over the company;

iii. Intensifying the management of the core competence with organisational power in order to hold the competitive advantage;

iv. Sharing the core competence with your alliance under the economic globalisational environment.

Other people, (e.g. Mitrani et al (1992) Campbell and Luchs (1997), Nadler and Tushman (1999)), also claimed that the core competence is a key organizational resource that could be developed in order to gain competitive advantage. Additionally, Scarborough (1998) suggested that the approach of core competence is very fruitful, when applied, in recognizing the complex interaction of people, skills and technologies that drives a firm’s performance and addresses the importance of learning and path dependency in its evolution (P229). Some researchers consistently considered “competency” as referring to occupational competence (Boam and Sparrow, 1992; Mitrani et al., 1992; Smith, 1993). Hartle (1995) treated competency as “a characteristic of an individual that has been shown to drive superior job performance” (P107), which includes both visible “competencies” of “knowledge and skills” and “underlying elements of competencies”. Elkin (1990) combined competences with micro-level job performance and high management attributes, and declared “managerial competencies” in the future. Mangham (1986) argued that core competence may relate to personal models, outcome models or education and training models. Weinert (2001) presented nine different ways in defining or interpreting “competence”: general cognitive ability, specialized cognitive skills, competence performance model, modified competence-performance model, objective and subjective self-concepts, motivated action tendencies, action competence, key competencies, and meta-competencies (quotation in this paragraph is adopted from Le Deist and Winterton, 2005). In particular, Le Deist and Winterton (2005) developed a holistic competence model that contains three aspects: cognitive competence, which captures knowledge and understanding; functional competence, which captures skills; and social competences, which captures behaviours and attitudes. They also applied four approaches to address a consistent and coherent typology of competence: the Traditional American Approach, which demonstrates the importance of individual characteristics and uses behavioural competence as a means of developing superior performance; the UK Approach, which represents the value of occupationally defined standards of functional competence and their applicability to the workplace; and the Approach adopted in France and Germany that confirms the potential of a multi-dimensional and more analytical concept of competence; but they acknowledged the limitation in both breadth and depth, in spite of forming a starting point for developing a comprehensive typology that will permit greater transparency and mobility.

In China, there are also a number of literatures that have studied the international competitiveness of enterprises. E.g. in the International Competitiveness Development Report of China (1996), the international competitiveness of enterprises is defined as the competence of enterprise or entrepreneurs in successfully managing activities in a variety of environment. Tengben (1997) viewed the international
competitiveness of enterprises based on three levels: static level, which means the achieved competitiveness; improved level, which means to continuously consolidate and promote the competitiveness; and evolitional level, which means the capability to build up the former two. Zhang and Wu (1998) took the international competitiveness of enterprises as the combination of surviving and sustainable development competence of an independent enterprise against its competitors in the market economy environment; it is through relative comparison that lets us recognise the differences among the international competitiveness of enterprises, and it consists of the actual, potential and probable international competitiveness. Peng (2001) thought of the international competitiveness of enterprises as the capability of bolstering an enterprise to survive and develop for a long time in the environment; and this competence is derived from the product or service advantage that lies on the enterprise holding valuable, rare and exclusive assets. Jin (2003) argued that the international competitiveness of enterprises is the total competence of an enterprise that could constantly provide more effective and efficient products or services for the markets to gain more profit. Pei and Wang (2002) conceptualised the international competitiveness of enterprises as the competence of an enterprise to keep sustainable business outstanding, while it continuously enlarges its market share.

However, all the above arguments of the international competitiveness of enterprises are not considered special; and some of them are even too simple or ambiguous. But in China, Jin (2001), Pei and Wu (2002) made the conceptual definition for the competitiveness of enterprises more relatively explicit and coherent.

2.4 Arguments of the International Competitiveness of CB

As the special enterprise, the study of international competitiveness of CB has been increasingly emphasised. In the general research of international competitiveness, the study in terms of the international competitiveness of CB is a specific subdivided branch. The research of international competitiveness of CB could be mainly divided into two categories: one is to specifically target the international competitiveness of CB; another is to focus more on the study of the international competitiveness, but involves the international competitiveness of CB.

The Banker is the world-class magazine that specially focuses on the evaluation and comments of banking industries over the world. Since 1926, it has been launching the ranking of the worldwide top banks; hence, its study has been so far the longest and most influential comparing with other studies in this field. Its study is established in the worldwide perspective to cover and compare the top banks in the world. However, the ranking of top banks made by the Banker is mainly based on the Tier1 capital and total assets, which could mostly reflect the CB’s international competitiveness on the business scale; thus, this way of ranking could not accurately reflect the real status of international competitiveness of the CBs. Even though the Banker also compares other aspects of the CBs, this comparison is referred to as horizontal comparison, which could only reflect the international ranking situation and performance of a CB on an aspect or some aspects; but its overall situation could be not directly and accurately reflected. Additionally, its study mainly focuses on the empirical performance to compare the international competitiveness of CBs; as to the theory of international competitiveness of CB, it paid little attention.
Similarly, Davis (1985, 1989) specifically studied the successful factors of the outstanding CBs in the world and tried to establish the criteria for their success. Davis’ research was based on the investigation of his chosen outstanding CBs and compared them with the top CBs ranked by the Banker. He found that his chosen outstanding CBs were mostly in the top banks ranked by the Banker; and he summarised the four successful factors of outstanding CBs, including: the core business base (this is the most important factor); the choice of strategic orientation; the capability of managing diversified businesses through efficient control; and the set-up of elite management institution. Basically, Davis’ research has been also established in a worldwide angle, and analysed the successful determinants of the outstanding CBs. Howbeit, Davis’ research has likewise paid more attention to the determinant analysis, but lacked the comparison of direct data for the international competitiveness of the CBs.

In China, Jiao’s (2002) study on the international competitiveness of the CBI would be recognised as the first professional and academic research that systemically studies the international competitiveness of the CBI. His research is not just related to the theory of international competitiveness, but also refers to the empirical study of international competitiveness of CB; in other words, his research on the study of the IC of the CBI has been many-sided and multi-angled; hence, his studies have been relatively deeper, systematic and representative. Although, Jiao’s research has generally shown a high level of professional academics, there are still some ideas and methods that need to be further discussed. Firstly, Jiao’s studies have lacked the factor of CB’s overseas businesses, while analysing and evaluating the international competitiveness of the CBI. Secondly, the constitution of CB’s international competitiveness is debated, because Jiao has put the real competitiveness, potential competitiveness and environmental competitiveness as the three key factors of the general competitiveness, this way has confused the concept in terms of the competitiveness and the determinants of competitiveness; thus, his research method has mistaken the logical relation between them due to the environment being just the influential factor of competitiveness, not the constitution of competitiveness. Thirdly, the rationality of indices for evaluating the international competitiveness is open to argument, because its evaluation indices include the indicator for evaluating the environmental competitiveness; and although the evaluation indices are involved in many aspects, it could not really be recognised as a reasonable set of indices for evaluating the international competitiveness of CB; likewise, the model is seemly all-inclusive and could be applied to compare the differences of international competitiveness of different CBs; but this model is calculated based on the relative numbers. This model is mostly suitable to measure and compare the international competitiveness among the CBs that have nearly the same business scale, but if the model is applied to compare the international competitiveness of the CBs that have obviously different business scale, the compared results would deviate from the fact. Fourthly, his study has not defined and explained the potential competitiveness itself, while analysing the potential international competitiveness of CB; and in particular, the governance structure and business system have been equally taken as the potential international competitiveness. Certainly, the governance structure and the business system are the important influential factors, but they are not all or the major factors; hence, his ideas are debated.

There have been other scholars, who have also studied the relevant issues of international competitiveness of CB. For instance, Li, Jiang and Wu (1998) used the indices comparative method to
analyse the competitiveness of SOCBs in China; Zhang (1999) analysed the competitiveness of the CBI in a comparison of industrial competitiveness perspective; Wang (2000) applied the indices comparative method to analyse the international competitiveness of Chinese CBs and the international competitiveness of foreign CBs before joining the WTO, etc. Similarly, there have been other resource-based views of the international competitiveness (e.g. Ding, 2003, Zhang et al, 2004). Particularly in the Investigation and Analysis Report on the Competitiveness of CBI (2004), the competitiveness of CB is argued as the competence of a bank to make more fortune than its competitors in a specific market structure, and successfully transfer its resources to offer greater services for customers. In this report, the competitiveness of CB is considered on two levels: Real Competitiveness, which means the existing competence that a bank has already shown; and it represents the achieved outcome of the bank’s business, which comprises of a series of financial indicators, such as: market share, profitability, operational facility, asset quality, capital adequacy etc. And Potential Competitiveness, which means that the real competitiveness could be achieved in the future; and it also explains why some banks could have greater potential than others.

Even though these above papers have seldom directly mentioned the international competitiveness of CBI, they have paid close attention to the competitiveness of CBI and compared it with the CBs in other countries. Because of the internal linkage between the competitiveness and the international competitiveness, their studies indeed discuss and analyse the international competitiveness of CBI from some angles. Actually, it is near impossible for the conceptualisation and definition of the international competitiveness of CB to be accepted by all, some researchers even argued that the international competitiveness is untouchable, immeasurable and unmanageable (e.g. Abel, 1999). Despite the study of the international competitiveness of CB being complex and difficult to make the consensus, the research results are still significant and can suggest and guide enterprise’s businesses. Based on the above arguments, the international competitiveness of CB should be summarised to have the following distinguishing characteristics:

- **Value-added**: the basic significance of building up the international competitiveness of CB is that helps a bank to achieve profit maximisation and sustainably add values for the shareholders.
- **Inimitability**: the international competitiveness of CB is the bank’s exclusive ability; it is a unique and distinct comparative advantage that has been built up for years by the bank; hence, it is imprinted with the bank’s own personality and individualisation.
- **Sustainability**: the international competitiveness of CB is the capability of a bank to keep surviving and development for a long time; and it has its own lifecycle; hence, it must be constantly upgraded and improved in order to avoid going out of fashion.
- **Synergisation**: two or more abilities of a bank can be synergised to build up new international competitiveness for the bank.
- **Openness**: the IC of CB should be available to share with the bank’s alliance.
- **Systematicity**: the international competitiveness of CB is a sophisticated system, in which the elements are interconnected and influenced; hence, all the relevant factors should be working in harmony and restriction.
2.5 Dominant Measurements of the IC of CB

The contemporary measuring system of international competitiveness has been set up since 1980s. Thus far, the main measuring systems of international competitiveness of CB in the world are as follows:

- The WEF and IMD methods. These measurements focus on measuring the whole banking industry in a country based on the influences and contributions of banking to the country’s economic development. However, most indicators are referring to the profitability; hence, it is not comprehensive enough to assess the overall level of international competitiveness of CB.
- The world-class magazines, e.g. “Banker”, “AsianMoney”, which make the ranking yearly for the world top banks based on the scale of Tier1 capitals, the total assets and its growth ratio, capital-to-asset ratio, total profit and its growth ratio, ROA, ROR etc., hence, this ranking can measure the levels of individual banks and the whole banking sector in a country. However, these measurements do not involve much of the influences of politics, social context and financial ecology for the banking performance, particularly in some emerging states, e.g. China.
- The world well-known rating agents, e.g. Standard & Pour, Moody, FitchRatings and CAMEL. The S&P mostly assesses the business risks and financial risks of banking sector in a country. The CMEL applies CAR, asset quality, management, profitability and liquidity to assess the banking performance, and the new CAMELS, which added the indicator of Sensitive to Market Risk, was developed in 2001. FitchRatings is very famous at credit risk rating for financial institutions. Among them, Moody’s measurements are the most utilizable through measuring seven main aspects: environment, brand value, profitability, risk structure and management, economic capital analysis, and management strategy; but its rating system is too complicated and maybe only internal professionals could use it.
- For the measurements of the IC of the CBI, since 2001, the CBRC has launched the design of the risk assessment system for the CBI, in accordance with the CAMELS, and regarding the specific case in China. Since 2006, the CBRC has been measuring the core indicators, which contain three sets to assess the risk level, risk transformation and risk offset, in order to indicate the credit situation of the CBI. Additionally, since 2005, the Chinese famous magazine “Chinese Banker” has been reporting the assessment of the competitiveness of China’s CBs. In this report, the analytic hierarchy process (Saaty, 1980), Scholar Scoring Card and Fuzzy Cluster Analysis (FCA) were combined to assess the competitiveness of China’s CBs. The financial AHP was comprised of four main indicators, including Capital Adequacy, Asset Quality, Profitability and Liquidity, which covered a total of 16 sub-indicators; the scoring cards were collected from 20 Chinese reputable scholars; and the FCA is applied to objectively categorise the sample collection.

In China, there were also some individual researches relating to the measurements of the competitiveness of the CBI, e.g. Wei and Zhu (2005) made the theoretical explanation and systematic
measurements of the competitiveness of the CBs based on the technology, engineering, organisation, institution, people, culture and strategy in China. Similarly, Fan (2001), Shao (2001), Liu (2002), Zhang and Wang (2003), Zhang (2004) and other Chinese scholars made their estimation of the competitiveness of the CBI with their own consideration; however, their methods were also not special, and limited in depth and extent.

Even though it is very difficult to make a widely-accepted definition and the most rational explanation of the international competitiveness of CB, the temptation in doing so still encourages the researcher's ambition. According to the theory of competition and after addressing the highlights of the arguments above, the researcher argues that the international competitiveness of CB is a set of comprehensive abilities that has been fostered and developed by a bank for a long time in various competitive environments; it is a synergistic and harmonious system that is structured with strategy, IT, HR, corporate governance, organisation, process, products/services, innovation and incentive mechanisms of a bank; it is the market power of a bank that is resources-based, and it can promote the bank to sustainably increase productivity, improve profitability and make outstanding performance against its competitors in the markets; it is exclusive, hard-imitable and alliance-shared; it is dynamic and advancing with time, but risk-proof and well-balanced among the liquidity, safety and profitability; it is deeply affected by the social cultural context and financial ecology, in particular in some underdeveloped countries.

2.6 Critical Comments of the Previous Relevant Studies

From the above reviews on the international competitiveness and the international competitiveness of CB, it can be seen that the research on the international competitiveness has been carrying out for a long time both at home and overseas, and gotten some influential and systematic achievements. However, as to the special issue of international competitiveness of CB, the truly related studies have yet to grow further; and there is still a shortage on relevant information and data. This is reflected in the research on this issue, as most of the research still lacks deep and comprehensive analysis about the IC at home and abroad. If focusing only on the international competitiveness of the CBI, then the information and available data is even more limited.

According to the existing studies on the international competitiveness of domestic and foreign CBs, these studies could attribute to two categories: the research on the evaluation and the determinants of international competitiveness of CB. Even though these two kinds of research have still been unable to cover and include all aspects of the business issues of international competitiveness of CB, they represent and reflect the most important and basic research topics and directions of this kind of research. Among them, the research on the evaluation of international competitiveness of CB is usually involved through quantitative analysis and comparative indices; hence, this is the most common and major research on the international competitiveness of CB; and most of these studies belong to this class. The research on the determinants of international competitiveness of CB is often based on qualitative analysis to discuss the various internal and external determinants of the international competitiveness of CB; but this kind of research is still relatively few in numbers. This is also the case for the study of international competitiveness of the CBI.
Through analysing the obtained information and data, it could be learnt that the current research fields of
the international competitiveness of CB, in particular the international competitiveness of the CBI (this
research topic needs more detailed focus), still have the following main problems:

- **Firstly, on the determinants study of the IC of CB**

The present studies have not only generally treated the deciding factors of international competitiveness
of CB as equivalent to the competitiveness of CB, but also omitted some of the main determinants; and
have not differentiated between the primary and secondary factors when analysing the competitiveness
and the international competitiveness of CB; thus, these have led to the incompletion and the lack of
systematization of the studies.

The international competitiveness of CB being mainly decided by what factors is the basic question that
must be clearly answered in the research on the international competitiveness of CB. Although there is
close relationship between the international competitiveness and the competitiveness of CB, the two are,
after all, not the same concept; and certainly, there are different; thus, their respective determinants would
be as well. Therefore, it is necessary to find out the similarities and differences of the determinants
between the competitiveness of CB and the international competitiveness of CB through the analysis.

The international competitiveness of CB is determined by many factors working together, and the roles of
those factors are different; therefore, the research on the determinants of the international
competitiveness of CB must consider the main determinants that decide and the important determinants
that influence the international competitiveness of CB. Missing main or important factors could make an
unignorable influence on the analysis results; meanwhile, it is also necessary to distinguish how important
the effect of each factor in the determinants of international competitiveness of CB is.

- **Secondly, on the evaluation study of the IC of CB**

The existing evaluation models could be mainly divided into two categories: the separate evaluation
models based on the indices of horizontal comparison; and the overall evaluation models based on
multiple comprehensive factors. Among them, the separate evaluation models could better partially reflect
the international competitiveness of CB, but could not better reflect the overall international
competitiveness of CB; in contrast, the overall models could better reflect the overall international
competitiveness of CB, but not better reflect some specific aspects of international competitiveness of CB.
Due to the existing research models being mainly referred to evaluate the competitiveness of CB but not
specifically to evaluate the international competitiveness of CB, if the evaluation model itself has defects,
even if the evaluation model has multi factors, its evaluation outcomes often cannot accurately reflect the
international competitiveness of CB; even deviating greatly from the actual situation. Considering the
respective characteristics of the two models and their respective defects, if a relatively perfect evaluation
model of international competitiveness of CB can be established combined with the horizontal
comparison indices, then, the evaluation results of international competitiveness of CB could be made
more accurately and objectively.
Thirdly, on the analysis of the existing studies of the IC of CB

It can be seen that most of these studies have mainly focused on some aspects of the international competitiveness of CB; or stressed on the discussion of how the bank development strategy influences its international competitiveness; or emphasized the comparative indicators of CB to evaluate the international competitiveness of CB; or impressed the qualitative analysis of the influential determinants of the international competitiveness of CB; but most of that has failed to combine the influential determinants and the evaluation approaches to comprehensively, systematically and deeply study the international competitiveness of CB. In other words, the existing studies have not really paid enough attention to the relationship, which is inherently close, between the evaluation approaches and the influential determinants of international competitiveness of CB, and those studies have not bridged the communication gap between the two main research directions of the international competitiveness of CB. Hence, this would lead to larger limitation for the comprehensive, systematic and deep study of the international competitiveness of CB.

2.7. The Theoretical Fundamental of the IC of CB

Basically, the study on international competitiveness of CB is a branch of the international competitiveness study; therefore, the theoretical fundamental of international competitiveness of CB should be also based on the theoretical fundamental of international competitiveness. The research objectives of competitiveness and international competitiveness are both for boosting the competitiveness of the economic entity at home and overseas. Actually, competitiveness and economic growth are in a mutually reinforcing relationship; in other words, international competitiveness increase would inevitably lead to economic growth, while economic growth should promote international competitiveness improvement. Likewise, as to the main factors, which determine and influence the two, also have many similarities, i.e. the factors deciding and influencing the economic growth are similarly affecting the international competitiveness in the same time. Therefore, the theories of economic growth can often be suitable as the theoretical foundation of international competitiveness research.

The theory of economic growth is an important field of the western economic theories; its main research purpose refers to the determinants of economic growth and their contributions to the long-term economic growth. The main feature of Western Economic Growth Theory is to apply the equilibrium analysis approach and through establishing various economic models, the required equilibrium conditions can be investigated in order to achieve a balanced economic growth under the stable situation in the dynamic process of long-term economic growth. The development of the economic growth theory, thus far, has experienced three main stages: Classical Economic Growth Theory, which was mainly advocated by Smith (Adam Smith, 1723-1790), Ricardo (David Ricardo, 1772-1823) and Malthus (Thomas Robert Malthus, 1766-1834), underlines the key role of land in economic growth, and studies the impacts of population growth on economic growth; Neo-classical Economic Growth Theory, which was mainly advocated by Solow, stresses the importance of capital deepening and technical progress contribution to the economic growth; and New Economic Growth Theory, which was mainly advocated by Arrow and
Romer, especially focuses on the further study of the “Solow Reminder”, which is based on the new classical economic theoretical model.

However, the new economic growth theory still ignores the institutional factors in economic growth, and claims that the institutional arrangement is given and costless. In contrast, the institutional economics takes the institutional factors into consideration, and argues that the institutions are also the important deciding factors for economic growth; hence, the institutional economics has become a new theory that has more impact on explaining the economic growth. The institutional economics thinks that different institutional arrangements could produce different transaction costs and lead to different economic performance. Through institutional improvement, the economic efficiency could be enhanced and the economic growth could be promoted. Moreover, the empirical studies of some economists (e.g. Pejovich, Merrill and Olsen) have proved this theory that more appropriately meets the historical status and the actual situation. Nowadays, the importance of institutions has been increasingly recognized by many and more people; and many vivid examples can be found in the reality, such as the difference between the previous East and West Germany, North and South Korea, and the economic performance of state-owned enterprise and private enterprise in China, etc.

Since two masterworks published by Coase (1937, 1960) “The Nature of the Firm” and “The Problems of Social Cost”, the New Institutional Economics (NIE) has become one of the hottest topic theory in the field of new economic growth theory. The term “New Institutional Economics” was coined by Williamson in 1975. Rutherford (2001) argued that the NIE is an economic perspective, which attempts to explore the social, legal norms and institutions that underlie economic activity. The NIE has further developed the economics and broadened the research scope of neoclassical economics. In other words, the NIE has rediscovered some aspects of classical political economics; and its research analysis method is beyond the earlier institutional economics and neoclassical economics. Nowadays, the NIE has set up a more complex perspective of methodological principles and criteria. Even though there is no universally accepted definition of institution, most scholars follow North’s (1990, 1995) suggestion of demarcation between institution and organization when researching under the NIE methodological principles and criteria. According to North’s suggestion, Institutions are the "rules of the game" that consist of both the formal legal rules and the informal social norms that govern individual behaviours and institutional frameworks (e.g. social structure interactions)

The NIE is a research field of economics that especially stresses on transaction cost. Transaction cost refers to the costs that are not taken into consideration but lost in the establishment of commodity transaction process (e.g. the energy and time spent for discussing the bargains; and the insurance measurements taken to prevent being deceived). All of these action costs are transaction cost; and due to its scope being too broad, there have been many definitions of it. With regards to the research objective of the NIE, Coase suggested that the contemporary institutional economics should study humans from the perspective of human practice, because people in reality take actions within the constraints given by the realistic institutions. Similarly, North stressed that the target of institutional economics is to study how people make decisions and how the decisions change the world under the condition of institutional
evolution. The common view of Coase and North is that they both emphasize the study of relationship amongst people, institutions and economic activities. Simply speaking, the NIE employs the economics method to study institutions. If there are three pillars of economic orthodoxy theory: natural gift, technology, and preference; then institution should be argued as the fourth.

Although the early institutional economics received rejection and criticism from mainstream economics at first, the situation has been obviously changed with the NIE rising up. The NIE is very active but also gradually gained mainstream recognition. When Mathews (1986) became the president of the Royal Society, he stated in his speech that the analysis method of institutional economics has become a very active faction in our scientific field; and in his opinion, the reason why the NIE obtained such achievements is mainly because they brought forward two significant propositions in the economics: firstly, the institutions are important and; secondly, institutional phenomena could influence the analysis means of the economics theories. For the first point, it is not really a contribution made by the NIE, because all of institutional economics confirmed that. In fact, the reason the NIE is becoming even more popular is because it provides a more realistic and acute perspective for economic analysis. As Arrow (1987) stated, the NIE does not provide a new answer for the traditional economics issues - resource distribution and utility measurement, but it answered some new questions about it; it is integrated into the economic history, but provided a more acute reasoning approach (micro-analysis) than the traditional perspective.

The idea of transaction cost is thought of as the most basic concept of the NIE developed by Coase (1937), who introduced the marginal analysis method into institutional analysis and established the concept of marginal transaction cost. This has opened up a new field for the research development on institutional economics. North used to declare that with the discovery of transaction cost we found the optimal way to explain the institutional existence and the institutional change, as well as the changes of the whole economy; and this is why he argued that only with the introduction of the concept of transaction cost in the institutional economics, can it be the so-called “New Institutional Economics”. Since the application of the marginal analysis method and the introduction of marginal transaction cost into the institutional economics, the methodology of institutional economics following Coase’s suggestion has been no longer standing aside or going further away from the mainstream economics, but showing "confluence" or "convergence" tendency. If saying that the early institutional school represented by Galbraith has just quantitatively expanded the research methods; then Coase’s framework has revolutionarily developed the research methods of institutional economics. Basically, this is the reason North called the institutional economics, after Coase, the "New Institutional Economics".

Coase argued that the major defect of classical and neoclassical economics is that they do not consist of specialized institutional factors. In their theories, there are the political, legal, currency, customs and other institutional forms of economic institution; and its effects on economic system are more or less recognized. However, these traditional methods either assume that the institutions are exogenously given, or assume that the institutions do not influence the performance of the economy (e.g. the new classical economics); either assume that the institutions could be run without cost, or does not specifically analyse the institutional operation costs (e.g. Smith’s and Marx’s classical institutional analysis; Veblen’s, Mitchell’s and Commons’s old institutional economics, etc). Coase stressed that to explain economic phenomenon,
behaviour and relations, it must study the effect, control or constraint of the institutional arrangement. Actually, Coase was not the first one to pay attention to the right relationship behind the transactions, (e.g. Smith, Marx or the earlier economics thinkers), but Coase is the first, through the introduction of marginal analysis method and the analysis of marginal transaction cost, to explain the internalisation of realistic institutions and its influences on economic performance. This is again the notable feature of the methodology of institutional economics theory, as well as an important turning point of institutional economics development.

In Coase's opinion, the transaction cost should include the costs of the measurement, definition and protection of the property rights; the finding of the transaction object and price; bargaining and contracting; as well as supervising and urging the terms of the contract to be strictly fulfilled etc. The proposal of transaction cost has important significance to the NIE. Because economics is the study of the distribution of rare resources; and the theory of transaction cost indicates that trading activities are rare, and the uncertainty of market causes the transaction to be risky. Therefore the transaction costs, as well as the distribution of them, are risky too. The resource distribution issue is directly involved in economic efficiency, therefore, a certain institution must have the function to improve economic efficiency; otherwise, the institution will be replaced by a new institution. Due to this, the institutional analysis perspective has been considered in the real economic analysis since Coase's introduction of the transaction cost. Coase's initial contribution is changing the idea of costless transaction of neoclassical schools to the idea of positive transaction cost of the real situation, thus, it has a strong explanatory power for the realistic economic development. Nowadays, the theory of transaction cost has become the theoretical foundation of the NIE, which has been further developed and propagated by Williamson et al. It could be argued that introducing the transaction cost concept into the study of the economics is a great contribution to economics theory.

Coase also used his transaction cost analysis tool to initially explain the nature of firm and the coexistence of firm and market in the real economic world. He has developed the system from the single production system of neoclassical economics (i.e. the market mechanism), to the dual production system, which includes both firm and market mechanism that could be substituted with each other. Coase claimed that the market mechanism is the means of resource distribution, and so is the firm mechanism; the two could be mutual replaced. In Coase's opinion, the operation of market mechanism has its costs, but it could be partially cut down through the formation of an organization, or allowing an authority or association (e.g. entrepreneurs) to arrange the resources. As to the boundary between the firm and market functions, Coase argued that because the business management is costly, and the scale of a firm cannot be unlimitedly expanded, its limitation lies in the fact that the costs of using firm organized transactions are equal to the costs occurred through the market transaction.

Basically, Coase's institutional analysis methodology shows as well the tendency of microcosmic embodying. He does not prefer the descriptive research method applied by the classic institutional analysis and the old institutional schools (e.g. Galbraith's analysis method), and argued that the biggest deficiency that lies in their institutional analysis is that they only made overall institutional analysis and paid attention to the integrated variables to study the influences on the economic system. Coase declared
that this kind of holistic methodology did not actually tell people the details of institutional story; in addition it left a heap of conjecture that is needs to be further justified. Basically, this holistic methodology only made a rough description of the various economic institutions. He criticized that the past institutional analysis method takes the firm and market as a place where disputes of different interest groups are dealt with. The roles the institution played there are either traditional and cultural informal institutional arrangements, or formal institutional arrangements (e.g. laws); and such institutional arrangements are presented as the social general institution that could decide the participant’s actions, which can reflect the characteristics of these institutions. From the investigation of some specific business activities, Coase also found that the firm and market itself is the institution for coordinating the interest relationship; the coexistence of firm and market illustrates the relative transaction costs. In Coase's view, any institutional arrangement is the result of parties’ free choices according to the specific environment; this as well reflects the use of Coase's methodology being still the rational choice model of neoclassical economics. To apply the institutional analysis method, Coase stresses a small sample study based on a specific case, but also does not abandon the deductive reasoning; this partially avoids the shortage of the descriptive research method and the pure inductive method applied by the classical institutional analysis and the old institutional schools.

The biggest difference between Coase's institutional analysis and the formers is that Coase has introduced the concept of marginal analysis and marginal transaction cost into his initial analysis methodology, which could take the study of the origin, property, evolution and function of a variety of specific institutions to build up a more accurate empirical analysis based on the individuals; hence, his institutional analysis method could be empirically verified. This is a great contribution by Coase to the NIE methodology. It should be admitted that if the institutional analysis just lies in the discussion of social values or general normative analysis, then people will not have such deep understanding on the nature and evolution of institutions. The pioneering study of institution by Coase has not only deepened people’s understanding on the importance of institution, but also promoted people to more scientifically research the institutions and its relevant issues; and then directly driven the rise of institutional analysis. Basically, the NIE has corrected the actual human hypotheses and supplemented the defects of the traditional economics, as well as put forward its solutions. The research object of the NIE is the relationship and rules among human, organization and society; these relationships and rules are also the institutional issues studied by the NIE; therefore, its vitality and potential has been increasing.

Particularly, North also found the importance of institutional factors in his study. His new theory of economic history and institutional change theory (ICT) has made him very famous in the field of economics, and one of the main representatives of the NIE. Consequently, he was rewarded the 1993 Annual Nobel prize in economics. North's institutional change theory is composed of the following three elements: the theory of property right, which describes the promotion of individuals and groups in a system; the theory of state, which defines the implementation of property right; the theory of ideology, which reflects the influences of different objective existence. North’s institutional change and institutional innovation all refer to the three cognitions of institution.
In the ICT, the elements of institution mainly include: formal constraints (e.g. laws), informal constraints (e.g. customs, religion, etc.) and their implementation; the three elements together to define the society, in particular the incentive structure of economy. The so-called institutional change means a kind of institution being innovated or replaced. The principle of institutional change is that the institution can be regarded as a kind of public product; it is produced by individuals or organizations. Due to the scarcity of resources and people’s limited rationality, institutional change remains limited and rare. With the changes to external environment or the increase of their rationality, people will continue to put forward new demands on the institutions in order to achieve the expected added return. When a basic institutional supply and demand remains balanced, the institution is stable; when an existing institution cannot meet the people’s needs, the institutional change will occur. The cost and profit ratio of institutional change plays an important role for promoting or delaying the institutional change; only when the expected return is greater than the expected cost of the change, would the behavioural agent push and ultimately achieve the institutional change; and vice versa. Basically, the powers to promote institutional change are mainly driven by two agents: "the first acting group" and "the second acting group"; both of them are the main decision-makers of the change. The general process of institutional change can be divided into the following five steps:

A. To form the first acting group that plays a major role in promoting the change of institution;
B. To put forward the main scheme for the institutional change;
C. To select and evaluate the scheme according to the principle of institutional change;
D. To set up the second acting group that plays a minor role in promoting the change of institution;
E. To take two groups and make them work together to achieve the institutional change.

According to the different economic entities of the first acting group, the institutional change can be done in two ways: "change from bottom-up" and "change from top-down". The so-called institutional change from "bottom-up" refers to luring individuals or groups with the accrual of new institution, and make them spontaneously advocate, organise and implement the institutional change, hence, it is also known as "induced institutional change". The so-called institutional change from "top-down" refers to the institutional change that is first led by the government or authority to introduce and implement the formal orders and legal actions, thus, it is also known as the "mandatory system change".

Even though there have been also other explanations on institutional change theory (e.g. Marks, Game Theory and Chaotic Economics etc.), the institutional change theory by Coase and North has been the greatest development of institutional economics. North in his masterwork "The Rise of The Western World: A New Economic History" claimed that the institutional factors are the key to economic growth; an institution that can provide effective incentives for individuals is the decisive factor for ensuring economic growth; and in particular, the property right is one of the most important factors. In his work, North stressed the key point is how different institutional change causes different economic performance; but he
did not complete the construction of institutional change theory. In his other work "Structure and Change in Economic History", North puts forward the following four theoretical cornerstones in his ICT:

- **Property Right Theory**

Generally, the NIE suggests that property right is a special right, a kind of social relation, a rule of defining the interactive relationship of people's behaviour, and a basic rule of society. Just as the property right economics master Alchian (1983) argued, property right is the right to use and is mandatorily implemented by a society to choose economic goods. This reveals that the essence of property right is a social relationship. In an individual world (e.g. Robinson) the property right is useless; hence, only in an interaction of human society, can people have mutually respected for property rights. Property right is a restriction of right; a complex concept, which includes ownership, right of usufruct, right of disposal etc. When a transaction happens in the market, two exchanges of right occur. The conditions contained in the exchange of right influence the value of goods; it is one of the basic concepts of the NIE. Essentially, property right is a set of incentive and constraint mechanisms; thus, influencing and motivating behaviours is one of the basic functions of property right. The NIE claimed that the exchange of property right has a direct influence on the efficiency of resource distribution. It also argued that a society's economic performance is ultimately dependent on the individual behavioural motivation provided by the arrangement of property right.

Combining the property right theory and institutional change theory is a great theoretical contribution by North. North suggested that the property right theory inspired by Coase and others could help to explain the reduction of human transaction costs and the changes to economic organizational forms. According to the property right theory, a form of property right, which allows for the minimum cost when solving a problem, will be the most effective under the existing technologies, information costs and future uncertain constraints, as well as in a world with scarcity and competition. The competition will make the efficient economic organization form instead of non-efficient economic organization form; therefore, people will continuously work hard to reduce the transaction costs. Efficient property right should be competitive and exclusive, thus, the property right has to be clearly defined. This will help to reduce the future uncertain factors and thereby reduce the possibility of opportunism behaviour; otherwise, it will result in the reduction of transaction or contract arrangements.

According to North's view, the function of property right is mainly to promote institutional change in the following ways:

- **First is to rely on the structure of property right to create an efficient market**

The neoclassical economics theory argues that an efficient market can only be set up through full competition. North's study found that market efficiency implies the full definition and enforcement of property right; it means the creation of a set of bound variables boosts the increase of productivity. In a market with incomplete information, the structure and implementation of property right could reduce or fully eliminate the uncertainty. North declared that the fundamental reason of market inefficiency is
because of the inefficient structure of property right; thus, an important content of institutional innovation is the improvement of property right structure. On the other side, changes in technology and a more efficient market expanding would also eventually lead to conflicts with the original property right structure; hence, the relative inefficient property right structure would be formed. In this situation the property right structure needs to be adjusted and innovated.

- **Second is to rely on the structure of property right to promote technological progress**

North thinks that the rate of technological progress increase is driven by the expansion of the market scale and the possibility of yielding bigger shares through investments. Investing in a new technology and developing new knowledge requires the establishment of a certain degree of property right for the new technology. If there is a lack of property right and the new technology is extremely eased to get, then the motive power of innovation will be lost. Although the social return of developing new technology is always high, the development pace of the new technology was slow from the historical angle; this was because the systematic property right cannot be built on the innovation. If a set of incentive mechanism can encourage technological innovation and increase the private benefit rate of innovation to close to the rate of social return, then it is a property right with clear innovation.

- **The Theory of State**

The existence of state is the key to economic growth; but also is the root of human economic recession; this paradox makes the state the core of economic history research. Although North in his institutional change theory has not developed further the property right theory, the inspiration of his theory is to combine the property right theory and the theory of state. In North’s opinion, the state is not "neutral", but decides property right structure, and ultimately has the responsibility for the efficiency of property right structure, which causes the growth or declining or stagnation of the economy. North’s institutional change theory needs to not only explain what causes the intrinsic action tendency of the inefficient property right of political or economic organization, but also address the instability of the state itself throughout history; namely, it means the state’s vicissitude. Therefore, he called his theory of state: "the theory of state of defining the implementation of property right".

The theory of state firstly must explain the nature of state. As to the nature of state, there have been various interpretations in politics and history; however it could be mainly summed up by two aspects: the Theory of Predatory (i.e. Exploitation Theory) and the Theory of Contract. The Theory of Predatory claims that state is the representative of a group or class; the state’s role is to represent the interests of the group or class to squeeze income from the members of other groups or classes; namely, the state is a product of looting or exploitation, the tools the ruler uses to plunder and exploit the ruled. Some Western sociologists (e.g. Marxists) take this view. But, the Theory of Contract believes that state is a result of the citizens reaching contracts; the state should serve the citizens and the state plays the role of maximizing the social welfare in its service. This theory has a long history, and recently it has been revived under the re-interpretation of the neoclassical economists. Obviously, these two theories both have some truth; evidences of both could be found in history and reality; but they both could not cover all forms of state;
hence, they are not complete. From the angle of theoretical deduction, state has the dual property of predatory and contract. Therefore, North advocated the distribution argument of state’s violence potential. He thinks that state can be regarded as an organization with a comparative advantage in violence. If the violence potential can be equally distributed among the citizens, then a contract state is produced; otherwise, a plunder of state is made.

North thinks that the state model with a welfare or utility maximization ruler has three basic characteristics: firstly, in order to obtain incomes, it would take a set of services of the so-called "protection" or "justice" group as the exchange; secondly, in order to maximize the national income, it would divide the voters into groups, and then design the property right for them; thirdly, the state would face the internal potential competitors and external competition from other countries. North pointed out that the basic service provided by the government is the basic rules of the game. There are two purposes of a state’s existence: the first is to define the basic rules of the formation of competition and cooperation of property right structure, then to maximize the ruler’s rents; the second is to reduce the transaction costs to maximize social output, then to maximize the national tax revenue. North’s study found that in many stages of history, there were long lasting contradictions in the regime of the property right structure for maximizing the ruler’s rents and the transaction cost decrease for promoting economic growth; these basic contradictions are the origin of society that cannot achieve sustained economic growth. In other words, the existing conflicts between the two purposes of state that causes the case of the contradiction, even antagonism behaviour, was argued as the basic reasons of a state’s vicissitude.

➢ The Theory of Ideology

Western orthodox economics theories had always ignored or excluded the ideological functions in economic growth and institutional change; however some other sociologists, especially the Marxist theorists, have suggested the great importance of ideology. North has, absorbing the essence of the two economics theories, developed his institutional change theory with the ideological component. North pointed out that the neoclassical theory cannot explain well the two behaviours: one is the opportunism behaviour including "hitchhiking"; the other is the altruistic behaviour, which stands for the behaviour that cares about self-interest but does not constitute the motive factor. North's institutional change theory has broken through the restricted individual utilitarian assumptions of neoclassical theory; and clearly pointed out that the change and stability needs an ideological theory, and then explained the deviations generated from the calculation of individual rationalism of neoclassical theory. Ideology, according to North’ explanation, is composed of all interconnected views of the world, including moral and ethical principles. One important condition of efficiently operating the market mechanism is that people can follow a certain ideology. Strong social morals and ethical principles are the social stable factors of an efficient economic system. In North's view, ideology is a kind of institutional arrangement to reduce transaction costs. For example, in the case that defining and implementing property costs outweigh the benefits, the property right cannot be used to solve "hitchhiking problem"; this means an ideology could be required to restrain this kind of problem. Moreover, the rules made by political and economic organizations need a compliance process, but the compliance is also costly. If the maximization of individual behaviour lacks a certain constraint, then it would cause a high compliance cost of the rules; this will make the political or
economic regime unable to be arranged; therefore, it needs to spend a lot of investments to make people believe the legitimacy of these institutions; in this case, the arrangement of political and economical regime needs to be combined with the ideology. The reason people do not care about their own interests but obey the social rules is because of the role played by the ideology. North pointed out that when the social members believe that the institution is fair, the individual will not violate the rules and infringe the property right, then the implement costs of the rules and the property rights will be greatly reduced.

North has also used the theory of ideology to explain the "hitchhiking" behaviours, which is the so-called "getting benefits but not paying" behaviour in economics; and this behaviour hinders the automatic control process of market. This behaviour blocks the self-adjustment process of the market, therefore, a successful ideology must be able to overcome the "hitchhiking" behaviours; this is also the core issue of various ideologies. In North's view, ideology is also a way of action. It can make, by providing people a view of the world, the behavioural decision more economically. If each member of a group has a common ideology of interests, it is easily organised to achieve the target of the group. If there are divergent ideologies, the interest objectives are different, and the behavioural information is not understood by each other, then, when taking the collective action, some people would not pay any price but enjoy the collective action interests. Hence, the "hitchhiking" phenomena would be inevitable; and the more the numbers of a group, the more serious "hitchhiking" behaviours would be in the group. Basically, there are two ways to solve "hitchhiking" problems: one is keeping the group size appropriate; and the other is to provide selective incentives for individuals with different ideologies. The group should be committed to the investment of human capital, and, through public education, form a unified ideology and devoutness to the collective actions, then reduce the organizational and information costs; or set up precise rules and efficiently implement them to supervise and punish the "hitchhikers". Certainly, the people with different origins, ages, occupations and experiences must have different ideologies, but a successful ideology should be flexible, thus, the "hitchhiking" problems could be better dealt with.

➢ The Theory of "Path Dependence"

Path dependence is similar to the "inertia" in physics, it means once entering into a path, whether it is good or bad, it has to rely on this path. As to the research on self-reinforcing mechanism and path dependence, it was firstly pointed out by Arthur (1988) aiming at the technological evolution. North extended the previous idea of self-reinforcing phenomenon in the evolutional process of technology to the institutional change, and put forward the theory of path dependence of institutional change. North described the path dependence as a powerful influence from the past to the present and the future; he pointed out that history is influential, and nowadays, all of people's decisions and choices are effectively influenced by their historical experiences. North argued that the process of institutional change and technological change are similar, and there exists the return increasing and self-reinforcing mechanism in both processes. Once this mechanism takes the institutional change along a path, its decided direction will become self-reinforced in the future development process; hence, people's past choices influence, and even decide their present possible choices. Along a predetermined path, the change of the economic and political institutions may enter an optimum track, and be rapidly optimized; likewise, it may go down a
wrong path, or even be locked in an inefficient status and lead to stagnation; and once locked in this status, it is very difficult to get out of it.

North’s study found that the power to determine the path of institutional changes comes in two ways: the incomplete market and the increasing returns. As for the former, due to the market complexity and incomplete information, the institutional changes may not always completely follow the initially designed evolitional direction; and sometimes an accidental event may change the direction of institutional change. As to the latter, human’s behaviour is oriented towards maximizing the benefits, thus, the increasing returns brought by the institutions determine the direction of institutional change. North then pointed out that institutions are inessential when there are no increasing returns and perfectly competitive market in a world; otherwise, institutions are important, and the self-reinforcing mechanism will play a key role. According to North’s studies, self-reinforcing mechanism of institutional change has four aspects:

A: The cost optimization effect. The design of an institution requires a large initial setup cost; but with the implementation of this institution, the unit cost and the additional costs will be reduced.

B: The learning effect. Through learning and mastering the rules, if it helps to reduce the change cost or increase the expected returns, the new institution will be promoted, produced and accepted by the people. The speed of institutional change is a function of learning speed; but the change direction depends on the expected yield of different knowledge.

C: The coordination effect. To realize the coordinated effect through adapting to the institution to set up an organization to contract with other organizations, and through the establishment of a mutually-beneficial organization and further investment to the institutions.

D: The adaptive expectation effect. When an institution has brought great benefits to the people, and the people have a strong and pervasive adaptive expectations or psychological identity of the institution, then the institution will be further dominated. With the contract (based on the specific institution) prevailing, the uncertainty of the institutional constant permanence will be reduced.

In summary, the path dependence has a strong restrictive function on institutional change, and is claimed as a key factor for influencing economic growth. If the path choice is correct, the institutional change would quickly run along a predetermined direction; and could greatly mobilize people's enthusiasm to fully use the existing resources to pursue maximizing return, then further promote market development and economic growth; this case also in turn became an important force to promote the further change to the institution, so, both sides can show the benign circulation status of reciprocal causation and promote each other. If the path selection is wrong, the institutional change perhaps will not bring the general increasing returns to people, but is conducive to the privileged few. Thus, this institutional change could be not supported, and exacerbated the unfair competition, then led to the confusion of market order and economic recession. This "lock-in" situation, once appeared, is hard to reverse. Many developing countries learnt profound lessons this way. Therefore, the countries with institutional changes have to constantly deal with the issue of "path dependence".
However, North also declared that the factors that influence human behaviour, resources distribution and economic performance, though the market mechanism function, is admittedly important. It is not perfect because it is difficult for the market mechanism itself to overcome the problems, such as "externality". The institutional change theory argues that the "externality" is an undeniable issue in the process of institutional changes, and the root of "externality" is the irrational structure of the institution. Hence, to study the profit maximizing behaviour of the market participants, it must take the institutional factors into consideration. The theory stressed that institution is an endogenous variable that has a significant effect on economic growth. Therefore, to deeply study the issues of modern economics, the basic functions of institution, the main factors that affect the institutional change, the reasons of different institutional arrangements made by economic behavioural bodies, the property right system and the functions of state, as well as the ideological changes, and other issues, are the inevitable requirements. The research methodology of institutional change theory has inspired the economists to combine the economic and political theories in the analysis of economic efficiency; and take the political factors as the indispensable elements in the research of economic growth.

Remarkably, the NIE and ICT have not only its unique theoretical thoughts and characteristic to attract people's eyes, but its research methods are also distinguished. Furthermore, during the time span of nearly a century, the evolutorial track and development tendency of the research methodology of the NIE is as well quite intriguing and fascinating. At the beginning, the institutional economics appeared with the "reverse menorrhea apostate" traits in both theoretical thoughts and methodology; it strongly opposed the research methods of the mainstream economics. This process lasted several generations, from Veblen to North's inheritance. They stressed the importance of institutional analysis, emphasized the non-economic factors, intensified the uncertainty of human choices, and advocated the overall and normative research method and so on. However, since Coase introduced the marginal analysis method and employed the concept of transaction cost to launch the research on institution, the institutional economics has, whether in methodology or in theory, undergone important changes. The change tendency has deviated from the mainstream economics, but gradually converged to the same trend. For some economists, the NIE was accepted by the mainstream economics after Coase's developments, and could even be merged into the neoclassical economics. Actually, the microcosmic and specific tendency of Coase's institutional research analysis method and North applying the marginal analysis method to study the institutional innovation and institutional change have been more neoclassical in style.

To analyse the remarkable characteristics and development tendency shown in the methodology of the institutional economics, we could take into consideration three significant enlightenments: Firstly, the choice of research method application and innovation is for fuelling the development progress of economics theories. Secondly, the research method is relatively independent, i.e. the research method could be used by a variety of theoretical study; likewise, the theory could employ a variety of methods. Thirdly, the innovation of research method is often the start button and the key link to theoretical breakthrough. The introduction of a new research method could often open up a new area for theoretical study, and contribute new research results. Maybe we could state that the further development of the NIE still needs to apply interdisciplinary research methods and results in its methodology. As North suggested,
the institutional economics still has a lot of research that needs to be done; it should especially pay more attention to the interdisciplinary research, and the relations between economy and other social phenomena.

Conclusively, the ICT presents an empirical analysis method; it focuses on the institutional base of social political activities like focusing on individual actions. Institution is the core concept of new institutionalism, as well as the theoretical foundation and logical starting point of institutional analysis method. With the complexity increase of the global politics, and economic and cultural life, and the reduction of mutual infiltration in the social science Interdisciplinary, the connotations of institution has been also gradually increasing. With the development of globalization, a new form of institution is presented in the level of global governance: Rule and Regulation. Rule and regulation refers to the agreements that cover different areas and have different degrees of validity; it is a series of explicit or implicit principles, patterns, rules and decision-making procedures. The global rules and regulations are the core of the global governance system; it is a common standard abided by the people and is a constraint for the worldwide citizens (Crawford and Ostrom, 1995).

Although the NIE and ICT inevitably contain many issues, this does not affect the explanation power of the NIE on China’s issues. No matter on a macroscopic or microcosmic level, in a formal or informal institutions, the study in terms of the relation between institutions and behaviours, the institutional change and institutional performance will undoubtedly provide a good idea of the transition period of China’s social institutional construction. Actually, since the economic reform and the opening up in China launched, the NIE has attracted Chinese scholars’ attention, to use their analysis methods to explore China’s economic phenomena, aiming to find out the theoretical evidences for the reform and opening up; especially, the institutional analysis method has shown its advantage when analysing the reform of corporate governance and property right institution of state-owned enterprises in China. The purpose of studying international competitiveness of CB is mainly to find out how to increase a state’s welfare; therefore the theory of economic growth can be the theoretical foundation for this study. Basically, the substantial targets of the economic reform and opening up were mainly to reform the corporate governance structure and property rights institution of the state owned enterprises of China, so the NIE can be considered to provide the most reasonable theoretical foundation and suitable analysis methods for the research of these circumstances. The last several decades of development of China’s economy has been the so-called “China’s Economy Miracle”. The major reason of such achievements was admitted to be because the political and economical institutions have been successfully improved and reformed. In particular, it has to be acknowledged that the cost advantage has been the core of the comparative competitive advantages of China’s economic competitiveness in the world markets; the great achievement of China’s economic reform should be owed to the huge success in the changes of institution during the country’ political and economical movement. Therefore, the theory of the NIE, particularly the ICT should be considered as the most rational theoretical foundation for evaluating and analysing the international competitiveness of CBI and Chinese CBs.
2.8. The Research Directions and Framework

Based on the previous literature review and the theoretical fundamental of the IC of CB, this research will be mainly aimed at improving the shortages and weakness of the existing relevant studies to work out the possible solutions.

2.8.1 The Research Directions

With the above purposes, the research directions will focus on seeking the progresses and developments on the following aspects:

A. Through the analysis to find out the main and important influential determinants and constitutions of the international competitiveness of CB; and make more rational explanation on the determinants and the constitutions.

B. To be able to set up a more suitable model with multi factors to evaluate the international competitiveness of CB.

C. To be able to closely combine and connect the determinants, constitutions and the evaluation of the international competitiveness of CB, so that the research on the international competitiveness of CB could be more systematically, deeply and comprehensively completed.

D. To attempt to further progress the research on the international competitiveness of the CBI based on the findings of the above three aspects; as well as attempting to make more reasonable and acceptable suggestions for the internationalisational strategy of Chinese CBs.

2.8.2 The Evaluation Framework

The framework of this research is considered to follow Porter’s (2009) framework of international competitiveness and Jiao’s (2002) framework of international competitiveness of the CBI to establish, but it is further revised and developed in order to be more suitable for reflecting and evaluating the IC of Chinese CBs.

This research framework of the IC consists of three aspects: Constitution, Determinants and Evaluation.

➤ The Constitution of the IC of CB

The international competition of CB can be classified into two basic cases. One is the international competition in the domestic environment, which means the domestic CBs compete with the foreign CBs at home; another is the international competition of CB overseas, which means the domestic CBs compete with the foreign CBs in other countries. For any CB, if it does not enter the overseas markets and the domestic market is also not opening up, then this CB is not involved in international competition. If a bank does not enter the international markets, but its home market opens up to foreign CBs, then the bank is involved in the international competition under the domestic environment; if a bank competes both at home and overseas with both foreign and domestic CBs, then the bank is involved in the international
competition domestically and internationally. When a CB is not involved in the international competition situation, certainly, it does not have the issue of international competitiveness. The reasons to classify and differentiate the domestic and foreign environment are, on one hand, because of the large differences between each country’s competitive environments, which have a great impact on the international competitiveness of CB in the countries; on the another hand, due to ever CB having their own distinctive nationality, so the significance and importance of the domestic and international environment are different enough to influence the bank’s operation and management. Basically, the reality shows that any CB that joins the international competition with its home-base, no matter how high its internationalisational level has been, would usually not change its nationality.

Whether or not the competitiveness of CB is externally reflected, the international competitiveness of CB can be divided into two categories. One is the real international competitiveness, namely, the international competitiveness of CB that has already been externally reflected (the international competitiveness of CB usually being talked about mainly refers to this type of international competitiveness). Another is the potential international competitiveness, namely, the international competitiveness of CB has not been externally reflected; this type of international competitiveness may be transformed into the real international competitiveness in the future; the transformation and transformed level would be dependent on the changes of conditions. Therefore, the real international competitiveness is more precisely defined, and is the international competitiveness of CB that is currently displayed. Despite the potential international competitiveness having great uncertainty, it can reflect the general trend of the international competitiveness in the future development.

The real international competitiveness of CB could be reflected through a series of financial data. A datum of these financial data could usually reflect some certain aspects of the situations of CB; and it could be classified according to certain standards, such as the indicators of CB profitability level, asset quality and business scale etc. If to further classify the real international competitiveness of CB, it could be divided into several aspects, for instance, the international competitiveness of profitability, the international competitiveness of asset quality, the international competitiveness of business scale and the international competitiveness of overseas businesses etc., then select the relevant indicators of those aspects, and eventually a general basic framework for evaluating the real international competitiveness of CB, considering the close internal linkage of the indicators, could be established. Since the potential international competitiveness is usually difficult to evaluate, it is not really necessary to choose more specific indicators when evaluating it. However, it is still needed that the two aspects of the IC are combined together to consider the basic constitution of the international competitiveness of CB, in order to obtain a general framework that reflects the basic constitution of international competitiveness of CB.

In this research, the international competitiveness CB is divided into four aspects: profitability, asset quality, business scale and overseas businesses. This is mainly based on two reasons:

**Firstly**, the international competitiveness of CB is based on the competitiveness of CB, which embodies three aspects: the strength of profitability, the soundness of asset quality and the market share of business scale. The profitability level and asset quality are usually consistently changed, therefore, the
international competitiveness of profitability and asset quality should be suggested to behave as the two aspects of the international competitiveness of CB. The reason the business scale is taken as an aspect of international competitiveness is because of the close relationship between the competitiveness and the business scale of CB: on one hand, the CB’s scale reflects the CB’s international competitiveness development in the past; on the other hand, the larger CBs are usually stronger than the smaller size CBs in terms of the overall international competitiveness.

Secondly, the connotations of international competitiveness and the competitiveness of CB are different; and this difference is mainly reflected by the overseas businesses. The capability of the international competitiveness of CB should be tested and demonstrated through the international competition, hence the overseas business is the major aspect that reflects the degree the CB’s participation in the international competition. Therefore, the international competitiveness of overseas businesses is the key factor to distinguish the international competitiveness and the competitiveness of CB; it must become an important aspect of the constitution of international competitiveness of CB. In other words, in the constitution of CB’s competitiveness, it should be enough to include the profitability, business scale and asset quality, but for evaluating the international competitiveness of CB, the overseas businesses must be also included to reflect its own characteristics. Thus, the difference between the international competitiveness and the competitiveness of CB can be obviously distinguished.

However, the constitution framework (see Figure 1) of CB’s international competitiveness also cannot be used as the general basic framework of the international competitiveness of CB, because this framework only shows and reflects the composition of the international competitiveness of CB, and does not reflect the determinants of international competitiveness of CB that is also considered as the most basic reflection. Therefore, to set up the basic framework of international competitiveness of CB, further analyse and study of the determinants of the IC of CB is needed.

The Determinants of the IC

Basically, how the international competitiveness of CB is determined, or rather, what factors determine the international competitiveness of CB is one of the most basic questions that need to be answered in the study of international competitiveness of CB. The general to special analysis method should be used to discuss the determinants of the international competitiveness of CB. Firstly, the determinants of international competitiveness of enterprise should be analysed, then the determinants of international competitiveness of CB.

According to the general law of object development, the development and change of objects are determined by both internal and external causes. Among them, the internal cause is the decisive factor, but external factors could have an important influence on the development and changes of objects. Based on the ideas of general connection rules and the viewpoint of systemic theory, an object's status in a system does not just rely on the characteristics of the object itself, but also depends on the systematic environment. For any enterprise, the development of its international competitiveness is determined by both the internal and external causes.
Considering the internal cause, the international competitiveness of enterprise depends on two aspects: one aspect is the resource status of enterprises, namely what resources the enterprise has (obtained and formed through investment or other legal ways), and how the quality and quantity of all kinds of material resources are like (including real estates, equipments, raw materials, employees and other resources with the external material morphology). The resource status of enterprise determines the production possibility boundary of the enterprise; it is the basis of the formation of international competitiveness of enterprise. Another aspect is how the enterprise uses these resources to participate in the competition, in other words, how the enterprise combines the human resources with the equipments, raw materials and other non-human resources to achieve the added value. Obviously, the formation of enterprise’s international competitiveness is mainly dependent on the efficiency of the human resources combined with equipment, raw materials and other non-human resources. If the combination of those is better, the production efficiency would be higher, and the enterprises would have stronger international competitiveness. The resource status of enterprises relies mainly on the capital investment; the efficiency when using the resources of enterprise is mainly subjected to the management and technological level of the enterprise.

*IC: International Competitiveness
Source: developed from Jiao’s framework (2002)
Usually, the larger the scale the enterprise invested, the more the resources and the better the quality of the resources. In the use of resources in an enterprise, if the human resources could combine the equipments, raw materials and other non-human resources with higher technologies and a high level of management, the enterprise would achieve stronger international competitiveness, and vice versa. Otherwise, the international competitiveness of enterprise would be uncertain. Hence, looking at the internal causes, the determinants of international competitiveness of enterprise are suggested to mainly include the business scale, management and technologies.

Basically, the international competitiveness of enterprise is not only dependent on the internal cause, but also affected by the external environmental ecology where the enterprise lives. The environmental ecology here is referring to many aspects, such as political, economical, social, cultural, traditional aspect etc.; it is the synthesis of the macro environment and micro environment the enterprises have to face. The relationship between the enterprise and its faced environment is interactive and asymmetrically reflected. When the enterprise interacts with the environment, it relies on many aspects of the environment. Meanwhile, the enterprises could also influence the environment to a certain extent. The dependence of the enterprise on the external environment is embodied in the fact that: firstly, the enterprises need to obtain resources from the external environment; secondly, the production of enterprise relies usually on the relevant information provided by the external environment; thirdly, the products and services of enterprises need to be consumed by the external environment; and fourthly, the normal operation of enterprises needs the support of legal institution etc. The influences of enterprise to the external environment are shown as behavioural reaction. The asymmetry refers to the mutual degree of influence, which is asymmetric between the enterprise and environment. In other words, it is usually the case that the environment influences the enterprises in many aspects and more greatly, but in contrast, the enterprises (except the monopolistic enterprises) can often only adapt to the change of the environment, and its influence on the market is relatively small or even negligible sometimes.

Hence, the influences of environment on the international competitiveness of enterprise are mainly represented by four aspects: the supply of resources, the demands of market, the competition in the industry and the government function. Among them, the quantity and quality of the resources provided by the market can affect the required and obtained resource status of enterprises; the demands of market will influence the value realization of enterprise’s products or services; the competition in the industry mainly influences the enterprise’s survival situation; and the government can make an impact on the enterprise’s behaviours through regulation, supervision, inspection, services, taxation and other functions. In addition, the economic development level and the related industry situation will also influence the establishment of international competitiveness of enterprise.

CB is an enterprise; hence, the deciding model of enterprise’s international competitiveness must be also suitable for CB’s international competitiveness. However, CB is also a special kind of enterprise with its own characteristics; therefore, the internal and external factors of CB that determine its international competitiveness differ.
Firstly, compared with general enterprises, CB has relatively higher requirements on the scale. On one hand, CB operation requires more branches, and needs to purchase more business processing equipment; so the entry threshold of doing CB business is usually much higher than other kinds of business. On the other hand, the large scale of CB does not only form the scale economy, but also a power symbol for showing off. Although there is also the case of scale diseconomy, the scale of CBs has been continuously expanding. Compared with other industries and enterprises, the expanding of CB businesses has been the most dazzling, and since World War II, the great waves of banking M&As have been as well the most prominent. Therefore, for the determinants of CB’s international competitiveness, the size or scale is undoubtedly an important factor.

Secondly, the management of CB also has its own characteristics. CB is a kind of enterprise that operates and manages currencies. Besides the general routine managements, the risk management is also one of the most important contents of CB daily management or even the core content. The difference of risk management ability of CB on the asset quality, deposits, investments and derivatives is the important factor to cause the differences among CB’s international competitiveness; thus, the significance of management, in particular of risk management in the determinants of CB’s international competitiveness is self-evident.

Thirdly, the technical factors in CB’s operation also have their own features. In addition, the technical level of equipment can lead to different international competitiveness of CB; the soft technological power, such as the different financial products designing, the risk identification and business process construction etc., are also the key factors that form the difference in the international competitiveness of CB. The soft technological power of CB not only embodies the technical difference between CBs and other enterprises, but is also an important aspect that reflects and forms CB’s international competitiveness; hence, the technological factor is likewise important in the determinants of CB’s international competitiveness.

Finally, on the external factors, CB is also different from general enterprises. For example, due to the government regulatory behaviours, CBs have to face more unique and stricter supervision. In terms of elements supplying, CB is mainly affected by the supply of HR; for competition in the same industry, the barrier of entry has a major impact on the competitive situation of CB; for the demands of market, the income level per capita greatly affects the financial demands of CB services.

Therefore, if only considering the general determinants of CB’s international competitiveness without further comprehensively analysing those elements, the determined model of CB’s competitiveness is not clearly different from the enterprise competitiveness. However, if further analysis of the above several elements is carried out, the difference between the two kinds of international competitiveness can be seen. This shows that these elements of the determinant of CB’s international competitiveness have its unique pertinence.

If the competitive environment of CB is extended from the domestic to overseas, the determinant of CB competitiveness then evolves into the international competitiveness of CB. Therefore, to analyse the
determinant of international competitiveness of CB, the two cases of international competition must be distinguished. If the CB competition is just related to the domestic environment but not involved in multinational environment, this equates to domestic competition with the participation of foreign rivals; thus, the deciding model of CB's competitiveness can be directly applied to the determinants of international competitiveness of CB. If it is involved in abroad environments, namely, in the multinational competition background, then the determinants of international competitiveness of CB will be different. This is obviously shown in two aspects: the first is the significant changes of external factors, i.e. the external environmental factors are much more complex when the CB is facing more than one foreign country, due to the large amount of differences among them; the second is the requirements of internal factors, which may differ significantly. For CB operation to participate in the multinational environment, it requires not only a larger scale and higher technologies, but also higher internationalisational management with the new contents. It is just because of that the difficulty of internationalisational management is much greater; and the difference of the international management is a very important factor that results in the difference of international competitiveness of CB; hence, the internationalisational management should be as well taken separately as an internal determinant of international competitiveness of CB; meanwhile, the external factors should adapt to the situation correspondingly; in other words, the domestic and overseas competitive environment should be treated differently.

Hence, to synthesize the internal and external causes of the determinants of CB's international competitiveness, the determinants of the IC of CB can be built up as the following Figure 2.

**Figure 2: The Determinants of the IC of CB**

Source: developed for Porter's Framework (2009)
The Evaluation of the IC

The evaluation of the international competitiveness of CB should further reveal the differences between the determinants of international competitiveness and the competitiveness of CB. Based on the above Figure 1 and Figure 2 of international competitiveness of CB, the general evaluation framework of international competitiveness of CB can be further built up (see Figure 3).

Figure 3: The General Framework of International Competitiveness of CB

This framework includes the determinants, constitution and external data, as well as the relations and the interactive transmission path among them. Concretely, the internal factors include business scale, risk management, overseas management, and technological capacity etc., whereas the external factors include domestic and international environmental aspects; they together determine the CB's international competitiveness. The status quo of international competitiveness of CB could be externally reflected through the CB's financial data along with the four key indicators, including the business scale,
profitability, asset quality and overseas businesses. That is to say, whether the international competitiveness of different CBs is weak or strong, and the differences between the IC of the CBs that are externally and directly reflected, can be measured through the main financial data of the four key indicators of the CBs. Therefore, the main reason for the difference between the international competitiveness of CBs is that the IC of CB is mainly determined by the different levels of the four aspects of the CBs. Besides that, the IC is not same affected in the same way by the external environment if it is not faced with the same external environment.

Considering the constitution is a very important aspect included in the basic framework of international competitiveness of CB; and the indicator system is the main means of reflecting the international competitiveness of CB; therefore, the indicator system of international competitiveness needs to be described and explained in order to establish the basic evaluation model for the international competitiveness of CB.

Comparing to the real international competitiveness of CB, a CB’s potential international competitiveness is inconclusive and needs to be forecasted. The forecast is usually based on the historical data and present situation and the future possible changes to the determinants of international competitiveness of CB to speculate the future degree of the IC of CB. Due to the fact that the determinants of international competitiveness of CB could change and be affected by complex influences of many aspects, the future changes to the potential IC of CB can be only roughly and feasibly speculated. Hence, it is very hard to accurately estimate the potential IC of CB that could be stronger or weaker in the future.

Conclusively, the application of quantitative analysis methods to measure the real international competitiveness of CB is suitable, whereas the potential IC of CB can be estimated by suitably employing the relative qualitative methods and quasi quantitative methods.
3: RESEARCH METHODOLOGY

In this chapter, the three philosophical stances of epistemologies: positivism/post-positivism, naturalism and pragmatism are firstly outlined, and critically compared their philosophical views in terms of how they through the different ways to explain the real world or social reality. Following that, the philosophical positioning of the research is expressed and the general research methodology is set up and explained. Then the separate and overall evaluation models of the IC of CB are designed and addressed; and the relevant evaluation indicators and the relevant financial data are suggested and explained why they are chosen. Following that the research collected data specification, case study designing and qualitative data analysis strategy are explained and confirmed; and finally, the way of critical thinking is considered to apply in order to estimate the rationality, reliability and generalizability of this research.
3.1 Philosophical Designing

“The ideas of economists and political philosophers, both when they are right and when they are wrong, are more powerful than is commonly understood. Indeed the world is ruled by little else. Practical men, who believe themselves to be quite exempt from any intellectual influences, are usually the slaves of some defunct economist.” (P357)


Basically, the choice of research methodological strategy should be interlinked with the researcher's study purpose, philosophical thinking and ideological view, so the research process of the social circumstances and the chosen methodological strategy could be better understood. As a project of social science study, the research theoretical framework and methodological strategy inevitably interplay (Maanen, SØrensen, & Mitchell, 2007, p. 1145). Hence, the research methodological strategy is established and addressed.

3.1.1 Philosophical Thinking

For Positivist, the philosophy of science is based on the ideology that information is derived from logical and mathematical treatments; reports of sensory experience are the exclusive source of all authoritative knowledge, and verified data received from the senses are recognised as empirical evidence (Macionis and Gerber 2010). This view suggests that the only valid knowledge (truth) is scientific knowledge (Larrain 1979); and the modern sense of positivist approach for the society, like the physical world that operates according to gravity and other general absolute laws, objects introspective and intuitive knowledge (Macionis 2012). In positivist's view of the world, science is the way to get the truth, to know reality and understand the universe better, so that the world could be foreseen and managed. Positivists believe that the world is deterministic and empirical; the idea in terms of observation, experiment and measurement is the key to scientific methodology; inquiry of the research is value-free and the generalisation derived from the research can be ensured. Meaningfully, Bryman and Bell (2007) developed four features of positivism: determinism, empiricism, parsimony and generality, which also match the ultimate objective of positivism, which is to scientifically verify the existing decisions, logically/mathematically reject the metaphysics and theism, and systematically integrate the human knowledge and precise thoughts into meaningful theories. Elsewhere, Positivism is even argued as "the view that all true knowledge is scientific" (Bullock and Trombley 1999), this means everything in reality is ultimately measurable. However, positivism has been criticised that it is closely related to Reductionism, which contends that all "processes are reducible to physiological, physical or chemical events," "social processes are reducible to relationships between the actions of individuals," and that "biological organisms are reducible to physical systems" (Bullock and Trombley 1999). Moreover, some scholars (e.g. Max Horkheimer, Fagan Andrew, and Theodor Adorno) argued that positivism falsely represents human social actions, and the representation of social reality made by positivism was inherently and artificially conservative; this helps to support the status quo rather than challenging it. According to
naturalists, social reality is constructed on multiple levels with the objects interacting, and they criticised that a shortcoming of positivism is the consideration of the individual subjective state, which positivists believed is more likely measurable, objective, controllable and predictable for social phenomena and processes. In contrast, naturalists believe that it is more likely interpretable, subjective, natural and understandable.

In order to amend the weak points of positivism, post-positivism has been developed. Post-positivists accept the metatheoretical stance that the theories, background, knowledge and values of the researcher can influence what is observed (Colin 2002). According to post-positivists, human knowledge is not based on unchallengeable foundations, but rather on human conjecture; reality exists, but it could be known only imperfectly and probabilistically. However post-positivism is not a form of Relativism, and generally retains the idea of objectivity and still, like positivists, pursue objectivity by recognizing the possible effects of biases (Colin 2002).

Basically, pragmatism could make peace with or balance between the views of positivists and naturalists (Reichard and Rallis, 1994; Howe, 1992). Pragmatism is a philosophical stance that rejects the idea that the function of thought is to describe, represent, or mirror reality; but instead, backs up the idea that the function of thought is as an instrument or tool for prediction, action, and problem solving. Hence, pragmatists claim both objective points and subjective points of philosophical view that differentiates from both positivists who just present an objective point of view; and naturalists who just present a subjective points of view (Bryman and Bell 2007). The core of pragmatism is the pragmatist maxim, which is a rule for clarifying the contents of hypotheses by tracing their “practical consequences”. In Peirce’s (1906) and James’ (1907) work, the most influential application of the pragmatist maxim was in the concept of truth. With Peirce's canonical statement of his maxim in ‘How to Make our Ideas Clear’, the following passage was cited by James when introducing pragmatism in his 1906 lectures:

"Consider what effects, which might conceivably have practical bearings, we conceive the object of our conception to have. Then, our conception of those effects is the whole of our conception of the object."

(EP1: 132)

Likewise, Tashakkori and Teddlie’s (1998) argued that the pragmatists view in terms of regarding the reality comprises of two aspects: first is to declare to agree with the positivists on the existence of reality that there is an external world independent of our minds; second is to deny that truth could be determined once and for all, and it is unsure whether one explanation of reality is better than another. They suggested that researchers should seek an optimal methodological strategy with their own philosophical stance and systematic value that they consider as the most suitable and fruitful way for finding rational answers of the research questions.

3.1.2 Philosophical Positioning

To rationally take a philosophical positioning is radical and pivotal for a doctoral level research. For pragmatist view, the chosen methodological approach of research should be more directly interconnected with the nature and purpose of the research (Creswell 2003). With the main purpose of this research
being to multi-dimensionally examine the real level of international competitiveness of the CBI with critical thinking and offer the plausible suggestions for the improvement and boosting of the IC of the CBI, the researcher is clearly taking his philosophical positioning of the research project here.

Basically, this research is based on the theoretical fundamentals the NIE and its relevant theories, in particular the Institutional Change Theory, with consideration of the special international background and domestic political-economical context, cultural ideology and financial ecology. Positivistic and naturalistic views would be plausible for generating the research hypotheses and conditions, as well as exploring the relevant research questions. However, both positivism/post-positivism and naturalism are very hard to rely on respectively, whereas pragmatism suggests that mixed research methods are the most useful for multi-purpose project study.

To use mixed research methods means that two cluster of social science research strategies, i.e. quantitative approach and qualitative approach are mixed to apply for a project study (Creswell, 2003). Because the two approaches are distinctive in terms of logic and strength, therefore, for different research objective and project study, perhaps the best choice is to use them differently. Based on the previous discussion of the three stances of epistemologies, positivists advocate the method of natural science that is useful when applied to studying the social reality and beyond, whereas naturalists stress the approach of understanding the social reality through examining the interpretation of the reality by the participants (Bryman, 2008). Basically, quantitative approach employs numeric analysis, uses statistic figures and data set and focuses on hypothesis testing, thus, it is suitable for dealing with project studies where the objective is of quantitative nature (Denzin and Lincoln, 2005); while qualitative approach employs relevant words and information, analyses the contents and focuses on the events to explain the meanings of social phenomena in questions under its social context, thus, it is suitable for understanding the essence and implication of the social phenomena and special events, and describing or explaining the causal relationships of the projects (Maxwell, 1996; Miles and Huberman, 2004). In this study, qualitative and quantitative methods are mixed and applied to analyse the certain data, quantify the certain factors and estimate the certain causalities. For this project, a qualitative approach is more fruitful for understanding the social context and financial ecology, and interpreting the causal relationships; while a quantitative approach is more helpful for assessing the causal relationships and estimating the real outcomes. Therefore, rather than applying just one method, it is necessary or better to combine multi-dimensional examinations and mixed approaches for achieving the target and goals of this project study.

3.2 Evaluation Models of the IC of CB

According to the research framework, the basic deciding model of international competitiveness of CB could be set up as: \( IC = F(X_1, X_2, (D_h, D_i)) \), in which, \( IC \) represents the international competitiveness of CB, \( X_1 \) and \( X_2 \) represents the internal and external factors, respectively, \( D_h \) and \( D_i \) represents the home and international environmental factors, respectively. Due to the internal factors being the main determinant factors and the external factors being relatively complex and difficult to measure, this model can be further simplified as \( IC = F[X_1, (D_h, D_i)] \), which more clearly reveals the most essential connotation of the determinants of international competitiveness of CB; namely, the international competitiveness of
any CB is jointly determined by CB’s own internal characteristics (internal cause) and the environment (external cause); and among them, the internal cause is the main determinant but external factors as well play an important role.

The basic framework of the international competitiveness of CB provides the approach to analysing and evaluating the international competitiveness of CB, since it displays the determinants and constitution of international competitiveness of CB. The international competitiveness of different CBs can be compared and evaluated based on the different financial data that could really reflect the operating conditions of CBs. Based on the comparison and evaluation, as well as the internal linkage between the determinants and the financial data of CBs, the external indication of international competitiveness of CB could be explained through analysing the status of the determinants of international competitiveness of CBs. Thus, based on the analysis of the determinants of international competitiveness of CB, the CBs should mainly focus on its poorly performed aspects to research, formulate and implement the relevant improvements, then its international competitiveness could be significantly enhanced, and a better international competitive position could be achieved. Therefore, the evaluation model of international competitiveness of CB should be established through evaluation, analysis, countermeasure research, and the general framework of international competitiveness of CB.

The framework of international competitiveness of CB also reveals the ideas and main veins for analysing and researching the international competitiveness of CB. From this framework it can be seen that the evaluation of international competitiveness of CB mainly includes the separate evaluation and joint evaluation; and based on the evaluations, the analysis of the determinants of international competitiveness of CB is composed of separate analysis and joint analysis. From the existing research data, the evaluation of international competitiveness of CB has mainly focused on the separate evaluation, whereas the evaluation model with synthesized multi factors has been relatively less. Through separate evaluation, the differences between strong and weak international competitiveness of CB are mainly revealed through the parallel comparison of the indicators. Although, such evaluations are relatively simple to implement, the problem lies mainly in the rationality of the indicator selection. Likewise, for the existing evaluation model, one of the most common problems is that the established models could not completely reflect the difference between the CB's competitiveness and international competitiveness, and as a result, the evaluation accuracy of international competitiveness of CB could be affected. Among the relevant existing evaluation models, not even one of them that can completely reflect the difference between competitiveness and international competitiveness of CB can be found, and none of them especially paid attention to the evaluation of international competitiveness of CB. Therefore, it is absolutely significant to build up such a model to relatively-accurately evaluate the international competitiveness of CB.

The process of setting up the evaluation model of international competitiveness of CB should adhere to the following steps:

Firstly, to analyse how the international competitiveness of CB is determined; namely, what factors determine the international competitiveness of CB and how these factors affect the international
competitiveness of CB, then accordingly establish the function relationship between the International competitiveness of CB and its determinants.

Secondly, to analyse the important differences between the factors that determine the international competitiveness of CB, then to confirm the influence coefficient of the factors (i.e. weighted coefficient).

Thirdly, to confirm the indicator of each factor, then to set up the linkage between the determinants and indicators in order to complete the evaluation model. After building up the model, then choosing the measure indicators that reflect the determinants according to the certain standards, and using the financial data of different CBs, the joint evaluation model of international competitiveness is finally completed.

According to Jiao’s framework (2002), the relationship between the international competitiveness and the scale, management, technological and overseas factors, as well the significant differences of various factors among the determinants of international competitiveness of CB, are clearly positive; hence, the model \( IC = F(X1) \) can be developed to \( IC = F(Cs, Cm, Ct, Ci) \), which can be further revised as \( IC = F(X1) = aCs + bCm + cCi + (1-a-b-c) Ct \); then this model can be evolved to the basic evaluation model of international competitiveness of CB. In this model, \( IC \) represents the international competitiveness of CB, while \( Cs, Cm, Ct \) and \( Ci \) represents the scale, management, technology and overseas factor, respectively; and \( a, b, c \) and \( (1-a-b-c) \) are the coefficient of them. The weight of each variable should be as follows: the value of \( c \) should be greater than the value of \( a \), while the value of \( a \) should be greater than \( (1-a-b-c) \) and \( b \). Therefore, based on the degree of importance of the variables, the weighted coefficient value of \( a, b, c \) and \( (1-a-b-c) \) are empirically suggested (not opinionated) to be 0.3, 0.15, 0.35 and 0.2, respectively (modified from Jiao’s model 2002). Here what needs to be explained is that the weight coefficient \( b \) in this model mainly reflects the effect of domestic management factor, while the weight coefficient \( c \) is used to mainly reflect the international management factor. In other words, in the basic evaluation model of international competitiveness of CB, the management factors and its weight coefficient are divided into two parts, i.e. the domestic management and overseas management.

However, the above basic evaluation model of international competitiveness of CB is still thought to be unsuitable for evaluating the international competitiveness of CB when directly used, and needs further modifications. The corresponding aspects of international competitiveness of CB mainly determined by the factors also needs to be confirmed, then the linkage between the factors and the indicator data can be established; thus, the practical applied evaluation model of International competitiveness of CB can be obtained. Through analysing the linkage between the internal deciding factors and the constitution of international competitiveness of CB, it can be seen that the scale factor is directly related to the CB’s scale IC, but the management factor mainly determines both the CB’s profitability and soundness IC, whereas the technological factor mainly determines the CB’s profitability IC, and overseas management factor mainly determines the CB’s overseas businesses IC. Therefore, the model \( IC = aCs + bCm + cCi + (1-a-b-c) Ct \) can be further modified to be \( IC = aCs + bCp + cCq + (1-a-b-c) Cq \), where \( Cp \) and \( Cq \) represents the CB’s integrated profitability and soundness international competitiveness. Because the sound quality is usually measured by the non-performed assets, which has the property of offsetting the earnings and
capital, it should be shown as a deduction in the model. As to the weight values, due to the business scale being suggested as a strong reflection of CB’s international competitiveness, and the overseas business capacity being argued to be best embodied in the international competitiveness of CB, the parameter value of $c$ and $a$ should be greater than $(1-a-b-c)$ and $b$. Here, a more reasonable choice of the parameter value is demonstrated and the parameter value of $a$, $b$, $c$, and $(1-a-b-c)$ are claimed to be $0.30$, $0.15$, $0.35$ and $0.2$, respectively. Thus, the modified model can be practically applied as the evaluation model of the international competitiveness of CB. Then, after choosing and confirming the relevant indicators of measuring the constitution of international competitiveness of CB, and using the financial data of different CBs, the overall evaluation of the international competitiveness of CB can be made by employing this practical model. Certainly, the choices of the parameter values are still arguable, but empirically, they should be suggested as relatively more reasonable and rational according to reality.

After establishing the evaluation models of international competitiveness of CB, the choice of corresponding indicators to measure the constitution of international competitiveness of CB still needs to be made, and whether the indicators selected are reasonable or not would be directly related to the degree of the accuracy and the rationality of the evaluation results.

The key indicator system for evaluating the four major aspects of international competitiveness of CB is suggested to be selected by following:

- **The Indicators of Scale IC:**
  - **The Total Capital:** Net Capital Base
  - **The Total Assets:** The Sum of All Assets
  - **The Tier1 Capital:** Equity Capital + Public Reserves

- **The Indicators of Profitability IC:**
  - **Pre-tax Profit:** Profits Before Tax
  - **ROA:** Return on Average Total Assets
  - **ROE:** Return on Average Weighted Equity

- **The Indicator of Soundness IC:**
  - **NPLs:** Sum of the last three categories of loans by five-classification
  - **Total Risk-weighted Assets** = Special Mentioned x 25% + Substandard x50% + Doubtful x 75% + Loss x100%;
  - **NPL Ratio:** NPLs to Total Loans Ratio
  - **Risk-weighted Assets Ratio:** Risk-weighted Assets to Total Assets Ratio

- **The Indicators of Overseas Business IC:**
  - **Total Overseas Assets**
  - **Overseas PBT**
  - **Overseas PBT Ratio:** Overseas PBT to Total PBT Ratio
In order to further simplify the evaluation, the above relative indicators could be not all applied; it needs to further choose the most suitable indicators to evaluate the different aspects of the IC.

For the scale international competitiveness of CB, commonly, two main indicators are applied: total assets and total capital. However, the practice of bank development shows that the total assets of bank are more usually applied to measure the bank’s size; the total capital is a more appropriate indicator to measure the bank’s business strength. This is because the capital is the existing and operating basis of CB business, and the amount of capital, especially the amount of Tier1 capital, directly reflects the bank’s strength. Asset amount indicator could only better reflect the size of banks but the capital indicator could better reflect both the bank’s scale and strength. After undergoing the latest global financial crisis, the business philosophy of international CBs has been significantly changed; in other words, the sound management has been put in the most important position in banking business and management; the requirement for capital adequacy ratio of CBs by the new Basle Accord has been much stricter; the capital position has been highlighted, while the asset expansion has been further restrained.

Under the market economy environment, the enterprise’s major goal is to pursue the maximization of profit with limited conditions, and the management of enterprise mainly targets this goal. For CB's business and management, sound operation is the widely accepted principle. It includes two aspects: one is stability, i.e. emphasizing the stationarity of business operation; another is health, namely, stressing on the pursuit of better asset quality. Generally, stability is the basis of health, but stability is not equal to health. Moreover, the operation of CBs can be stable at a low level of profitability, but also can be stable at a high level and an average level. The last two cases can be claimed as better situations. If a CB can maintain the profitability level higher than the industrial average level for a long time, then the bank can be thought to have strong profitability competitiveness.

For the measurement of profitability international competitiveness, due to tax rates being different in different countries, the pre-tax profit is a more suitable indicator than other indicators for this measurement. In addition, ROA, ROE and per capita profit also partially reflects CB’s profitability, but all of them are not really suitable to use as the evaluation indicators for CB’s profitability IC, because when using the indicators that are relative numbers, the relative numbers reflecting the IC of some banks with smaller size and weaker competitiveness will appear better than some banks with larger size and stronger competitiveness; this case occurs when the relative numbers are small, but it is obviously inconsistent with the actual situation.

For reflecting the CB’s soundness IC, relative indicators are numerous, such as the amount of NPLs, the total risk weighted assets, NPL ratio, etc. Since the relative indicators that are not really suitable are not taken as the evaluation indicator, the NPLs and risk weighted assets should be considered as more reasonable than others. However, since the risk-weighted assets are calculated on the basis of non-performed assets with different risk-weighted coefficient values, it is very hard to get the accurate figures; thus, the NPLs of bank could be more suitable for reflecting the general sound quality status of bank’s total assets, since it can be relatively accurately obtained.
As for the selected indicator that is applied to evaluate CB’s overseas business IC, overseas total assets and net earnings are considered as two possible indicators. The overseas net earnings could be relatively more suitable than overseas total assets. This is because despite the overseas total assets being the basis to obtaining the overseas earnings, it could not guarantee to obtain overseas profits. In contrast, overseas net earnings could reflect the CB’s capability to operate the overseas assets. Therefore, the overseas net earnings (profits before tax) should be thought of as more suitable for measuring and evaluating the CB’s abroad business competitiveness.

Conclusively, after confirming the indicators, i.e. Total Capital, Pre-tax Profits, NPLs and Overseas Net Earnings, as the corresponding indicators for evaluating CB’s scale, profitability, soundness and overseas business international competitiveness, then, the modified evaluation model can be used to jointly evaluate the international competitiveness of CB based on the CB’s relevant financial data.

3.3 Data-set Specification

Even though the research method of this study is mixed, the quantitative method is mainly applied. Additionally, due to some special sensitive reasons, the first hand valuable data are very difficult to collect, so the candidate has to mostly use the public relevant data to support the research hypotheses.

It is acknowledged that it would weaken the supports of the study if most data are collected by second hand. Therefore, the candidate much more enlarged the relevant data set; and most data applied in this research are reformulated and renormalised in order to make sense of them and meet the specific research requirements. The data of the selected CBs are collected from the consolidated financial statements of their annual reports. The data in this research mostly covers the period of 2003 – 2013, because the most relevant data of the banking industry have been organised and published since then, particularly when the CBRC is specifically instituted for regulating and supervising the banking industry in China.

Basically, most data of this paper are mainly selected though the following ways:

- China Bank Regulatory Commission (CBRC). As the banking regulator in China, the relevant data of CBI issued by the CBRC should be recognised as the most authoritative data in China.
- People’s Bank of China (PBC). As the central bank in China, the data of China’s financial market issued by the PBC should be suggested as another official data in China.
- China Financial Year Books and China Economic Year Books. These books are published yearly by the State Statistical Bureau, from which some financial data could be applied as the relevant reference of this study.
- BankScope. This is a professional database set up by Bureau van Dijk (BvD) and FitchRatings cooperatively. It combines widely-sourced data with flexible software for searching and analysing banks, and it contains comprehensive information on over 30000 banks across the globe. It could be used to navigate and analyse the banks’ data, such as: access very detailed information on individual banks, create a benchmarking analysis to compare a bank with its peers, get a quick view of a bank’s financial status and exposure, review the ratings and rating reports from
FitchRatings, Moody’s, Standard & Poor’s and Capital Intelligence, and other required bank information.

- The world-class magazine “Banker”. This is a monthly English international financial affairs publication owned by FT and edited in London. It contains in-depth regional and state coverage with reports on global financial markets; it is recognised as the world’s premier banking and finance resource and the key source of data in the analysis of the world banking industry.
- Annual Financial Statements of the listed CBs in China
- Annual reports of the selected banks of the USA and the UK
- Other relevant published articles

3.4 Case Study Exploration

In order to make more rational outcome of the estimation for the IC of Chinese CBs, one specific case study is explored in this research: the 5 large Chinese CBs, including ICBC, CCB, BOC, ABC and BOCom, which are considered as the most internationalisational CBs in China by far. By using theses CBs as the special case to evaluate and estimate their international competitiveness and comparing them with several world-class CBs in order to understand the real level of international competitiveness of Chinese CBs, as well as to find out the gap between them and the world advanced banks. Then a set of more reasonable and acceptable suggestions for further improving and boosting the IC of the banks could be properly made.

The case study method is generally confirmed to be firstly introduced into social science by Frederic Le Play in 1829, and the use of case studies for the creation of new theories in social sciences was further developed by sociologists Glaser and Strauss in 1967. Case study, being one of the most flexible research methods of all research designs and one of the most challenging research methods of all social research endeavours, is widely and increasingly used in social science studies. The primary advantage of applying case study is that it excels in providing much more wanted information than what is obtained through other methods (e.g. interviews, surveys, observation, etc.) and it allows us to have a deep understanding on a complex issue or object. Case study also allows researchers to process data collected from multiple methods. Even though there are critiques on the application of case study method such as: a small number of case studies cannot offer grounds for establishing the reliability or generality of the findings, the intense feeling within the case study may bias the findings, as well as case study method being dismissed as useful only as an exploratory tool, case study research method has been used since recorded history, and the benefits of applying case study research method is still widely believed to be successful in studying cases on real subjects.

A case study, Gerring (2004) defined it is a definitional morass; and when refereeing and criticising a work that outlines what case study might mean, its method is qualitative. The research of case study is claimed as being ethnographic, clinical, participant-observational (Yin 1994); it is characterized by process-tracing (George and Bennett 2004) to investigate the properties of a single case (Campbell and Stanley 1963, 7; Eckstein [1975] 1992), or a single phenomenon, instance, and example. There are also other ideas of case study (see Brady and Collier 2004; Campbell 1975, 1988; Davidson and Costello
Feagin, Orum and Sjoberg 1991; George 1979; Ragin and Becker 1992; McKeown 1999; Ragin 1987, 1997, etc.). Gerring (2004) defined a case study as an intensive study of a single unit for the purpose of understanding a larger class of (similar) units; and he concluded that, for a case study, its type of inference is descriptive, its scope of proposition is broad, its unit homogeneity is case comparable, its casual insight and relationship is mechanistic and invariant, its strategy of research is exploratory, its useful variance is only for a single unit, and the ontological considerations come into playing when a single-unit is chosen.

Likewise, some researchers argued that case study should be applied as a research approach or strategy; it can be used to empirically investigate a phenomenon within its real-life context; then studying single or multiple projects, it can rely on any mix quantitative and qualitative evidence with multiple sources, and benefit from the prior development of theoretical propositions (Yin 2009). Lamnek (2005) argued that case study can be applied as a research approach to link the data taking techniques and methodological paradigms. Flyvbjerg (2006) suggested that comparing with using samples or following a strict protocol to examine limited number of variables, case study provides a systematic way for looking at the events or phenomenon, collecting and analysing data, and reporting the findings; and based on the findings, the researcher might obtain a deep understanding in terms of why the event happened, and what might become important to look at more extensively in future research.

Additionally, Flyvbjerg (20112) presented five common misunderstandings about the application of case-study, including: a) general and theoretical knowledge is more valuable than concrete, practical knowledge; b) one cannot generalize on the basis of an individual case, therefore, the case study cannot contribute to scientific development; c) it is most useful for generating hypotheses, whereas other research methods are more suitable for hypotheses testing and theory building; d) it contains a bias toward verification, i.e. the tendency to confirm the researcher’s preconceived notions; e) it is often difficult to summarize and develop general propositions and theories on the basis of specific case studies. However, these statements can be represented as the cautionary views of applying case study in the conventional philosophy of social science; and these statements are too categorical. He also declared that the paradox of case study may be resolved if the misunderstanding about it can be cleared.

Typically, the information for case study is often not rich enough; hence, it is normally helpful by clarifying and selecting the data, which are information-oriented sampling, to offer an interesting, unusual or particularly revealing set of circumstances for the case study. For case selecting, three types of case should be distinguished: key case, which is chosen because of the inherent interest of the case or the circumstances surrounding; outlier case, which is chosen because of revealing more information than the putatively representative case; and local knowledge case, which is chosen because of researchers’ in-depth local knowledge of the circumstances that thereby offers reasoned lines for the explanation (Flyvbjerg 2006; Fenno 1986). Likewise, the subject of case study should be clarified what a frame of reference of the study case is chosen; the subject is the “practical, historical unity” (Wieviorka 1992), and through it the object, theoretical focus or analytical frame of the case study is being viewed. Once the selection, subject and objective of the case study are decided, the purpose, approach and process in the case study would be then made. Thomas (2011) contributed a typological proposal of the case selecting
and structure, which stated that the purposes should be firstly set up (evaluative or exploratory), then the approach outlined (theory-testing, theory-building or illustrative), and then the processes made. The principal choices for processing cases include: it is single or multiple; it is retrospective, snapshot or diachronic; and it is nested, parallel or sequential. It is possible to take many routes through this typological proposal to offer many permutations for case study structure.

Basically, case study research methods and methodology are written by many well-known researchers (e.g. Simons 1980; Eisenhardt 1989; Hamel et al 1993; Miles and Huberman 1984; Miller 1986; Stake 1995; Yin 1984, Soy 1997). According to their advices, the following six steps should be taken to typically use this research method:

1st step: **To determine and define the research questions.** The target is to limit the number of events or conditions and their inter-relationships, and assist the researchers conduct the literature review.

2nd step: **To select the cases, decide data gathering and analysis techniques.** During this phrase, the researcher should decide: what and how to select single case or multiple cases to examine in depth; what and how to gather data to be used in analysis. If multiple cases are selected, each case is treated as a single case, but their findings are used as the information for contributing the whole study. Data gathering is normally large qualitative, but it may be quantitative as well. Instruments for collecting data can be multi-tools, such as surveys, interviews, documentation review, observation, etc.; however, the collecting techniques should be properly and systematically in collecting needed evidences. Then researcher must ensure that the selected case study is well constructed with internal/external validity and reliability.

3rd step: **To prepare to collect the wanted data.** Due to case study may need a large number of data from multiple sources in order to generate reliable findings, hence, preparing in advance and systematically organising the data are important to assist the researcher in avoiding either becoming overwhelmed by the amount of data, or losing sight of the original research purposes and objectives. Basically, database of case study should be prepared with documenting, categorizing, sorting, storing and retrieving the data.

4th step: **To collect the data in the field.** Field notes and databases are typically used to categorize and reference the collected data because they are readily available for subsequent reinterpretation. Normally, the field notes and databases record the feelings and intuition, pose the questions and document the work in the progress, as well as hold the stories, testimonies and illustrations that could be used in later reports. However, the field notes should be kept separately from the data, which are collected and stored for the case analysis.

5th step: **To evaluate and analyse the data.** After collecting the raw data, researcher needs to employs many interpretation to examine and analyse the data for finding the interrelationship and interlinkage between the study objectives and the references for the study questions. Through this step the researcher categorizes, tabulates and recombines the data to assist the initial
propositions or purposes of the case study, as well as conduct cross-checks of facts and discrepancies in accounts; maybe additional data are still needed to gather in order to verify key observations or check a fact. Consequently, the researcher will be provided new opportunities and insights to triangulate data for strengthening and corroborating the study findings and conclusions. Especially, to use the quantitative data to corroborate the qualitative data is considered as the most useful way for understanding the underlying rationality.

6th step: To prepare and make the report. During this step, the searcher technically handles each case as a separate chapter or treats the case as a chronological recounting, and critically examines the documents to look for the reports that being incomplete; then the researcher will use representative audiences to comment on the draft document; then based on the comments, the researcher makes the revisions of the study, and finally, the researchers will pay particular attention to displaying sufficient evidence to build up the readers’ confidence that all avenues of the case are deeply explored, the boundaries of the case are clearly communicated, and the conflicting propositions of the case are specially paid attention to.

In this research, the selected cases are multiple; and two cases are studied. First case is the 5 large Chinese CBs: ICBC, CCB, BOC, ABC and BOCom. The IC of the 5 large Chinese CBs are considered as the main representatives of Chinese CBs to be jointly evaluated. Second case is second hand data, which are the surveys in terms of Foreign Banks in China. These surveys were taken by the PWC; the surveys focused on the strategic and emerging issues surrounding foreign banks’ expanding activities in China, and aimed to synthesise diverse viewpoints, protect confidentiality and offer insights into China’ fast-changing financial services environment. Based on the case study, the researcher further evaluated the real level of the IC of the CBs, and compared the evaluation results with the selected foreign banks in order to further find out the gaps and defects of the bank’s business and management between the Chinese CBs and the western advanced CBs; and then providing the strategic suggestions for further strengthening their international competitiveness and boosting their global competitive advantages.

3.5 Data Analysis Strategy

Due to this study applied a large data set to evaluate the IC of CBI, and most of the data are collected from public sources, therefore, the strategy application for the data analysis, in particular the application of the qualitative data analysis strategy is very important.

In reality, researchers usually apply many strategies for their collected data analysis, such as grounded theory, content analysis, documentary analysis, narrative analysis, analytical induction and so on, to analyse the selected qualitative data. Basically, the grounded theory strategy can be fruitfully used to abstract theoretical issues from the practices of social process that normally proceeds in three steps: the first is to find conceptual categories (i.e. substantive codes) in the collected data at a basic level of abstraction; then to find the relationships (i.e. theoretical codes) between these categories; and lastly to conceptualize and account for these relationships (i.e. core codes) at a higher level of abstraction (Punch, 1998). However, this analysis strategy is claimed to be weak to responding to the theoretical issues
summarised within an existing theory due to the proceeding process being entirely inductive. Hence, it
could not verify the findings convincingly and somehow moulded the data to the theory (rather than the
reverse) (Berg, 1989); and then raise the issue of how questions/hypotheses could be addressed. To
work out such an issue, the analytical induction strategy is helpful in verifying these hypotheses because
it could direct the "researchers to study evidence that challenges or disconfirms concepts or ideas"
(Punch, 1998), and allow the researcher to further verify if the hypotheses were correct, or otherwise to
amend them if they were not. As to narrative analysis strategy, it could identify the basic narrative or an
account, which is told and constructed, so it is useful in describing the social general context, economic
environment and financial ecology. For documentary analysis strategy, which could remind us to pay
more attention to the evidences that are shown more closely to the real facts during the process of
grounded theory analysis, thus, they are particularly useful in textual data analysis. Basically, analytical
induction strategy is carried out in an inductive process and it could help verifying the issues summarized
in the previous process of the banking internationalisation; likewise, content analysis and policy analysis
are helpful in narrating the social context changes and evaluating the economic policy towards
international and global development.

With whole respect to the collected data of this research, the content analysis strategy is mainly applied in
this thesis; and in addition to it, the grounded theory, narrative analysis, documentary analysis, policy
evaluation and analytical induction etc. methods are also jointly contributed its functions to help
summarising the theoretical hypotheses and verifying them within the research framework.

Amongst the qualitative research methods, content analysis approach is more special, because it could
be also applied as a quantitative analysis approach. In reality, content analysis is as a methodology
widely used in social science for making inferences by objectively and systematically indentifying
specified characteristics of message (Holsti, 1969:14). The texts or sets of text of content analysis can be
chosen broadly, e.g. articles, essays, interviews, reports, historical documents, books or book chapters,
speech or conversations, discussions, advertisements, theatre or films, etc., as long as it is an
occurrence of textual language.

The core questions involved in content analysis can be formulated as “5Ws”: Why, What, Who, Whom
and How (Lasswell); Kimberly (2002) further developed the concept of content analysis with a six-part
definition that is an in-depth analysis approach with quantitative or qualitative technique of messages by
using scientific methods, e.g. attention to objectivity-intersubjectivity, reliability, generalizability, etc., and
not limited as to the context in which the message being created or presented.

Basically, content analysis used to be a time consuming due to the whole process had to be done
manually. But nowadays, content analysis strategy has been applying in a bulk array of fields since
computer-based methods of analysis have been increasingly utilizing in social activities. In every content
analysis, the following six questions must be addressed (Krippendorff, 2004):

- Which data are analyzed?
- How are they defined?
• What is the population from which they are drawn?
• What is the context relative to which the data are analyzed?
• What are the boundaries of the analysis?
• What is the target of the inferences?

This assumed that the words and phrases mentioned most often in the choosing text are those that should reflect the important concerns in analysis. In other words, counting key words or phase frequencies would lead to quantitative analysis. However, content analysis strategy focuses on quantifying qualitative data and extends to disambiguate keywords/phases in their specific context. As to the synonyms and homonyms in the context, it can be differed according to linguistic properties of a language.

Here Holsti (1969) suggested that the user could make inferences by using content analysis into three basic types

• To make inferences about the antecedent of a text.
• To describe and make inferences about characteristics of a text.
• To make inferences about the effects of a text.

Generally, the benefits by using content analysis can be essentially offered as following (Berelson, 1971):

• Disclose the differences in communicative contents.
• Explore the existences in propaganda or advertisements.
• Reveal the intentions, meaning, trends or focuses in an individual or group.
• Describe attitudinal and behavioural responses to conversations

Normally, the more penetrate into the content of the chosen text, the deeper to know it. Content analysis most often starts with interesting research questions and selecting a sample or samples using a clear rationale, hence, it is necessary to evaluate the content quality in order to avoid any common misperception. The evaluation is not for correcting spelling and grammar, but rather to examine its intrinsic quality, e.g.:

• If it is relevant and utilisable.
• If it is explicit and accurate.
• If it is effective and persuasive.
• If it is inclusive and reflective.
• If it is convenient and findable.

Once being determined, it first needs to develop a coding scheme with a manual defining of all codes and manageable content categories of the chosen text (Saunders, 2008). Basically, the process of making code is selectively to weed out the ROT (i.e. redundant, outdated and trivial) from the content. In other
words, after reducing the content to codes and categories, the researcher can more effectively and efficiently focus on specific coding words or patterns that indicate the research questions.

Additionally, the way of critical thinking is also employed and aims to understand the summarization, conclusion and evaluation in this research. Critical thinking is a philosophical approach, which has very rich meaningfulness. According to the definition of the National Council for Excellence in Critical Thinking (NCECT, 1987), critical thinking is “the intellectually disciplined process of actively and skilfully conceptualizing, applying, analyzing, synthesizing, and/or evaluating information, which are gathered from or generated by observation, experience, reflection, reasoning and communication, as a guide to belief and act. In its exemplary form, it is based on universal intellectual values that transcend subject matter divisions: clarity, accuracy, precision, consistency, relevance, sound evidence, good reasons, depth, breadth, and fairness”, and it “entails the examination of those structures or elements of thought implicit in all reasoning: purpose, problem, or question-at-issue, assumptions, concepts, empirical grounding, reasoning leading to conclusions, implications and consequences, objections from alternative viewpoints, and frame of reference”. Relatively, Annis’s definition of critical thinking is much more simplified but widely accepted in the field, for Annis’s argument, critical thinking is the “reasonable reflective thinking focused on deciding what to believe or do.” (2003)

Critical thinking could be fruitfully applied to evaluate one's thinking, because the thinking might be criticized due to the lack of relevant information, or the unjustified inferences made, or the use of inappropriate concepts, or the failure to develop further correlative implications. Likewise, one's thinking may be debated in line with a sub-optimal disposition, which is caused by not really focusing on truth-seeking, open-minded, systematic, analytical, inquisitive, reasonable confident and prudent judgments to get the habitual intentions. Those who do not hold this dispositional dimension of thinking would be more likely to encounter these problems. Roderick (2001) argued that failing to recognize the importance of correct dispositions can lead to various forms of self-deception and closed-mindedness, both individually and collectively.

Therefore, the reasons why critical thinking is considered to be significant in the fields is because it enables one to estimate and re-explain or restructure their thinking aiming at reducing the conclusive risks. In practise, to apply critical thinking to evaluate the whole study, the following particular controversies should be kept in mind:

- What are the issues and conflicts?
- What are the necessities and objectives?
- What are the valuable and descriptive assumptions?
- What is the ambiguity of the arguments?
- What significant information is omitted or ignored?
- How good are the evidences?
- How deceptive are the statistics?
- Are there any opposite cases?
- Are there any fallacies in the discussion?
• Are the findings and conclusion reasonable, rational, initial, convincing and proactive?

However, as a philosophical tool, whether critical thinking works very well or performs badly still depends on the attitude and skills when using critical thinking in practice. Hence, for critical thinking to result in its optimal sense, as Browne and Keeley (2007) suggested, the certain value a critical thinker needs is openness, which means being eager to discover and willing to listen to the ideas of others. Who first finds the better conclusion is not a relevant matter, but rather, searching for the best conclusion is the most important thing for researchers. (P206)
CHAPTER 4: JOINT EVALUATION AND ANALYSIS OF THE IC OF CBI

In this chapter, the researcher first reviewed the global politic-economy; then with an institutional view explained the social context and financial ecology in China and argued why Confucianistic stance and ideology should be established as the dominant cultural context there, and then stated the shifts of administrative ideologies of the four generations of the CCP. After addressing the general evaluation of the world banking, the evolution of the CBI is summarised. Then the separate and joint evaluations of the CBI and Chinese CBs with a multi-dimensional examination are highlighted. And finally, the way of critical thinking is applied to make philosophical comments on the findings and conclusions.
4.1 The Situation of Global Politic-economy

“Financial reform shall take bigger steps. The banks shall be made into real banks. Our former bank was just a money issue firm, a cashbox, not a real bank.”

--- Deng Xiaoping (1986)

Since the 80's of the 20th century when the USA had promoted the Neo-liberal development model in the global, the “American Model” has become the development model to be globally worshiped. No matter what the privatisation of the capitalist countries, the "Shock Therapy" in Russia, or the economic reform in Latin American countries based on the "Washington consensus", all were the “Masterpiece” of Neo-liberalism economics. However, when the latest world-wide financial crisis hit the world economy, and this shown that the cause of this catastrophe was not outside but the "Internal Rupture", the capitalist economic system has been increasingly questioned in the world, especially in the Western.

In the past, to advocate the market fundamentalism in terms of "big market and small government" has been worshiped as the standard by the Western capitalist countries. However, when the laissez faire of financial market in the United States bred out of the consequences of the subprime crisis, and eventually evolved into the global financial crisis, the Western media, especially European left-wing forces began to criticise the "Market Omnipotence" theory; and stressed the national role to strengthen the market supervision. As the previous chief Economist of HSBC, the Author of the book “The Trouble with Markets” (Bootle, 2013) claimed that the “Market's Omnipotence Theory” is the source of the financial crisis. Henceforth, a lot of western scholars have turned to the mode of combination of government control and market competition.

Basically, institutional contradictions will eventually lead to institutional crisis. Many western scholars believe that the latest worldwide financial crisis has further exposed the structural and institutional weaknesses of the capitalist economic system. Haman (2009) argued that although the manifestation of the crisis is derived from the financial crisis, but this is only the appearance of the capitalist system; and the main reason is that the basic contradiction of the capitalist system itself cannot overcome the antinomy between productive socialisation and private ownership. Therefore, when the capitalists deal with the crisis and the economic recovery, the pendulum between the state intervention and the free market policy would cause its own insuperable cyclical crisis.

When to question the economic institutions, more and more western people began to dissatisfy their own country's political and economic system; for instance, the movement in terms of "Occupy Wall Street", which has swept the country and got many other western people's response to, delivered this kind of feelings. In this great background of the whole world, while the people are losing the confidence of western democratic system, the western media launched a great reflection and criticism of the system.

Many Western media and scholars claimed that one of the biggest drawbacks of the current capitalist democratic system is inefficiency; the main reason for this problem is the political economic institution that
could excessively obstruct the government, even there is no time to run the country. Another common problem in the capitalism democratic system is the "Oligopoly ", which is even called by some western scholars as representation of hypocrisy and deceit of the western democracy.

While the western countries profoundly consider the drawbacks the capitalism democracy, a large number of western people began to pay more attention to the "Chinese Ways", to recognize the advantages China’s political and economical institutions, such as the efficiency of the Chinese government's decision, the high responsibility of the people, etc. Especially, it is worth to mention that the so-called China's "one party politics", which has long suffered from western public opinion, has become the object of their praise. Many Western media have noted that China has not taken the West's three power split, or two parties even multi parties alternate in power, but to adhere to one party rule for decades. This makes China being lucky, because in such a system, China can formulate national long-term development plan and maintain policy stability; but not stand the influence of different positions, ideology and different political parties in power. There is also an increasingly view in Western public field that the dominance of capitalism model will be replaced by the "China's Mode". Some western scholars even differ the "China's Mode" with the traditional socialist mode, and believe that "China's Mode" has a lot of advantages of its own institutions, because it did not suffer the shock from the former Soviet Union and Eastern European countries, neither like the United States, Europe and Japan to experience the outbreak of severe financial crisis. So for the majority of developing countries, "China’s Mode" is very attractive, and could eventually replace the infamous "Washington Consensus"; or will become the world's leading development mode.

Some western scholars recognize that "China’s Mode" has obvious advantages, which mainly lie in the aspects: on the development target, it emphasizes that the development, stability and human rights must be balanced; on the development strategy, it advocates through experiments combining with the actual gradual reform, opposes the "Shock Therapy", and emphasizes the priority of the economical reform; on the foreign aid, it does not attach any political conditions, but more focuses on the infrastructure. Singapore scholar Zheng (2010) argued that the western countries usually take financial leverage to rescue the market, while China normally applies both economical and financial leverage to do so thanks to the huge state-owned economic entity in China. This is stated as the most prominent advantages of the Chinese model.

4.2 The Social Context in China

4.2.1 The Cultural Background

In this research, cultural factor is taken as one of the most influential determinants in the social institutional system due to the very special features of the society. Basically, social culture is always considered as one of the fundamental factors when discussing a circumstance in a region. According to Hofstede’s (1983, 1984, and 1991) cultural framework, culture is what one group, organisation, community or nation distinguishes from others; it is collective but often intangible. According to Hofstede’s, culture is comprised by two elements: the internal values (invisible) and external values (visible and
Based on his seminal survey called the Values Survey Module in 1991, Hofstede has remarkably drawn up five indices to represent the national cultural characteristics (dimensions) as follows:

- **Power Distance**: the extent to which a society handles inequalities.
- **Individualism & Collectivism**: the extent to which a society is grouped by behaviours.
- **Masculinity & Femininity**: the extent to which a society is based on gender.
- **Uncertainty avoidance**: the extent to which a society is characterised by the need of structure to cope with unknown situations.
- **Long-Term Orientation & Short-Term Orientation**: the extent to which a society deals with virtue regardless of truth.

Since 2001, Hofstede has been scoring the cultural dimensions for 74 countries over the world, Figure 4 outlines the results of China’s and the world average scores of their cultural dimensions. It is clear that the score of LTO, PDI and MAs are much higher than the world averages, while its score of IDV and UAI are much lower than the world averages, which means that the culture in China is characterised by large power distance, strong uncertainty avoidance, dominant masculinity, weak individualism and a high level of inequality of power and wealth within the society.

Even though Hofstede's perspective has been widely applied and highly established, there are still some limitations to it. McSweeney (2002) argued that Hofstede's suggestions are excessive because they claimed far more identifiable characteristics and consequences than justifiable, and it becomes unbalanced because it was too great a desire to “prove” his a prior convictions rather than evaluating the adequacy of his “findings”. In particular, if an assumption is fallacious, then it leads to inaccurate empirical descriptions regardless of the quantity of data and statistical manipulation used.
Actually, there has been a profound, extraordinary, sophisticated, longstanding and well-established culture in Chinese society. It is generally accepted that Confucianism is highly recognised as the core of Chinese mainstream culture. The Yellow River is the commonly viewed as the origin of the culture of Chinese civilisation. Initially, the Chinese societal structure was conducted by a self-sustainable and self-sufficient agricultural economy that endowed the Chinese culture with a unique and well-established evolution. Referring to Yang’s (1987) arguments, five basic attributes of Chinese social framework and function have been derived from such an economic-cultural pattern. They are as follows:

- **Hierarchical organisation**: the social power related to the positions and the structure was vertically organised.
- **Collectivistic function**: the society was collectively functioned by familiar groups.
- **Generalized familization**: family was the common component in the society.
- **Structural tightening**: the social relationships were rigidly dependent on the prescriptive enactments and principles.
- **Social homogeneity**: social norm diversification was locally biased.

Historically, Confucianism has been really respected as the overwhelming moral and political ideology of the state since the era of the Emperor Hanwu (Liu Che, 156-87 BC, West Han Dynasty) who accepted the scholar, Dong’s (Dong Zhongshu, 179-104 BC) suggestion to “eliminate all schools but solely respect Rushu (Confucianism).” Before the time, ancient China experienced the most cultural and ideological boom in its history, in particular, during the period of Spring & Autumn and Warring States. There were so many existing schools that the historians respectfully named this period as “An Era With Hundred Schools of Thought Controversies”. However, the following dynasty - Qin (221-207 BC), in which the FaJia (i.e. Legalism, a school which advocates the core of “Regality” and the tools of “Legislation” ) were respected as moral and political ideology. When the West Han Dynasty (202 BC-9 AD) was formed, DaoJia (i.e. Taoism, a school which advocates the nature of the world and the freedom of human being) was, for the first time, respected as the moral and political ideology; this situation was not changed until the era of the Emperor - Hanwu, started.

**4.2.2 The Ideological Influences of Confucianism**

Confucianism, inspired by the Chinese cultural Sage, Confucius (551-478 BC), is commonly respected as the Chinese societal guidance and a sophisticated system of moral, philosophical, political, economical, educational, and quasi-religious ideology that has tremendously been influencing the long-lasting history of China, even East Asia, South-east Asia and some countries in Europe and America. Since Confucius developed the Confucianistic ethics, which are based on the conclusion, summary and inheritance of traditional culture from Xia, Shang and Zhou ⁴, which holds familization in high regards. Confucianism has been significantly evolved by its followers, e.g. Mencius (372-289 BC; the core of his thoughts is Yi -Righteousness), Xuncius (Xunzi, 313-238 BC, the core of his thought is Li -Ritual, and believes that human nature is evil), Dong Zongshu (who advocated solely respecting Confucianism and eliminating other schools), Zhucius (Zhuxi, who made the significant contribution to the classification of the Four Books and the most influential rationalist of Neo-Confucian, 1130-1200), Yangmingcius (Wang Shouren,
who advocates Harmonising and Unifying the Knowledge and Actions, another very important neo-
Confucian thinker after Zhucius, 1472-1529) etc. The most important introduction to Confucianism is the
Four Books and Five Scriptures, which were treated as the standard readings and basic studies, and
became the core of the official curriculum for the civil service examinations in Ming and Qing Dynasty of
China. The Four Books are Great Learning, Doctrine of the Mean, Analects of Confucius and Mencius;
and the Five Scripture are Scripture of Poetry, Scripture of Shang (History), Scripture of Rites, Scripture
of Changes, Spring and Autumn Annals.

Basically, humanity is the core, and benevolence and righteousness are the fundamentals in
Confucianism. The cultural and ideological framework of Confucianism can be expressed by the Sangang
(the three cardinal guides), Wuchang (the five constant virtues), Wulun (the five fundamental
relationships), and Liuyi (the six skills people should learn). The Sangang includes Ruler guides Subjects,
Father guides Sons and Husband guides Wife. The Wuchang contains Benevolence, Righteousness,
Ritual, Wisdom and Fidelity, which were used to structure and standardise the Wulun, which represents
the social ethical relationships between ruler and subjects, father and sons, husband and wives, sibling,
and friends. The Liuyi is consisted with Rites, Music, Archery, Charioteering, Calligraphy and
Mathematics. If a man has mastered the Liuyi, the man would be thought to reach the status of a perfect
gentleman. Additionally, there are also other classic elements contained in Confucianism, such as Zhong
(Loyalty), Xiao (Filialness), Jie (frugality), Cheng (Honesty), Lian (integrity), Chi (self-esteem), Yong
(bravery), Wen (gentleness), Liang (kindness), Gong (humbleness), Rang (self-effacing), You
(friendliness), Mu (Harmony), etc.

Referring to its ideological evolution and philosophical tradition, the main principles most held by the main
Confucian schools are as follows (a summarised citation from Zhang, 1999):

- **Free will and rationality:** no man should be used as means or tools; the society is as
  changeable rather than stationary, and as organic rather than mechanic; the rational laws exist in
  objects and affairs, but are not fully founded by any individual.

- **Natural equality and social inequality:** men are naturally equal but not necessarily socially and
  economically; so a good society should be hierarchically organised with virtuous and talented
  men at the top, however, this structure is not to serve any privileged class or group of people, but
to best serve the people.

- **Self-cultivation through education with equal opportunity:** education and social position
  should be accessible to anyone in the society without discrimination against ethics.

- **The governance of welfare and the policy of benevolence:** a good social government’s main
  concern should be to guarantee and improve the living conditions of the people.

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4 The Chinese history is commonly recognised starting from Yao, Shun and Yu (who are respected as the model of the
later Emperors), which are called the Primitive Society, but recorded from Xia Dynasty (around 2070- 1600 BC), which is
with Shang Dynasty (around 1600-1111 BC) and Zhou Dynasty (1111- 221 BC) as the Slavery Society in Chinese history.

5 Initially, there were six Scripture but the Scripture of Music was lost somehow.
• Mutual obligation rather than laws for maintaining social justice: preferring virtue and propriety to law in maintaining social justice.

• The values of social symbols and rectification of names: people should respect to different symbols according to what they stand for; and there should be a correct correspondence between the actuality and the essence.

• Market mechanism with less government intervention: the less intervention in economic activities (and education), the better the government for the society.

• Love with different degree of intensity: this is of reciprocity, and the natural affection existing between relatives within one family is the cornerstone of social morality.

• Respect on diligent work and appreciation of frugality: hard work for the purpose of wealth is highly valued and men should have desires, but the fewer the better.

• Emphasising social harmony and justifying against corrupt governments: emphasising harmony among varied social groups on the basis of virtue but this does not mean to require people to blindly obey the authority.

Consequently, these principles have hugely influenced almost all the parts of the Chinese society. Particularly, the political thoughts of Confucianism can be classified into "Nei Sheng" (internal cultivation of personality) and "Wai Wang" (external proposal of politics), which can be achieved through the eight procedures: knowing the truth, learning the conscience, keeping the sincerity, correcting the thinking, cultivating the manner, harmonising the family, governing the state and pacifying the kingdom. The first four procedures are for the "Nei Sheng" and the last four are for the "Wai Wang"; this is also the way of achieving the combination of individual idealisation and political ambition.

Arguably, Zhang (2009) concluded eight categories of philosophy form of Confucianistic thoughts: Livelihood, Education, Politics, Law, Arts, History, Military and Religion. Here, it just briefly highlights the influences of Confucianism on Ethics, Politics, Economics, Education, Technology and History. On the ethics, Confucianism emphasises self-cultivated, stresses the social harmony, encourages "it is the greatest virtue if you acknowledge your mistakes and dare to correct them", in particular advocates "never impose upon other what you would not like for yourself." On the politics, Confucianism calls for "humanitarian-style politics" (WangDao) but condemns "tyrannistic-style politics" (BaDao); urges benevolent regime, merciful rule and ritual system with the idealisation of constructing a "Big Similarity" or "Big Unification", and suggests that the ruler and subjects should undertake their own responsibilities and duties, as well as acknowledge the differences between what one does not do and what one cannot do. The idea of Confucius meritocracy had led to an exclusive Dynastic Examination Regime in past China (i.e. the time before 1912 when the last dynasty Qing ended) that made it possible for anyone, who wants to become an authoritative officer, to be able to bring the high honours and wealth to his whole family once he has successfully passed the exams. However, this system also further promoted the social hierarchies and as a result, most Chinese emperors exerted Legalism with strong embellishment of Confucianism as their ruling doctrine and political ideology. On the economics, Confucianism respects "Righteousness", looks down on "seeking nothing but profits" and claims "deserving nothing without payment", encourages liberal competitive economics and market degovernance or even no governing but
following the natural rules, proposes a single tax with low rate to stimulate people’s agricultural activities. In particular, Confucianism suggests that it is better if most of a state’s fortunes is held by the people rather than being owned by the ruler:

“No ruler could be poor when his people being rich; however, if the people are poor, how could the rules be rich?"

--The Analects of Confucius, Ch2, p.203).

On the education, Confucianism urges developing student’s personal liberalisation, and declares that a gentleman should be knowledgeable and profound and not limited on one way, suggests “acknowledging what you know and what you don’t is true understanding”, hopes people “often review and develop their knowledge” and think “there must be a teacher for me if I am in a group with three people.” On the technology, Confucianism mentions the principle of more production with less labour and encourages technical utilisation; suggests workers “who want to outperforming should first have to hold good tools” (The Analects of Confucius, Ch15, p250). On the history, Confucianism has a long tradition of revising the history and making its own explanations and readings with potential confirmations or critiques, which Confucians called “Spring and Autumn Brushwork”, in order to let people of newer generations learn the experiences and lessons from the formers.

Interestingly, Chang and Chu (2002) applied three approaches: Modernisation, Cultural Relativism and Communitarianism to explain how Confucianism interacts with democratisation and modernisation. Firstly, they quoted Fukuyama’s (1995) arguments that any changes in political institutions (the upper structure) will not by any means damage the integrated Confucian social order (the lower structure); Confucian-culture can combine with authoritarianism or semi-authoritarianism (e.g. Mainland China), or combine with democratic regimes (e.g. Japan), therefore, the impetus, which could push some East Asian countries to becoming democratic and others being authoritarian, lies in the most important element - the degree of modernization. Then they cited the views from cultural relativism with the arguments that East Asia has vivid paternalistic power and superior-inferior relations, which will never disappear with the modernization of the social economy. However, rapid social economic shifts will result in an individual feeling insecure, and create a new form of power-dependency (Pye, 1985, 2001). Additionally, Huntington (1997) claimed that Confucianism values group interests greater than individual’s, concerns political authority more than individual freedoms, and emphasises the social responsibilities over the individual rights. Meanwhile, Confucian thoughts encourage social harmony and cooperation, values the attainment of social order and the maintenance of social hierarchical structures, and regards the society and the country as identical. Hence, there is no space left for autonomic social groups, and the development of democracy in the region would not be assisted by such a traditional culture. As to the communitarian approach, they argued that it also seeks democracy, but acknowledges democracy differently from liberals, and attempts to eliminate the liberal framework. Basically, communitarianism is not interested in the “distribution of power” and the liberal “checks and balances”, but desires high political participation from community members (Tam, 1998). Communitarians have recently established that the
characteristics of Confucian cultural are similar to those advocated by communitarianism, especially as both reduce the relative importance of individualism. Thus, traditional Confucianism is neither suitable for developing "notions of human rights" nor "the principles of democracy" (Bauer and Bell, 1999). Therefore, they suggested that the product of third wave of democratization in East Asia would be similar to communitarianism democracy to transcend the "liberal democracy" of western society. Finally, they concluded that traditional Confucian values strongly appear in the face of democratization, however, modernising processes will cause shifts in Confucian values, though, not comprehensively, and more importantly, Confucian values feed anti-democratic sentiments based on unifying democratic aspects or on consciousness of different levels (e.g. the collective). Thus, as cultural relativists advocate, Confucian values and democratic consciousness are two mutually contradictory value systems. However, there is no need to be too pessimistic about the future of democracy in China, because the process of modernization will impact upon traditional values and the length of education, and the age also has an important role in the development of democratic consciousness that will broaden the social, political and economic space necessary for the development of democracy in China.

Likewise, Zhang (2008) explored the connection between Confucianism and Industrialisation, and argued that the successful industrialisation of the Confucian regions was characterised by strong government leadership, severe competition in education, disciplined work force and principles of equality (in a Confucian visionary sense) measured in merit and frugality. He claimed that the Confucian principles are basically suitable for industrialisation, but many of the concrete manifestations of the principles do not promote modernisation. Hence, he concluded that industrialisation of each Confucian region should be a process to further promote the Confucian principles rather than working against them, to abolish (some of) the Confucian practices rather than exactly following them, to design or imitate (from the West) new rules and concrete moral standard rather than pursuing the traditional practice.

Unquestionably, no man has been highlighted and respected as much as Confucius in the long-lasting history of China; likewise, no man has determined the character of China’s civilisation and influenced the social development of East Asia and South-east Asia, even some states in Europe or other regions, as profoundly and deeply as Confucius (Hudson, 1931; Fan, 1991; Creel, 2000; Zhang, 2008). As Emerson highly praised:

"Confucius, glory of the nations; Confucius, sage of the absolute East, was a middleman. He is the Washington of philosophy, the moderator, the Mçäåí áąåí (nothing in excess) of modern history"

--- R.W. Emerson (1843-1848, p.318)

However, the evolution of Confucianism in the long historical track of China has been not only highly praised, but also accompanied by serious attacks many times. In particular in the four period: Qin Dynasty (213-213 BC), Taiping Heaven Kingdom (1851-1864), May Fourth Movement (1915-1921) and the Great Cultural Revolution (1966-1976), Confucianism and Confucians were severely destroyed. Additionally, various critics from other schools (e.g. Taoism, Mozism, etc.), especially, Lu Xun (1981-
1936), who was considered as the founders of Chinese modern literature and the leader of New Cultural Movement, as well as a Trecentist Thinker and Revolutionist, had heavily criticised Confucianism that has shaped Chinese mind into the spiritual statues of Fatuity, Callousness, Servility, Putrefaction and Ossification.

4.3 The Changes of Institutional Ideology in New China

After analysing the fundamental influences of Confucianism on the long-lasting evolution of Chinese society, let's further address the shifts of institutional ideology with its milestone features of new China. In 23 Jul 1921 the China Communist Party (CCP) and 1st Oct 1949 the People’s Republic of China (PRC) was founded, thus far, the institutional ideologies of the administrative party (CCP) of China have been chronologically shifted and characterised as follows:

4.3.1 Mono-planned Economic Institutions

When the new China was founded, the country was faced a very bad situation. The whole economical based had been almost destroyed. In order to rebuild the society and recovery the national economy, the government had to exercise the mono-planned economic institutions to concentrate the whole social resources.

Basically, the institutional theory of Marxism-Leninism, particularly the “Stalin’s Model” had seriously influenced the economics and politics construction during the early years of new China. Under the leadership of the CCP, the guideline in terms of recovering the economy to comfort the social minds and reforming the land regime to achieve the ambition of “land to the tiller” had been exercised in beginning of the PRC. During this period, the state’s ideology was “New Democracy Theory”, developed by Mao, who suggested that a new democratic stage must be passed through before exercising Socialism in China. This ideology has three common creeds: Political Creed with the aim of forming united dictatorship and exercising democratic centralism; Economic Creed with the aim of expropriating the lands of feudal landlords to peasantry and confiscating the bureaucratic monopolistic capital to the state; and Cultural Creed with the aim of transforming the thoughts of intellectuals, advocating the thinking of “serving the people” and rectifying the social vogues (e.g. Gambling, Equal Gender). Consequently, the mainland economy has been gradually recovering until the end of 1952 and achieved the satisfactory outcomes. However, in a CCP central secretariat meeting in September 1952, Mao suggested that the time was coming to pass the New Democracy to Socialism, and stressed that the present mission was to gradually achieve the state’s industrialisation and accomplish the “Three Rectifications” of the agriculture, manufacture and capitalistic commerce. Later on the first “Five Years Plans” (1953-1957) had been set up and indicated the launch of the “Planned Economics”. Remarkably, the average yearly growth rate of GDP and GNP were 11.3% and 8.9%, respectively, during this period, which has been confirmed as the best time before the “Reform and Opening-up”. Accompanying the achievement of the “Three Rectifications” and first “Five Years Plans”, a significant meeting “Eighth National Congress” was held in September 1956, Beijing. This congress drew up the second “Five Years Plans”, which confirmed the main guidelines for the next five years including: the core emphasis of the Party was that the state must
be shifted to socialistic construction; the Party must persevere in the ideological line “Shi Shi Qiu Shi” (seeking the truths from the reality), consolidate and enlarge the collective-ownership and public-ownership, adhere to the mainstream of state’s planned production; but also allow proper free-market supplements, emphasise the importance of the construction of thoughts and culture, and intensify the legislative construction.

Unfortunately, such a good movement had been hugely distorted and did not last very long due to the Great Leap Forward (GLF) and the Great Cultural Revolution (GCR) coming up. After the “Rectification Campaign”\(^6\) (1957) and “Anti-right Struggle”\(^7\) (1957-1958), Mao pinpointed out that China must not go backwards to the old capitalism, but continuously explore the way to overtake the western developed countries in the socialistic framework of “Stalin’s Model”, and believed that the social productivity would be extremely developed if China could further achieve socialism. Therefore, since May 1958 when the “Eight Congress 2\(^{nd}\) Meeting” was held, an unprecedented socialistic constructive general line had been set up with the new feverous ambition being to overtake the UK and the US in 7 years and 15 years, respectively, and later on the GLF had been stirred up in the whole of China. In this movement, scientific knowledge and specialistic expertises were blindly looked down, and agricultural productivity was seriously bubbled up. To increase steel production was the first mission and everyone was required to make steel even through using very unscientific methods. In particular, the ideological propaganda, e.g. “how audacious you are how high the production must be”, “nothing cannot achieve as long as you can imagine it” etc. flooded China. The three “Great Movements” had finally brought destructive disasters to the country: there was a great famine during 1958-1961 and 21 million people anomaly died during 1958-1963. Thus, in the “9\(^{th}\) Plenary Session of the Eighth Central Committee” (1962) the CCP leaders consensually stressed the main mission of rebuilding the national economy and claimed that the causality of the great famine being “30% natural but 70% man-made” (Liu, Shaoqi \(^8\) ), and Mao also had to make self-criticism. However, the time did not last long, Mao again mentioned the class struggle issue in the 10\(^{th}\) Plenary Session (1962), advocated to execute a socialistic education movement (Four Clarifications: Politics, Economy, Organisation and Thoughts) and called for the “Great Criticism” for the artistic field. Finally, Mao, worried about his powers fading off, launched the GCR in 1966 with the intention of pursuing his “Pure Socialism” idealisation, which he thought the best ways to achieve was through “intensifying class struggle”, “fighting privatisation and criticising Revisionism”. As a result, Chinese traditional cultures, in particular the Confucian cultures had been disastrously ruined, and finally the whole situation had lost control. Consequently, rebellious organisations reflamed and most local governments was in the status quo of paralysis again, thus, Mao had to reuse Deng Xiaoping.

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\(^6\) Rectification Campaign was the movement in the whole CCP of the general Marxism-Leninism education that had been totally exercised three times (1942, 1950 and 1957) in order to eliminate the thoughts of other schools

\(^7\) Anti-right Struggle was the first massive political movement which was launched by the CCP during 1957-1958 involving every class in the society in order to find out the “right-wing party”(capitalists).

\(^8\) S.Q. Liu was the president of the PRC and the National Defence Commission during 1963-1966.
Deng was not only a Mao’s loyal supporter, but also had the necessary reputation and talents to turn the situation around. Under Deng’s proposals, building up the railway works, restructuring the steel industry and forming the productive responsibilities had been put in the priority. Meanwhile, he put scientific experts into leadership and imported advanced technologies from abroad. Through such a targeted rectification, the social order was gradually stabilised and the national economy was also successfully improved in 1957. Unfortunately, even though Mao importantly reused Deng, he was still really worried that Deng’s actions would finally deny the significance of the GCR, especially when Deng rejected Mao’s requirement in terms of making historic judgement on the GCR, as well as Deng’s prior ideology of economic construction entirely diverging from Mao’s priority of class struggle. As a result, Deng gradually lost Mao’s trust and was marginalised again.

In 1976, the whole situation in China was dramatically changed. When Mao passed away and the “Four-people Gang” was arrested, the 10-year-long-lasting GCR finally ended. Nevertheless, Mao’s successor, Hua Guofeng, a beneficiary of the GCR and idolater of Mao, continuously promoted self-idolised and even advocated “Two Fanshi”, which advocated the ideology of “whatever had Mao decided, we must firmly preserve; whatever had Mao guided, we must unswervingly adhere to”, as his political guideline and ideological pattern in his two years of the leadership. In order to advance the economy, in 1977, Hua suggested that the national economy must take a new leap forward through importing plentiful foreign technological investments and borrowing huge foreign loans (hence, this leap also called “Foreign Leap Forwards”). In 1978, Hua also devised a “Ten Years Planned Outline”, in which 120 large infrastructural projects were planned to be built and rebuilt. Thus, a rapid inflation of infrastructural investment was caused by borrowing too much foreign funds, and a huge fiscal deficit was happened in 1979.

Because of his weak experiences and influences in the party, in particular of his administrative ideology, Hua was unable to consolidate and defend his power and position inherited from Mao, and his political dominance gradually inclined towards to Deng. When most people considered the fact that the “Two Fanshi” did not fulfil the needs of the realistic development of China, and even diverged from Mao’s thought of “seeking the truth from reality”, it stirred up a great discussion about the issue of the criteria of the truth, and highly recognised the suggestion “practice is the sole criterion for testing truth”. When Hua resigned from all his positions in the Party in the CCP 6th Session of the 16th Central Plenary Committee in 1978, the era of Hua entirely ended.

4.3.2 Planned Commodity Economy Institutions

In December 1978, a new great historical transition happened when the 3rd Session of 11th Central Plenary Committee was held in Beijing. During this session, Mao’s ideology of “Taking Class Struggle as the Key Link” was completely abandoned; alternatively, Deng’s ideological proposal - “emancipating the mind, making the brainstorm, seeking the truth from the reality, closely working together to move forward” was consensually established as the new guideline for the Party. Since then, China had entered into the era of planned commodity economy institutions. On this Session the economic construction had re-established as the working pivot, as well as made the grand decision of exercising the “Economic Reform and Opening-up” national policy. The reform first started from agricultural reform, in particular to promote
Familial System with Contracted Responsibilities in line with “People’s Communes”. It then extended to city economic reform, in particular to reform state-owned enterprise institution, as well as launched the fiscal institution reform, pricing institution reform, economic adjustment approach reform; and properly developed collective and private economy, especially, the Special Economic Zones (i.e. Shenzhen, Xiamen, Zhuhai, Shantou) were set up as the pilot points of the “Opening-up”, then gradually make a multi-layer opening-up layout.

Generally, Deng’s institutional theory could be explained as “a theory in terms of constructing a socialistic state with Chinese features”. The essence of this theory is “emancipating the minds and seeking the truth from reality”; the innovation of his theory can be read as follows:

- One pivotal task: Economic Construction
- Two fundamental points: to preserve Reform and Opening-up, and the Four Basic Principles (i.e. the Socialistic Road, the People’s Democratic Dictatorship, the Marxism-Leninism & Mao’s Thoughts, and the Leadership of CCP)
- China’s economic construction must run its own way
- China has been in the socialistic primary stage, and this is the fundamental basis of any decision-making
- Reform is a revolution, as well the road to emancipate the productivity and to achieve the modernisation
- Peace and development are the two grand themes at the moment in the world; the policy of reform and opening-up must be preserved for a long time
- Running “three steps” manoeuvres to gradually achieve “Four Modernisations”
- The target of the reform is to build and improve the socialistic market institutions, in which the socialistic public ownership is the major ownership and other various ownerships co-exist; the distribution institution, depending on their performance and contribution, is the major way of distribution and other distribution approaches are coincident.
- The CCP is the core of the leadership but also emphasises cooperation with other parties to build the most conclusive united alignment in China; meanwhile, intensifying material progress but paying attention to spiritual civilisation as well.
- Insisting the diplomatic policy with independence and peaceful diplomacy but having an open-mind to enrol all the advanced civilisations to develop the socialism.
- Applying “two regimes in one country” to solve the issues regarding Taiwan, Hong Kong and Macao.

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9 Four Modernisation denotes Industrial, Agricultural, Scientific & Technological and Defensive Modernisation, which were first inspired in 1964 by Enlai Zhou (the first PM of the PRC), who suggested an assumption of “Two Steps”, i.e. first to use 15 years to achieve the Industrial Modernization, and then use 20 years to achieve the other three targets.
4.3.3 Socialist Market Economic Institutions with Chinese Characteristics

Since October 1992 when the 14th National Congress was held and Deng's theoretics was established as the supplement guideline of the CCP, China's economic reform has developed into a new stage. Since then, the Party and the government have been developing the sociality market economic institutions with Chinese characteristics. The political report addressed on the Congress declared that the 14 years (1978-1992) practice of the Reform and Opening-up was a “New Revolution”; the essential and objective of that was to “fundamentally change the economic regime, which greatly unbounded the development of the productivity and set up the new socialistic economic regime with full vitality and dynamic”. This economic regime is also the so-called “Socialistic Market Economic Institution”. Basically, the foundation of the economic reform during this period can be summarised as follows:

- Further broadened the opening-up policies, including exploiting Pudong Zone in Shanghai; accelerated the opening-up in inland regions and continuously kept a series of favourable policies to attract FDI.
- Applied the macroeconomic approach to readjust and control the national economical operation to achieve economic sustainable and stable growth.
- Fulfilled the separation between the functions of the government and enterprises.
- Reformed banking institution to make the banks real bank.
- Instituted two security exchanges: Shanghai and Shenzhen, and allowed state-owned companies to be listed there for public capitalisation.
- Improved the business environment for private enterprise development and confirmed the non-state-ownership economy is an important part of socialistic market economy.
- Established and executed the strategy of “prospering the country through Science and Education”.
- Exercised “One Country with Two Regimes” to take Hong Kong and Macao back to the embrace of China.
- Joined the WTO and became the member of the world trade family.

In the early 2000, Jiang mentioned the “Three Representatives” framework, which declares that the CCP always represents the requiring needs of the most advanced productivity, the developing direction of the most advanced culture and the basic interests of the majority of people in China; as well as in 2001, Jiang suggested that the future administrative guideline must “whole-heartedly serve the people, build up the Party to bolster the public and use the power to benefit the people.” Since November 2002 when the 16th National Congress was held, the “Three Representatives” framework has been established as the “foundation when building up the party, the basis when implementing the power, the source of might, and a new guiding ideology that follows Marxism-Leninism, Mao Zedong Thought and Deng Xiaoping Theory” (The 16th National Congress Report).

Especially, when the 16th Congress was held, the Concept of Scientific Development has been officially established as the administrative guiding ideology for the state’s economic development. Concretely, this conceptual ideology can be understood as follows:
The first point of this Concept is Development Idea, which denotes that the core of economic construction must be insisted, and the productivity must be further released and developed.

The core of the Concept is the People comes first, this implies that the people should be wholeheartedly served, the main position of the people should be respected, the original spirit of the people should be encouraged, the human rights of the people should be secured, and all people should walk along the path to common richness.

The fundamental approach to achieving this idealisation is through taking overall planning, coordinating and harmonising development among: Urban and Rural Areas, Regions, Economic Society, in particular, Harmony between Human and Nature, Domestic Development and Opening-up, Home and International.

In September 2004, the concept of “Harmonious Society” was inspired as the administrative strategic task as well in the 4th Session of the 16th CPC. Harmonious Society means to build a socialistic harmonious society with Chinese characteristics. The main elements of this concept encompass the harmony between Democracy and Legislation, Fairness and Righteousness, Integrity and Friendship, Full Dynamics, Stability and Order, and Human and Nature. The Ideology of Scientific Development Concept is the latest element added to the ideology of Socialism with Chinese features and ratified into the constitution at the 17th Congress in October 2007.

Nevertheless, it has been very hard to have complete knowledge of the ideological secrets of the CCP in China thus far. Even though the democracy and legislation have been evolving for years there, the inner working mechanism has been still highly veiled. In China, the political regime and ecology is absolutely distinguished with rigid hierarchy, authoritarian and bureaucracy; likewise, the political power distribution is diffused, complicated and fiercely competitive inside the Party. The other minor political parties, which are very limited to the administrative power, are mostly operated and authorized under the leadership of the CCP. Hence, the PRC is still overwhelmingly recognised as a one-party hegemonic state (Martin, 2010).

Under such a situation, the biggest shareholder of the most CBs is still the government (directly or indirectly) in China, and the development of the banking industry is obviously influenced by the administrative ideologies of the Party. Any study relating to the banking industry in China without comprehensive concern of the social context, political- economical ecology, in particular the political regime, economic institution, industrial policy, cultural traditions, religions and so on, could not make plausible findings and a relatively accurate sense of the IC of the CBI.

4.4 General Analysis of the World Banking

4.4.1 Outline of the Top World Banking 2014

Banking industry, as one of the most important part in modern economy, has a history that could be traced back to the Medieval and early Renaissance times in some rich cities in Italy, e.g. Florence, Genoa, Venice, etc. (Hoggson, 1926; Goldthwaite, 1995). Since its creation, banking industry has played the irreplaceable role of promoting the rapid development of modern world. Thus far, the scale of assets and
the scope of activities of the world banking have expanded greatly, and in particular, banking industry has become the main trigger for either the success or the destruction of the whole economy.

According to the issue “The Top World Banks Ranking for 2014” published by the British magazine “Banker”, the business performance of the ranked banks show that the capital strength of the world banking has been further intensified, whereas the expanding trend of asset scale has slowed down. In the ranking of banks, European banks escaped from the loss morass, while the American banks successfully recovered, and Chinese banks still outperformed the other banks, e.g. in the Chinese CBs, the ICBC consecutively took No.1 seat and the CCB first jumped to 2nd position.

In 2014, the capital strength of the ranked 1000 biggest banks were more beefed up, its total amount reached to $6.62 trillion, up by 8% year-on-year. For the bank regional distribution, the ranked banks from Asian-Pacific region numbered 355, the most in the ranking; European banks numbered 233, the number was just little bit rebounded; Middle-east Europe took 53 seats, increased by 7 year-on-year; while the banks from North America, Middle East, Latin-America and Africa were declining at different rates (see Figure 6). For the situation of the Tier1 capital, only the banks from Africa decreased by 2.7%, while the banks of other regions all increased. Among them, the banks from Middle-east Europe increased the fastest, up by 15.8% to $140.8 billion; the Middle East grew by 11.1% to $249.5 billion; the Asian-Pacific grew by 10.6% to $2381.9 billion, while the Tier1 capital of the banks from North America, Latin-America and Western Europe increased by 6.3%, 5.4% and 4.9%, respectively. To analyse the regional distribution, the Asian-Pacific, Western Europe and North America were still the regions with the most ranked banks and aggregated about 89.9% of the total Tier1 capital of the world top 1000 banks (see Table 1).

Figure 5: 2013-2014 the World Top 1000 Banks Distributed in the Regions

![](image)

Source: the Banker

If looking at the top 25 ranked banks based on Tier1 capital, the ICBC was still the No.1, and the CCB overtook JP Morgan, Bank of America and HSBC to be No.2. In particular, the BOCom increased by 4
places to take 19th seat, the fastest increase of the number banks among the top 25 on Tier1 capital; the ranking place of the BOC and the ABC also increased by a small amount; but the MUFG and Lloyds TSB decreased by 4 ranks, the greatest decrease in the ranking list. In particular, in the top 25 there were no banks from Switzerland, which used to be as one of the most developed bank area.

Table 1: Tier1 Capital Proportion Distributed in the Regions 2014

<table>
<thead>
<tr>
<th>Regional Distribution</th>
<th>Proportion of the Ranked 1000 Banks</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2013</td>
</tr>
<tr>
<td>Asia-Pacific</td>
<td>34.9%</td>
</tr>
<tr>
<td>Western Europe</td>
<td>34.6%</td>
</tr>
<tr>
<td>North America</td>
<td>20.3%</td>
</tr>
<tr>
<td>Middle East</td>
<td>3.6%</td>
</tr>
<tr>
<td>Latin America</td>
<td>3.2%</td>
</tr>
<tr>
<td>Middle-east Europe</td>
<td>2.0%</td>
</tr>
<tr>
<td>Africa</td>
<td>1.0%</td>
</tr>
</tbody>
</table>

Source: the Banker

On the Expanding Trend of the Bank’s Assets Scale, the TAs of the ranked 1000 banks amounted to $113 trillion in 2013, which increased by 0.6% year-on-year, but the speed increase greatly declined compared with 2012 (up 4.6% year-on-year). Among them, the TAs of the Chinese banks and the USA banks increased to $3652.8 billion and $179.1 billion, respectively, while the banks from the EU, Japan, the UK and Brazil decreased by a little. To analyse the proportion of the regions, the asset scale of the banks from the EU were the largest, 26% of the total; the proportion of Chinese banks increased by 3% to 17% of the total; the USA banks increased by 1% to 13% of the total; while the banks from Japan and the UK decreased by 2% and 1% to 13% and 10%, respectively.

On the increase of pre-tax profits in 2014, the pre-tax profits of the 1000 banks amounted to $920.4 billion, an increase of 22.8% year-on-year. Among them, the banks from the EU turned a loss of $49 billion to a surplus of $28 billion became the important factor of the profitability of whole world banking. The pre-tax profits of the banks from China and the USA increased by 27% and 21% respectively, and became the other two engines for the world banking profitability. In particular, Chinese banks took 8 seats in the top 25, and the ICBC, CCB, ABC and BOC dominated the top 4 seats, and became the most profitable banks in the world.
Figure 6: The Top 1000 Banks by TAs 2014 Distributed in Regions

Source: the Banker

Table 2: 2014 Main Distributions by Pre-tax Profits, Tier1 and TAs of the 1000 Banks

<table>
<thead>
<tr>
<th>Region</th>
<th>Pre-tax Profits</th>
<th>Tier1 Capital</th>
<th>Total Assets</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Amount</td>
<td>Proportion</td>
<td>Amount</td>
</tr>
<tr>
<td>China</td>
<td>292.5</td>
<td>31.8%</td>
<td>1191.9</td>
</tr>
<tr>
<td>USA</td>
<td>183.2</td>
<td>19.9%</td>
<td>1164.4</td>
</tr>
<tr>
<td>Japan</td>
<td>64.1</td>
<td>7.0%</td>
<td>537.4</td>
</tr>
<tr>
<td>UK</td>
<td>21.8</td>
<td>2.4%</td>
<td>471.8</td>
</tr>
<tr>
<td>Brazil</td>
<td>26.1</td>
<td>2.8%</td>
<td>147.9</td>
</tr>
<tr>
<td>Eurozone</td>
<td>28.0</td>
<td>3.0%</td>
<td>1388.0</td>
</tr>
</tbody>
</table>

Source: the Banker

4.4.2 Industrial Performance of Main Countries and Regions

- The CBI

In 2014, there were 110 Chinese banks in the top ranked 1000 (increase of 14), the Tier1 capital increased by 18% to $1191.9 billion, and 18% of the 1000 banks increased by 3.2% year-on-year and first overtook the USA, becoming the largest scale of the Tier1 capital in the world banking market. The TAs of the Chinese banks totalled $19.4 trillion, 17.1% of the top 1000 banks (increase of 3.1% year-on-year).

Figure 7: The Number of Chinese Banks in the Ranking List (2008-2014)
In 2014, the 110 ranked Chinese banks all achieved surplus. Their total pre-tax profits were $292.5 billion, 31.8% of the 1000 banks, and they were recognised as the most important engine for the world banking profits. However, due to the decline in the economy growth speed, the interest rates marketisation being accelerated, the financial regulation being more strict and IT enterprises playing a bigger role in the industry, the increase speed of CBI’s earnings decreased by a little, the average increase speed of pre-tax profits of the Chinese banks reduced from 27.78% in 2013 to 21.08% in 2014, while the ROC was reduced from 23.9% in 2013 to 21.95% in 2014, and the ROA was reduced from 1.5% in 2013 to 1.46% in 2014. In particular, the quality of loans was also decreased; the average NPL ratio of the ranked Chinese banks was increased from 0.85% in 2013 to 0.96% in 2014.

Table 3: 2014 Top 10 Chinese Banks by Tier1 in the Ranking List

<table>
<thead>
<tr>
<th>China Ranking</th>
<th>Global Ranking</th>
<th>Name</th>
<th>Tier1 Capital</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>1</td>
<td>ICBC</td>
<td>207614</td>
</tr>
<tr>
<td>2</td>
<td>2</td>
<td>CCB</td>
<td>173992</td>
</tr>
<tr>
<td>3</td>
<td>7</td>
<td>BOC</td>
<td>149729</td>
</tr>
<tr>
<td>4</td>
<td>9</td>
<td>ABC</td>
<td>137410</td>
</tr>
<tr>
<td>5</td>
<td>19</td>
<td>BOCom</td>
<td>68333</td>
</tr>
<tr>
<td>6</td>
<td>36</td>
<td>China Merchants Bank</td>
<td>41690</td>
</tr>
<tr>
<td>7</td>
<td>37</td>
<td>China CITIC Bank</td>
<td>37427</td>
</tr>
<tr>
<td>8</td>
<td>44</td>
<td>SPD Bank</td>
<td>34042</td>
</tr>
<tr>
<td>9</td>
<td>47</td>
<td>China Minsheng Bank</td>
<td>33232</td>
</tr>
<tr>
<td>10</td>
<td>49</td>
<td>China Industrial Bank</td>
<td>32965</td>
</tr>
</tbody>
</table>

Source: the Banker

- European Banking

Accompanying the implementation of the large rescue plan and the advancement of economic structure reform, as well the expansion of industrial production, the rebound of trade export and the growth of
internal consumption under the effects of low interest rates and inflation, European banking has been gradually recovering. In 2014, there were 233 banks in the top 1000 from Western Europe; they achieved $101.75 billion of pre-tax profits in total, a 755% increase year-on-year. Among the ranked European banks, 19 banks turned loss to surplus, and only 9 banks turned surplus to loss.

In 2013, the Eurozone fulfilled the single-regulation regime, and then the ECB launched the overall evaluation to the banking sector in the region, including the investigation of the existing asset quality and the pressure test for the large 128 banks in this region. In the 2014 ranking list, the total Tier1 capital of the ranked banks from the Eurozone increased to $223.7 trillion from $213.4 trillion in 2013, the CAR was increased to 17.1% from 16.5% in 2014. However, among the 10 ranked banks with the most lost in the list, 9 were from the Eurozone, and the total loss reached to $59809 million. The banks with the most loss were from Italy, which had 4 banks in the top 5 by loss and totally made $35185 million of loss; the worst banks in terms of performance was UniCredit who itself made $22032 million of loss, and was followed by the RBS from the UK who made $14595 million of loss in 2014.

**Table 4: The Top 5 Banks by Loss 2014 in the Ranking List**

<table>
<thead>
<tr>
<th>Ranking</th>
<th>Bank’s Name</th>
<th>Country</th>
<th>Pre-tax Profits</th>
<th>Change (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>24</td>
<td>UniCredit</td>
<td>Italy</td>
<td>-22032</td>
<td>-3185%</td>
</tr>
<tr>
<td>15</td>
<td>RBS</td>
<td>UK</td>
<td>-14595</td>
<td>-75.5%</td>
</tr>
<tr>
<td>31</td>
<td>Intesa Sanpaolo</td>
<td>Italy</td>
<td>-6633</td>
<td>P→L*</td>
</tr>
<tr>
<td>446</td>
<td>Banca CARIGE</td>
<td>Italy</td>
<td>-3579</td>
<td>-686.5%</td>
</tr>
<tr>
<td>100</td>
<td>Banca Monte dei Paschi di Siena</td>
<td>Italy</td>
<td>-2941</td>
<td>39%</td>
</tr>
</tbody>
</table>

*P→L: Profit → Loss

Source: the Banker

- **The USA Banking**

In the last two years, thanks to the positive pushing from the large QE monetary policy, the strong rebound of stock and real estate market, the end of housing debt deleverage and the huge growth of automobile and internet sales, the USA economy slowly achieved climbing growth. There were 149 American banks in the ranking list, and America became the country with most ranked banks in 2014. The total Tier1 capital of the USA ranked banks increased by 6.6% to reach $1164.4 billion, about 17.6% of the ranked 1000 banks.

Among the ranked 149 American banks, the Tier1 capital of the 124 banks increased by a little, and the largest Tier1 capital in the USA was JP Morgan ($165663 million), increased by 3.5% year-on-year.
In 2014, American ranked banks totally achieved $183.2 billion of pre-tax profits, increased by 27% year-on-year, higher than Chinese ranked banks, but the American ranked banks were about 19.9% of all the ranked 1000 banks, a little less than Chinese ranked banks. Among the ranked American banks, there were 7 banks that turned loss to surplus, and 93 banks achieve positive growth of pre-tax profits, but also 1 bank that turned surplus to loss. Wells Fargo was the most profitable bank in the USA in 2014, then JP Morgan, Citigroup, Bank of America and Goldman Sachs followed; their 5 banks totally achieved $105771 million of pre-tax profits, but JP Morgan decreased by 10.4% year-on-year, while other 4 increased by 15.3%, 162.2%, 426.8% and 4.7%, respectively.

Table 5: The Top 5 Banks by Tier1 Capital 2014 in the USA

<table>
<thead>
<tr>
<th>Global Ranking</th>
<th>Bank’s Name</th>
<th>Tier1 Capital</th>
<th>Change (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>3</td>
<td>JP Morgan Chase &amp; Co</td>
<td>165663</td>
<td>3.5%</td>
</tr>
<tr>
<td>4</td>
<td>Bank of America</td>
<td>161456</td>
<td>3.9%</td>
</tr>
<tr>
<td>6</td>
<td>Citigroup</td>
<td>149804</td>
<td>9.7%</td>
</tr>
<tr>
<td>8</td>
<td>Wells Fargo</td>
<td>140735</td>
<td>11.2%</td>
</tr>
<tr>
<td>16</td>
<td>Goldman Sachs</td>
<td>72471</td>
<td>8.2%</td>
</tr>
</tbody>
</table>

Source: The Banker

- The Banking in Other Regions

In 2014, there were 65 ranked banks from the Latin-American region, 2 banks than 2013. The total Tier1 capital of the ranked banks was $210.9 billion (decreased by 5.4% year-on-year). The top 5 ranked banks all are from Brazil. Among the ranked 65 banks, 2 banks made loss and 31 banks’ surplus increased by a little. The total pre-tax profits were $47.7 billion (decreased by 5.1% year-on-year).

The Middle East region had 91 banks ranked in the list, but most of them are small-middle size banks. The average Tier1 capital of the ranked banks was just $2.74 billion, much lower than the world average level ($6.62 billion). In 2014, the ranked banks of the Middle East achieved $38.3 billion of pre-tax profits in total, an increase of 11% year-on-year, but still much lower than the increase speed of the world average level (22.8%). In this region, the most profitable banks are from the Gulf region, thanks to very rich oil resources.
### Table 6: The Top 5 Banks by Pre-tax Profits 2014 in the USA

<table>
<thead>
<tr>
<th>Global Ranking</th>
<th>Bank’s Name</th>
<th>Pre-tax Profits</th>
<th>Change (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>8</td>
<td>Wells Fargo</td>
<td>32283</td>
<td>15.3%</td>
</tr>
<tr>
<td>4</td>
<td>JP Morgan Chase &amp; Co</td>
<td>25914</td>
<td>-10.4%</td>
</tr>
<tr>
<td>6</td>
<td>Citigroup</td>
<td>19656</td>
<td>162.2%</td>
</tr>
<tr>
<td>4</td>
<td>Bank of America</td>
<td>16181</td>
<td>426.8%</td>
</tr>
<tr>
<td>16</td>
<td>Goldman Sachs</td>
<td>11737</td>
<td>4.7%</td>
</tr>
</tbody>
</table>

Source: the Banker

Africa had 31 banks in the ranking list of 2014, but less 1 than 2013. The capital strength and profitability of the African ranked banks were still relatively weaker, only 0.9% and 1.6% of the ranked 1000 banks respectively. Standard Bank Group was the strongest banks on capital and profitability in this region.

### 4.4.3 The Changes of Global Banking Movement Post-crisis

Based on the ranking lists published by the “Banker”, the great trend of world banking movement is clearly shown, but it also presented some new changes. Analysing the latest ranking list and comparing with previous lists could lead to some interesting insights on the changes of global banking movement.

With the continuous reconstruction of the world economic situation, the global banking landscape has been significantly changing, and the emerging markets, especially in the Asia Pacific region, are increasingly becoming the important power of the global banking industry. Over the past 45 years, while the U.S. banking industry was basically run out a "U" type movement, Western banking was similar to an "M" type movement, and Japanese banking has shown an "inverted U" type movement, China's banking industry is readily rising up with a "J" pattern.

Basically, the peak of global banking development cycle was reached in 2006, and it had been on the decline since the subprime mortgage crisis began. After the collapse of Lehman, the whole banking industry had entered into a state of depression and worked hard to try to recover. Through a few years of painful de-leveraging adjustments, sharply reducing assets and strongly remodelling business style, the global banking gradually stepped on the road to recovery, especially during the last two years. Thanks to the macroeconomic policies support and the stabilization of the real economy, the overall situation of global banking was greatly improved.

According to the ranking, on the level of Tier 1 capital, the capital strength of the global banking industry has been significantly enhanced in 2014; the Tier 1 capital of the global banking grew by 7.5%, and reached $6.624 trillion, almost twice as much as before the crisis 2007. In terms of the asset size, the
overall size of the global banking achieved stable growth, the total assets of the global banking amounted to $113.054 trillion by the end of 2014, and increased by 52.3% compared with before the crisis 2007. On the pre-tax profits, the profitability of the global banking surpassed the previous high and made a new high, the pre-tax profits of the global banking rose by 23% to reach $920 billion in 2014. This was the first time the previous high point (before the crisis 2007) was exceeded. On the risk situation, the overall soundness of the global banking sector was also ameliorated; in 2014, the Tier 1 capital-to-assets ratio of the global banking reached 5.86%, 1.36% higher than the average ratio of 4.5% before the crisis 2007. This means that the global banking industry had accomplished the phased achievements in capital supplement, de-leverage and the balance sheets repair (e.g. the loans to deposits ratio was dropped from 99% in 2011 to 90.6% in 2012 and to 88.1% in 2013).

Even though the global banking sector has gradually come out from the bottom of the crisis hammering and the pre-tax profit has made a new high, this do not mean that its operation could be returned to the development trajectory before the crisis. Many data demonstrated that the world's banking has shown some new characteristics comparing with the past.

Firstly, the expansion speed of the business scale has been on the downward trend. From 2003 to 2007, the average annual growth rate of global banking Tier 1 capital and total assets were 14.74% and 15.68% respectively, but during the 2008-2013 period, the average annual growth rate of both fell sharply to 9.28% and 3.87% respectively. If to say the period before the crisis 2007 was the Golden Age of the banking development, it may only be called the Silver Age or even the Bronze Age post-crisis 2007.

Secondly, the banking profitability was still significantly lower than the pre-crisis level. From 2005 to 2007, the global banking average return of Tier1 capital and ROA were 22.03% and 0.98%, respectively; but from 2008-2013, both were decreased to 9.68% and 0.51%, even excluding 2008 this extreme year, both were still only 11.88% and 0.65% during this period. As a matter of fact, although the global banking pre-tax profits again reached a new high level, this relied more on the expansion of banking business scale instead of the rebound in profitability. Obviously, the crisis 2007 has a long-term and structural impact on the global banking profitability. Despite the balance sheet repair has achieved the phase results, the global banking is still faced with the difficult issue of continuing to repair the profit table.

Thirdly, the risk situation was presented with a more complex development trend. Although the overall risk level of global banking was eased, especially the market risk, which was significantly dropped due to the international financial markets stabilizing, the risks the banking faced were still very complicated and changeable. It could be said that the global banking has entered into uncharted water during the calm before a storm.

From the ranking lists, it can be clearly learnt that the global banking power situation has undergone profound changes with the ongoing restructuring of world economy: despite the developed markets still occupying the leading positions in the global banking market, their overall strength is fading, while the emerging markets are on the rise. In particular, the banking in the Asia Pacific region is becoming more
and more an important force for the global banking. Namely, the banking in Asia-Pacific with the banks in North America and Western Europe has become the three core powers that leads the global banking:

Firstly, looking at the list of top banks of 2014, the banks from Asia-Pacific region have surpassed Western Europe and North America, becoming the region with most banks in the list. In the last 20 or so years, the number of Western European banks dropped about 40%, while the banks of North America in the list dropped approximately 33%. The places vacated in the two areas are mostly filled by banks from the Asia Pacific region, just a small part of them filled by the Middle East, Latin America, Africa and other emerging markets. In the 2014 list (which reflects cases from 2013), the number of banks of Asia Pacific, Western Europe and North America were 355, 233 and 163 respectively, and they were ranked as the top three regions.

Secondly, from the total Tier1 capital of the banks, the Asia Pacific banking sector has become the most powerful region of capital strength. In 2013, the Asia Pacific banking Tier1 capital amounted to $2381.99 billion, accounting for 35.96% of the whole world banking, while Western Europe and North America's were 33.78% and 20.11%; Middle East, Latin America, Central-East Europe and African accounted for 3.77%, 3.23%, 2.21% and 0.94% respectively in descending order.

Thirdly, from the pre-tax profit situation, the Asia Pacific banking overall performance was also more eye-catching. In 2014, the global banking altogether made the pre-tax profit of $920 billion, but the Asia Pacific region banking contributed for more than half of the total pre-tax profit, while North America, Western Europe and Latin America offered 24.19%, 11.05% and 5.26% respectively; other regions were all below 5%.

Finally, despite the rankings on the list, the total Tier1 capital, and the pre-tax profit of the Asia Pacific banking being in the lead when compared with the other areas in last few years, its overall strength is still thought to be behind North American and Western European banking, because most of its profits were made from the expansion of the business scale and its profitability was still not shown to be as diversified as North American and Western European banking.

Additionally, when looking back at the historic lists of top 10 banks ranking, and considering several key points of the collected years from 1970 to 2014, it is not hard to see that as time goes by, there are always new faces emerging and joining the historic ranking lists. In the 1970 list, there were just 7 North American banks and 3 banks of the UK respectively, and they absolutely dominated in the top 10 rankings of the list. In the 1980 list, French and German Banks completed their revival and accounted for around half of the list, while the US banking began to shrink. In the 1990 list, there were 6 Japanese banks as a result of rapid expansion of the Japanese economy, while the US banks vanished completely from the top 10 due to the impact of the Latin American debt crisis. In the 2000 list, the US banks returned to the top 10 rankings again thanks to the US economy taking off with the help of information technology, while Japan's banking development greatly declined because of the economic bubble burst that began, but remarkably, Chinese Banks was ranked in the top 10 for the first time. In 2010, the list went back to being dominated by European and the US banks, and Chinese Banks continuously ranked.
up, but Japan's banks were completely excluded from the list. In the 2013 list, China's banks strongly rose up and took 4 seats (same number as the US banks), while Britain and Japan's banks claimed the remaining two seats.

In particular, the interesting thing was not only the new faces that appeared, but also the laws behind the ranking changes:

**Firstly, the change of economic power is the decisive factor for affecting the transformation of global banking layout.** Economy is the soil and base for financial growth and development; namely, the banking would be booming when the economy is prosperous; likewise, when the economy is stable, the banking would be stabilized.

**Secondly, to uphold steady development strategy is the key of sustainable development of the banks businesses.** Throughout the lists, there have never been a bank that always remained on the list, this highlights that to keep a business booming for a long time is not easy, but there is one thing they all have in common: they all paid attention to and adhered to the business idea of sound development, despite their strategic orientation and business models being quite different.

**Thirdly, the rational scientific international layout can help CBs to walk the path of sustainable development.** For example, Britain's economic strength declined after WW1, but it always has banks ranked in the top 10, this is a phenomenon that is worth paying attention to. Certainly, Britain's banks have the advantage of moving first and the advantage in terms of its path dependence factor, but more likely, the key to their success is its more internationalisational development model (e.g. HSBC).

### 4.4.4 Exploration of World Banking Institutional Evolution

Tracking back the historical evolution of the banking in the world, it should make sense that the development of banking in every country has been mostly promoted by the leading civilization in the country; also every great shift of the banking movement has been triggered by a particular event (e.g. war, crisis, administrative party change, political or economical reform, etc). This clearly demonstrated that the banking could not play its roles very well if it cannot meet the new market requirements. Basically, the movements of banking are most greatly influenced by the ideologies of the dominant class in the society; this means that all the action and behaviours of the banking reform are manipulated to firstly satisfy the interests of the vested groups based on their political power and economical dominance. In reality, the essence of the banking regime and institution in every country mainly refers to the administrative ideologies of the ruling party in the state.

Actually, most of the earliest banking activities were first developed in the most famous ancient civilisations, countries or regions (e.g. Assyria, Babylonia, Ancient Greece, Roman Empire, Ancient China, Ancient Egypt, and Ancient India), where these countries were the most advanced civilisation in the world during that time. The sense of modern banking could be traced back to Medieval and early Renaissance Italy, when they were the most leading in terms of trading and had the most advanced economy development around the area of the Mediterranean. In particular, in some rich cities (e.g. Florence,
Venice and Genoa, etc), the Bardi and Peruzzi families held dominant banking businesses and even established branches in many other cities in Europe during the 14th century. In the beginning of 17th century, the banking development was rapidly spreading throughout Europe thanks to a series of significant innovations of banking activities created in Amsterdam during the Dutch Republic, which was thought of as the driving engine for the European commerce. Since the coins wore down quickly and were somewhat hard to exchange, the Bank of Amsterdam (Amsterdamsche Wisselbank, 1609) was founded in order to solve these issues. Then a better uniform currency that takes in the coins as deposits was initially made; it was not based on the face value, but on the real value of their metal weight as its credit (so-called bank money issued as equivalent of the holding coins) and was guaranteed by the city of Amsterdam. The concepts of Fractional-reserve Banking and Payment System were created and took place in reality thanks to the increasingly enhanced trade, the free coinage and the Bank of Amsterdam during that time.

From the 18th century to the middle of the 19th century, the banking development in England was advanced compared with the rest of the world. One of the main highlights of banking development in England was the goldsmiths, who were not only transformed from the role as artisans to the depositories of holding gold and silver, but also found that the money they held could not be immediately all withdrawn; thus, they tried to start lending out a percentage of their holding money to both merchants and governments at agreed interest rates to make extra substantial profits. The goldsmiths gradually learnt that the deposit receipts of gold and silver they provided were mainly used in lieu of payment in coins, so that it further prompted them to lend deposit receipts (paper money) rather than coins for people as a means of payment, and eventually, the goldsmiths discovered they could lend even more paper money than the gold and silver they held in hand. Henceforth, a fractional-reserve banking practice had been applied in reality and it gradually spread over to other countries in Europe. Basically, the new kind of “paper money” created by the fractional-reserve banking practice was actually goldsmiths’ debt that was unlike silver or gold coin or commodity regulated and controlled by the monarchy, but required the acceptance of goldsmiths’ promissory notes on payment demand, and the notes or drafts were negotiable, which also means that the holders of the notes were able to legally claim an unconditional right to payment. Another remarkable development of banking history in the UK was the birth of Banks of England, the first real central bank founded in the world that was developed under the international gold standard in most countries in Europe during the 19th and early 20th century. Since the establishment of Bank of England, the banking development in the UK had been leading and dominant in the world until the Breton Woods System introduced and organized in 1944, when the financial hegemony of the U.S has been set up and led the waves of banking movements in the world. The International Monetary Fund (IMF) and the World Bank were created and the gold standard abandonment signalled that a new banking era had come up. The Breton monetary system built up the rules for commercial and financial relations among the world's major industrial states in the mid-20th century, and the premier job of the Breton system was to be an obligation for each member country to adopt its monetary policy to maintain an exchange rate in pegging to the U.S. dollar, as well as establishing the roles of the IMF to bridge temporary imbalances of payments among the member countries.
The foundation of the Breton was based on the shared ideology of capitalism that highly advocates the market mechanism and private ownership. Actually, the political basis of the Breton was caused by the painful experiences from the Great Depression and the concentrative power of a small group of the important states post-WWII. The Breton had made a consensus about the goals and means of international financial management, which favoured a regulated market with tight controls in order to avoid the financial debacles and tsunami like the one during 1930s. When the “beggar thy neighbour” policies seriously took place in the 1930s, it caused the trades to be greatly restricted to the currency bloc (E.g. Starling Area); this consequently blocked the international capital flow and declined the foreign investment chances.

Thus far, banking sector is highly regulated in most countries in the world due to its pivotal role in the economies. Similar to a two-edged sword, banking likewise can cause the destruction of the whole economy if banking crisis happens. In order to prevent banking crisis, every country in the world has to sophisticatedly build up its banking regulation and supervision system. In particular, the Basel Accords, which so far have issued Basel I, Basel II and Basel III, all containing the recommendations on banking laws, regulations and supervisions, are deliberated and promulgated by the Basel Committee on Banking Supervision (BCBS), an institution created by the central bank governors and banking regulatory authorities of the Group of Ten nations in 1974 and since then they meet regularly four times a year. The Committee usually formulates a series of broad supervisory guidelines and regulatory standards, and recommends statements of best practice for banking supervision relating to the actual banking situation, and expects the member and other nations’ authorities to implement based on their own steps, whether in statutory ways or otherwise.

The retail banking has been rapidly developing since 1960s thanks to the increasing use of new technology, particularly, the use of standard cheques with Magnetic Ink Character Recognition (MICR, 1959), the first Automated Teller Machines (ATM, 1960) or Cash machine was invented and first started to appear in the market, and the first Electronic payment systems (SWIFT, 1973) were developed for both domestic and international payments that significantly signals the combination of banking businesses with governmental facilities. The banking industry in Western was highly proliferated during the 1980s due to the financial deregulation, in particular since the “Big Band” was enacted by the UK government in 1986, the CBs were allowed to access capital markets in new ways, which led a new trend of universal banking. Universal banking offers a large range of banking products and services to customers as soon as possible as a “one-stop” supermarket, where comprehensive banking services are supplied.

During the 1980s and the early 1990s, the banking internationalisation dramatically changed the world financial competitive situation due to the economy fantastically rising up in Japan and the “Four Little Asian Tigers” (South Korea, Singapore, Hong Kong and Taiwan), as well as other Southeast Asian countries, e.g. Thailand, Malaysia, Indonesia, where a large capital flow was flooded into because of the regional high interest rates. These regions experienced a historical GDP achievement (8-12%) during that time, and were known as “Asian Economic Miracle”. However, this miracle was attacked by Krugman (1994), who argued that this kind of economic miracle was a result of increasing capital investments rather than total factor productivity, hence, the foundation of the economy growth was weak and many
Southasian countries had a large private current account deficits (e.g. Thailand, Indonesia and South Korea). The maintenance of fixed exchange rate had encouraged a massive external borrowing that made excessive potential foreign investment risks for the financial and enterprising sectors in that countries. Unfortunately, while the U.S economy was recovering from the recession in the early 1990s, in particular after the Fed raising the interest rates to handle the inflation, the value of the U.S dollar increased, and had attracted an enormous capital inflow. The Southeast Asian states had experienced a dramatic export slowdown since the spring of 1996; meanwhile, the export of China had increased greatly and this further deteriorated their current account position. In July of 1997, when the Thai government decided to float the Baht and cut its pegging to the USD, it finally caused the financial collapse in Thailand and later on a crisis that spread over the nation. Then most states of Southeast Asia and Japan had to painfully witness slumping currency avalanching, stock market devaluing, asset price bubble breaking and a great increase in private debt (Kaufman et al, 1999). Consequently, this crisis even had driven a worldwide financial meltdown due to the fears contagion.

During the first decade of 21st century, the world banking industry had been extremely developed. The highlights of the banking movements included: the waves of banking M&A that had made a number of mega-banks, the rising-up of investment banking that had greatly promoted the world capital markets, the competition of non-bank financial institutions that had further pushed the development of universal-type banks, the financial technological innovation of banking that had enormously encouraged banks to explore new instruments and diversify its businesses, in particular, the internet banking development has been remarkably enlarged the scope and scale of banking businesses. However, the latest world financial tsunami has seriously spawned the arguments of the “Too-Big-To-Fall”, “Moral Hazard”, “Captured Regulation”, “Dollar Hegemony”, “Financial Liberalisation”, “Banking Innovation of Derivatives”, etc. The supremacy of western financial ideology and philosophy was no longer convincing and seemingly old-fashioned, and the world financial focus and dynamic has been moving to the Orient again.

In the West, the most influential ideas of economic development were from Smith’s theory of Free Market and Keynes’ Theory of Activist Stabilization Policy. In the East, in particular in China, the economic movements were mostly guided by Marxism-Leninism. Until the latest global financial crisis, the world banking development had been guided by the dominant ideologies of Anglo-American Style. Basically, the dominance of political and economic power in a society is the basis of the banking standing, positioning and orienting. According to Cartalist or Chartalist Approach (Goodheart, 1998), which emphasises that a currency is the representation of the dominant political and economic power in a state, money is not a function, but a social relation (Ingham, 2004), and its role is to establish a particular asset in the economic system and enforce the participants to use it as economic calculations in the system; money is the power of the state rather than the confidence of money in the markets (Green, 1992; Fields & Vernengo, 2011). If a state’s money is dominant in a region or regions, this would hugely promote the state’s banking development and become the leading figures in the region or regions. Looking back at the banking history, it is unarguable that when a country has the leading civilisation in the region, its political and economic ideologies would have the most influences on the other countries in the region. As the representation of the political and economical dominance, its money would be certainly hegemonic in the
region; hence, its banking industry would then certainly be the most competitive in the region. For instance, during the mercantile phase of capitalism, the country with political and economical hegemony had the power to enforce its trading counterparties to make the payments by an appointed token, hence, their merchant banks were mostly used to deal with the payments and expand their business both domestically and internationally. Actually, the appointed token was always the currency issued by the country with the political and economical hegemony in the region or regions (e.g. Venetian ducat, the Dutch guilder, the British pound, the USD, etc). Even though the gold standard was abandoned and the world money system entered in paper money era, there must still be a world fiat currency as the main reserve currency and payment means (e.g. the USA dollar). For Hudson’s (1972) argument, the modern international monetary system has mainly experienced two monetary hegemonies: the Great Sterling (1870s-WWII) and then the US Dollar. However, the hegemonic power of the dollar has been declining since other currencies (e.g. Japanese Yen, Euro, etc) strongly rose up, and the international main payment and reserve currencies have been more diversified.

Conclusively, if a country’s civilisation is confirmed as the leading figure in a region or regions, its political and economy will certainly also be dominant in the areas, monetary hegemony must be derive from the political and economical power of a country in the area, and this money position will greatly promote the country’s banking development and international competitiveness. A country’s leading civilisation and administrative ideology are the foundations and the guidelines for its banking development orientation, and the banking international competitiveness is greatly depended on the country’s political and economical dominance in a region or regions.

4.5 The Development of the CBI

4.5.1 The Profile of the CBI

Since 1949 the PRC was founded, the CBI has been developing for more than 65 years. Thanks to the economic reform and opening-up, the banking industry has revived again, and it gradually diversified thanks to the banking commercialisation and marketization reform during the 1990s. The CBI has accelerated hugely thanks to the commitments after joining the WTO and the banking shareholding reform since 2001, and it has been strongly rising up since the latest worldwide financial crisis happened. Nowadays, the CBI has been highly recognised as the new banking giant toweringly standing upright in the world financial market. By the end of 2013, the CBI was composed of 2 policy banks (PBs) and China Development Bank (CBD), 5 large commercial banks (LCBS), 12 joint-stock commercial banks (JSCBs), 145 city commercial banks (CCBs), 468 rural commercial banks (RCBs), 122 rural cooperative banks (RCoBs), 1803 rural credit cooperatives (RCoCs), 3056 rural credit cooperatives (RCCo), 1 postal savings bank, 4 asset management companied, 42 locally-incorporated foreign bank subsidiaries, 1 Sino-German Bausparkasse, 68 trust companies, 176 finance companies of enterprise groups, 23 financial leasing companies, 5 money brokerage firms, 17 auto financing companies, 4 consumer finance companies, 987 village or township banks, 14 lending companies and 49 rural mutual credit cooperatives. There were altogether 3949 institutions with approximately 3.55 million employees in China’s banking sector. Of the whole banking sector, the total assets and liabilities reached to RMB 151.4 trillion and RMB
141.2 trillion, increased by 13.3% and 13% year-on-year respectively; the outstanding balances of deposits and loans totalled to RMB 107.2 trillion and RMB 45.2 trillion, increased by 13.5% and 11.9% year-on-year respectively. The after-tax-profits reached RMB 1.74 trillion, while the outstanding balance of NPLs stood at RMB 1.18 trillion, up by RMB 1.16 billion, but the NPL ratio down by 0.07%. (CBRC: statistics). Directly under the management of the State Council, the People’s Bank of China (PBC) is the central bank and the CBRC (China Banking Regulatory Commission) is the banking watchdog in charge of money issuing, financial regulating and supervising in China.

4.5.2 The Institutional Evolution of the CBI

On the 1st of October 1949, the PRC was founded and it symbolised that the financial undertaking was driven into the new era. Thus far, the CBI has remarkably made a great deal of progress. Chronologically and phenomenally, the evolution of the banking industry can be roughly divided into three stages in the last six decades.

- **1949-1977: Big-Mono-Unified Banking System**

At the beginning of the PRC, the central government immediately set up the independent and unified Renminbi standard institution and system in lieu of all other currencies in order to control the serious inflation and chaotic money circulation, cancelled the special rights of foreign banks in China, reorganised private banking and built a united banking system. Hence, the PBC has been established as the only legislative bank to issue currency, lend money, clear and settle the payments in China. Even though the banking system was severely damaged during the three years of the GLF, the banking had strongly supported the entire economic rapid development until the GCR launched. During the period of the GCR, the banking system was abolished, the currency was criticised, most commercial financial institutions were stopped and finally, even the PBC was merged into the Ministry of Finance. This situation lasted until 1977, and then the financial system and banking activities gradually recovered.

- **1978-2000: Institutional Reform of the Banking Regime**

The 3rd Session of 11th Central Plenary Committee, which was held in 1978, had opened the reforming curtains for the banking industry. When Agricultural Bank of China (ABC), then Bank of China (BOC) and China Construction Bank (CCB) were separated from the PBC in 1979, from henceforth, the big-mono-unified banking system had been incrementally broken. In September 1983, the State Council made the decision that the PBC specially wields the functions of the central bank, and later on, when Industrial and Commercial Bank of China (ICBC) was formally set up in January 1984, it took most of the commercial businesses from the PBC, which then became the formal central bank in China, while the ICBC, CCB, BOC and ABC were mainly in charge of industrial and commercial businesses, infrastructure businesses, foreign exchange businesses and countryside banking services respectively. From then on, the quasi-real banking system centred by the PBC and mainly based by the “Big Four” specialisational banks had been finally built up.
Since the “PRC Banking Management Provisional Rules” was officially exercised in 1986, the development of the CBI had been accelerated. From 1986 to 1996, JSCBs and PBs were instituted one after the other, e.g. Bank of Communication (1986); China CITIC Bank, China Merchants Bank and Shenzhen Development Bank (1987); Industrial Bank and Guangdong Development Bank (1988); China Everbright Bank, Shanghai Pudong Development Bank and Huaxia Bank (1992); China Minsheng bank (1996), as well as three policy banks (1994): China Development Bank, The Export-import Bank of China and Agricultural Development Bank of China. Remarkably, the “Law of the People’s Bank of China” and “Law of Commercial Bank” were officially exerted in 1999 that symbolised that the reforming movement of the CBI has been henceforth paced along the legal path. In particular, the first national financial working conference, which was held in November 1997, had confirmed a series of guidelines, policies and measurements of the financial reform, and definitely pointed out the importance of the reform of the “Big Four”, which shall be rebuilt to be commercial banks. Afterwards, the Ministry of Finance declared the issuing of 30-year long-term special treasury bonds (1998) with the purpose of injecting capital totalling USD 270 billion into the “Big Four SOCBs”, and the government also instituted four asset management companies (Huarong, Orient, Cinda and Great Wall, 1999) entirely by fiscal appropriation and aimed to buy, manage and dispose of the total NPLs (RMB 1.4 trillion) that were peeled off from the four SOCBs. The visible structure of China’s banking system pre- vs. post- Reform and Opening-up can be captured by the following Figure 8 and Figure9.

**Figure 8: The Banking System Pre-Reform and Opening-up**

China’s banking system has been accelerating its marketization proceeding and opening-up paces since joining WTO in 2001. The CBRC was established in 2003 as the special regulatory and supervisory authority of the CBI, aiming to lead and ensure healthy, stable and sustainably development of the banking reform and opening-up. Later on that year, the shareholding reform of the four SOCBs was
launched through injecting the core capital (BOC and CCB, USD22.5 billion, Dec 2003; ICBC, USD15 billion, Apr 2005) with the target of privatising the ownership and bringing in the foreign strategic investors. From 2005 to 2006, the Bank of Communication, CCB, BOC, ICBC and China Merchants Banks were successfully listed in Shanghai (A shares) and Hong Kong (H shares) stock market. In addition, the founding of China Banking Association (CBA) in 2005 showed that there was a self-disciplined organisation significantly emerging in the banking industry. Especially in 2006, the CBI service market was completely opened up due to the commitment of joining the WTO, and since then, the banking system and institutions have been significantly changed and the market competitive environment has been greatly improved.

**Figure 9:** The Banking System Post-Reform and Opening-up

Note: CCB-city commercial bank, RCB-rural commercial bank, RCoB-rural cooperative bank, UCC-urban credit cooperative, RCC-rural credit cooperative, LIFB-local incorporated foreign bank, PSB-post saving bank, AMC-asset management company, Other—including trust companies, finance companies of enterprise groups, financial leasing companies, money brokerage firms, auto financing companies, village or township banks, lending companies and rural mutual credit cooperatives.

Since 2007, the reform guideline of ABC has been confirmed and listed in 2010, and the National Post Saving Bank has been set up, while the reform of the large CBs have further deepened, the next reform principles of policy banks has been established and the small-middle size banks have started to experience multi-business models, as well as banking institutions in countryside being rapidly developed. During the last several years, the CBI making really outstanding performances, despite facing the worst crisis since the Great Depression, still tells a fantastic story to the world. There are no doubts that the CBI has been strikingly rising up in the world financial market.

**4.6 The IC of CBI: A Multi-dimensional Examination**

Based on the ranking lists by the Banker, there must be a question: is China’s banking truly powerful in the world? This needs to be answered thoughtfully.
Since China's economic reform and opening up, especially since the full implementation of the shareholding institution reform launched ten years ago, China's banking industry has been achieving remarkable rapid development; this case also has been fully embodied in the ranking lists. In the 2014 ranking list, the Chinese banks performed outstandingly: 110 Chinese Banks were ranked on the list, including the ICBC, CCB, BOC and ABC that took places in the top 10. The Chinese banks first overtook the USA as the world's largest banking market measured by the capital strength; the pre-tax profits of Chinese banks were as much as USD292 billion, accounting for 31.78% of global banking total profits; and it should be remembered that it was only about 4% ten years ago.

Actually, China's banking has been excellent not just in the recent years since the crisis happened. Even since 2004, its growth has been stably going up; the proportion of the Tier1 capital and the total assets of the CBI is increased by 1-2% of the world banking every year. The global financial crisis 2007 has weakened the performance of other competitors, but the performance of Chinese banks, especially its profitability performance, has been more eye-catching thanks to its sound development. Nowadays, China's banking has increasingly become an important emerging force in the global banking market; its market power cannot be neglected anymore.

So, is China's banking truly strong? Obviously, it cannot be considered powerful yet. Actually, China's banking has been in the "too big but not too strong" situation so far. In this part, the 5 large Chinese CBs: ICBC, CCB, BOC, ABC and BOCom, are mainly chosen as the case study to represent the international competitiveness of Chinese CBs. These 5 CBs are recognised by the CBRC and the field as the large CBs in China, because the large 5 hold about 50% of the market share in China, and they have been the most international Chinese CBs and doing businesses all over the world. Thanks to the business scale/size, market capitalisation and profitability of the 5 large CBs, they have all been ranked in the world top 50 banks for several years. Therefore, in order to comprehensively evaluate the international competitiveness of the 5 large Chinese CBs, JP Morgan, Bank of America, HSBC Holding and Citigroup (the four of the most international CBs that also have been usually ranked in the world top 20) are taken as the comparative target to reach a convincing conclusion on the real level of the IC of Chinese CBs.

4.6.1 The Position of Chinese CBs in the World

With the economy development miracle since the reform and opening up was launched, the CBI has some unbelievable highlights. By the end of 2013, China’s banking system consisted of diversified institutions, including Policy Banks, Large CBs, JSCBs, City CBs, Rural CBs, Cooperative Banks, Credit Cooperatives, Saving Banks, Assets Management Companies, Locally Incorporated Foreign Banks, and other non-bank institutions, amounting to 3949 institutions with 3.55 million people. At the end of 2013, the total assets of the banking sector grew by RMB17.7 trillion or 13.3% year-on-year to RMB141.2 trillion, the outstanding balance of the banking deposits increased by RMB12.7 trillion or 13.2% year-on-year to RMB107.1 trillion, whilst the outstanding balance of the banking loans totalled to RMB76.6 trillion, up by RMB9.3 trillion or 13.9% year-on-year, the weighted average Common Equity Tier1 CAR and the weighted average CAR of the banking sector were 9.95% and 12.19%, up by 0.14% and down by 0.29% year-on-year respectively, the outstanding balance of the banking NPLs stood at RMB1.18 trillion, up by
RMB101.6 billion, whilst the NPL ratio of the whole banking registered at 1.49%, down by 0.07% year-on-year, but the loan loss provision set up by the CBs also increased by RMB217.5 billion to RMB1.67 trillion, and the provision ration reached 2.83%. This demonstrated a stable situation of the banking sector. However, the banking profitability was not really continuously promoted, the pre-tax profits of the banking realised RMB1.74 trillion, up by 15.4% year-on-year, but the ROE and ROA of the banking went to 18.5% and stood at 1.2%, down by 0.52% and maintained almost the same level comparing with 2012.

The banking sector has been undoubtedly further diversified and internationalised with a strong and stable development trend. During the last three years, the performances of the CBI have really shed light over the world financial market. According to the “Banker” statistics, Chinese banks have historically outperformed for the last three years based on the Tier1 capital, total assets, capitalisation and pre-tax profits. According to the key indices of the world top banks ranking of 2014, ICBC, the largest Chinese CB, was ranked all the No.1 in the world by Tier1 capital, total assets and pre-tax profits, absolutely showed off its outstanding performance.

Likewise, the CCB followed the ICBC to take second seat in the ranking by Tier1 capital and Pre-tax profits, and ranked No.3 in the list by total assets. The BOC was ranked No.4 by pre-tax profits, No.7 by Tier1 capital and No.9 by total assets in the list, whereas the ABC and the BOCom were ranked No.3 and No.12 by pre-tax profits, No.9 and No.19 by Tier1 capital, No.7 and No.19 by total assets respectively in the list. The 5 Chinese CBs all had relative lower NPL ratio and their ROA was relatively better than in 2012, but their CAR was not advantageous compared with their foreign peers in the year. Besides, there were 110 Chinese CBs ranked in the list and they had all performed relatively well. It seems like the Chinese CBs have really been standing up in the world banking market. (See Table 7)

4.6.2 General Analysis of the 5 Large CBs

Since 2003, the IBRC has been officially recording the banking data. By the end of 2013, the TAs of CBI has been huge increased. For the 5 largest Chinese CBs, their total assets increased from RMB16051 billion to RMB 65601 billion (a fourfold increase), their total liabilities reached RMB 61161 billion from RMB 15400 billion, an increase of 297.02%, whilst their total pre-tax profits grew from RMB 247 billion in 2007 to RMB 838 billion in 2013, up by 239.27%. The average percentage of total assets and liabilities of the 5 large Chinese CBs were more than 51% of the whole banking industry in China, but declined year-on-year.
Table 8: The No.1 Bank by Tier1, TAs and Pre-tax Profits 2014

<table>
<thead>
<tr>
<th>Region</th>
<th>By Tier1 Capital</th>
<th>By Total Assets</th>
<th>By Pre-tax Profits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global</td>
<td>ICBC</td>
<td>ICBC</td>
<td>ICBC</td>
</tr>
<tr>
<td>North America</td>
<td>JP Morgan Chase &amp; Co</td>
<td>JP Morgan Chase &amp; Co</td>
<td>Wells Fargo</td>
</tr>
<tr>
<td>Western Europe</td>
<td>HSBC Holding</td>
<td>HSBC Holding</td>
<td>HSBC Holding</td>
</tr>
<tr>
<td>Asia</td>
<td>ICBC</td>
<td>ICBC</td>
<td>ICBC</td>
</tr>
<tr>
<td>Japan</td>
<td>Mitsubishi UFJ Financial Group</td>
<td>MUFG</td>
<td>MUFG</td>
</tr>
<tr>
<td>Latin America</td>
<td>Itau Unibanco Holding</td>
<td>Banco do Brasil</td>
<td>Itau Unibanco Holding</td>
</tr>
<tr>
<td>Middle East</td>
<td>National Commercial Bank</td>
<td>Qatar National Bank</td>
<td>National Commercial Bank</td>
</tr>
<tr>
<td>Middle-east Europe</td>
<td>Russia Sberbank</td>
<td>Russia Sberbank</td>
<td>Russia Sberbank</td>
</tr>
</tbody>
</table>

Source: the Banker

Figure 10: TAs of the 5 Large Chinese CBs 2003-2013

By the end of 2013, the 5 large Chinese totally lent RMB 36611 billion to customers, and totally took RMB 52911 billion of deposits, increased by 26.99% and 20.33% than 2012, respectively. The ROA and ROE of the five large Chinese CBs have been also greatly improved. The pre-tax profits of the 5 large CBs were nearly always more than half of the total pre-tax profits made by the whole banking in China, but the movement of the 5 CBs’ profit proportion was declining during 2007-2013. During this period, the ROA and ROE of the 5 large CBs were also much better than the whole banking performance, and they made a huge contribution to the whole industry and the country’s economy development.

4.6.2.1 Special Analysis of the 5 Large CBs

- The Evaluation of ICBC
ICBC was formally established in January 1984; the Bank was wholly restructured to a joint-stock limited company in 2005; and in 2006, the Bank was successfully listed on both SSE and SEHK as well. Through rapid development and outstanding performance, the Bank has become the largest listed bank in China and in the world. So far, the Bank possesses an excellent customer base, has great innovation capability and diversified business structure, and holds strong international market competitiveness. The Bank has institutions in 6 continents, and expanded its overseas network to 40 countries and regions. The Bank has formed diversified, internationalised, and information-based operational system and management structure to provide comprehensive financial products and services to its about 4,735 thousand corporate customers and 432 million personal customers through its gigantic distribution channels consisting of 17,245 domestic institutions, 329 overseas institutions and 1,903 correspondent banks worldwide, as well

Figure 11: PBT of CBI and the PBT Proportion of the 5 CBs 2007-2013

![Figure 11: PBT of CBI and the PBT Proportion of the 5 CBs 2007-2013](source)

Source: IBRC and the 5 CBs Annual Report 2013

Figure 12: ROA and ROE of the 5 CBs and CBI 2007-2013

![Figure 12: ROA and ROE of the 5 CBs and CBI 2007-2013](source)

Source: IBRC and the 5 CBs annual report 2013
as its E-banking network that offers a range of internet and telephone banking services and self-service banking centers for its customers and clients.

Internationalisation of the Bank has been continuously advancing and the financial back-up of “Going out” enterprises and RMB internationalization also steadily stepped up. Based on the endogenous development of overseas institutions with a basically-complete global service network, and the regional management mechanisms, the Bank has promoted differentiated positioning, mutual advantage complements and coordinated development for its regional institutions, and reinforced the business supporting, integrated operating and risk control functions of the head offices for its regional management. The Bank has especially improved the domestic-overseas integrated operating pattern, and refined the global integrated FOVA function to strengthen the interaction between domestic and overseas institutions and among overseas institutions. Meanwhile, the Bank has promoted the information sharing mechanism by optimizing the global information platform. Additionally, the Bank has expanded its global key product lines in a collateral and in-depth fashion, including retail banking, E-banking, cash management, asset management and specialized financing, as well as the cross-border RMB business by officially setting up the RMB clearing bank in Singapore. It also developed its overseas RMB clearing network and stepped up the development of offshore RMB market in the overseas financial centers. In 2013, the volume of the Bank’s cross-border RMB business reached RMB2166.6 billion, increasing by 40.0%.

To further develop the overseas institutions, the Bank has officially launched ICBC (Brasil) business; in particular, ICBC (Peru) and ICBC (New Zealand) have obtained the licenses, and the name of Standard Bank Argentina S.A. has been officially changed to ICBC (Argentina), while the integration work for ICBC (Argentina) has been under steady progress, ICBC (Middle East) Limited has been officially transformed into Dubai (DIFC) Branch, the tier-two networks in Indonesia, Singapore, Malaysia and Canada have been expanded, and the Bank has signed the agreement to acquire 20% shares of Bank SinoPac. By the end of 2013, the Bank has also indirectly covered 19 African countries as a shareholder of Standard Bank, and established correspondent banking relationship with 1,730 overseas banking institutions in 145 countries and regions. The Bank has been providing its comprehensive service network to cover Asia, Africa, Latin America, Europe, North America, Australia and major global financial centers. At the end of 2013, the Bank’s total assets of its overseas institutions (including overseas branches, subsidiaries and investments in Standard Bank) were USD209163 million, increased by USD46441 million or 28.5% year-on-year, and accounted for 6.7% of the Group’s total assets, which was an increase of 0.9%. Its overseas total loans and deposits amounted to USD108121 million and USD 74750 million, an increase of USD36,238 million or 50.4% and USD17.336 billion or 30.2% respectively. Overseas profit before tax during the reporting period was USD2,233 million, representing an increase of 33.5% year-on-year.

According to the “Banker” statistic, by the end of 2013, the total Tier1 capital, total assets and profit before tax of the Bank were USD207614 million, USD3100254 and USD55480 million respectively, and all ranked as the world No.1 bank for the three indicators. From the following two Figures about the key financial data and indicators of ICBC, the absolute data of the Bank showed a relatively positive trend during the period. For the bank’s strength, its CAR maintained a good level to meet the Basel requirements. In terms of the bank’s profitability, it was one of the best banks in the world, for the bank’s
asset quality, it had also shown a relatively sound situation. However, if one were to deeply analyse the bank’s profit structure, it can be learnt that most of its profits were made at home thanks to the policy favour, market monopolistic power and interest margin. During the period, its average ratio of net fee and commission income to operational income was 19.94%, just around one fifth of the operational income, and its overseas pre-tax profits only contributed, on average, to 3.56% of the bank’s total profits, this means that the bank’s international profitability is still at a low level. Additionally, due to the lending culture and the special financial ecology in China, the real level of the bank’s NPL ratio is still often argued about. (The Bank annual reports)

Figure 13: ICBC Key Financial Positions 2009-2013

Figure 14: ICBC Key Operational Results 2009-2013

*NFCI: Net fee and commission income; OI: Operational Income
Source: Reformulated and renormalized from ICBC Annual Report 2013—2009
The Evaluation of CCB

China Construction Bank Corporation (CCB) was established in October 1954 and headquartered in Beijing, and is one of the 5 large JSCBs in Mainland China with world-renowned reputation. The Bank was listed on Hong Kong Stock Exchange in 2005 and listed on the Shanghai Stock Exchange in 2007. At the end of 2013, the Bank’s market capitalisation reached US$187.8 billion, ranking 5th among listed banks in the world; the Bank holds 14,650 branches and sub-branches in Mainland China to provide a range of significant services to 3,065,400 corporate customers and 291 million personal customers. To develop overseas business, the Bank set up overseas branches in Hong Kong, Singapore, Frankfurt, Johannesburg, Tokyo, Osaka, Seoul, New York, Ho Chi Minh City, Sydney, Melbourne, Taipei and Luxembourg, and owns various abroad subsidiaries, such as CCB Asia, CCB International, CCB London, CCB Russia, CCB Dubai, CCB Europe, CCB Principal Asset Management, CCB Financial Leasing, CCB Trust and CCB Life, etc.

At the end of 2013, the total assets, deposits and pre-tax profits of the Bank were RMB15363 billion, RMB12223 billion and RMB279.8 billion, increasing by 9.95%, 7.76% and 11.28% year-on-year, respectively. The Bank was remarkably also ranked as the world No.2 bank in terms of total assets and pre-tax profits, and No.5 by Tier1 capital (Banker, 2014). From the following two Figures, it can be clearly seen that, during the period the absolute data shown, the Bank’s capital strength got stronger year by year, its profitability capacity has clearly increased, and its assets quality was kept at a stable level. However, if one were to analyse some key financial indicator of the Bank, the findings also demonstrated that the Bank’s income structure still mainly relied on home-base performance, and its overseas profit contribution was still very low, constantly below 2%. This means that the Bank’s international competitiveness is still very weak, and its competitive advantage is still country-specific, not bank-specific. Even though it has also been recognised as one of the most profitable banks in the world, most of the profits were made from its domestic market, thanks to the financial background, industrial policy support, special interest rate margin and the market monopolistic power. (the Bank annual reports)

Figure 15: CCB Key Financial Position 2009-2103

Source: Reformulated and renormalized from CCB annual reports 2009-2013
Bank of China (BOC) was formally established in 1912 and since then the Bank has served as the country's central bank, international exchange bank and specialised international trade bank until 1949. When New China was born, as the state-designated specialised foreign exchange and trade bank, the Bank was still responsible for managing China's foreign exchange operations and provided vital support to the state's foreign trade development and economic infrastructure through its international trade settlement, overseas fund transfer and other non-trade foreign exchange services.

Since China launched the economic reform and opening up, the Bank has further taken the historical opportunity of capitalising foreign funds and advancing technologies to boost its competitive advantage in foreign exchange business, and became the country's key foreign financing channel to support the economic development. The Bank was transformed into a wholly SOCB in 1994, and the BOC Limited was incorporated in 2004. The Bank was listed on the Hong Kong Stock Exchange and Shanghai Stock Exchange in 2006, becoming the first Chinese CB to launch an A-Share and H-Share IPO and fulfil a dual listing both domestically and internationally. In 2013, the Bank was enrolled again as a Global Systemically Important Bank, becoming the only financial institution from emerging economies to be entitled for three consecutive years, and ranked by the “Banker” as the world No.9 bank by Tier1 capital and total assets, and No.3 by pre-tax profits. BOC, ICBC and CCB are admitted as the most profitable banks in the world for several years, and made a huge contribution to the world banking development and China’s economy growth. As of the end of 2013, the total assets, deposits, Tier1 capital, pre-tax profits and NPLs of the Bank were RMB13874 billion, RMB10098 billion, RMB164 billion and RMB924 billion, respectively.

BOC has been recognised as China’s most international and diversified bank, which comprehensively provides a range of financial services to worldwide customers from mainland China, Hong Kong, Macau,
Taiwan and 37 other countries and regions. At the end of 2013, the Bank holds 620 overseas institutions. Its Lisbon Branch is the first operating institution established by a Chinese bank in Portugal to be opened for business; Ulaanbaatar Representative Office is the first standing institution established by a Chinese bank in Mongolia to be opened for serving local and international clients. In addition, the Bank set up 9 new tier-2 institutions in Macau, Malaysia, Indonesia, Germany, Italy, Russia and Canada.

With RMB internationalisation and Chinese enterprises’ “Going Global”, the Bank has steadily improved the integrated development strategy for its domestic and overseas operations and management, and significantly expanded its overseas network to offer a wider range of services and coverage around the globe. As a result, the Bank’s global service ability has been further strengthened, and its international market competitiveness continually improved and enhanced. By the end of 2013, the total assets of the Hong Kong, Macau and Taiwan region were RMB2404 billion, an increase of RMB355.9 billion or 17.37% year-on-year, and represented 16.10% of the Group’s total assets. This segment achieved a profit before tax of RMB32.442 billion, an increase of 21.52% year-on-year and represented 15.25% of the Group’s profit before tax. Total assets of the other countries amounted to RMB1442 billion, an increase of RMB355 billion or 32.63% year-on-year, representing 9.66% of the Group’s total assets; this segment achieved a profit before income tax of RMB8.8 billion, an increase of 7.49% year-on-year, and represented 4.13% of the Group’s profit before income tax.

To fully promote the Group’s advantages, the Bank’s overseas institutions enhanced their business negotiation ability and successfully organised multiple large cross-border projects through the strengthening of domestic and overseas business coordination, thus providing high-quality financial services to Chinese “Going Global” customers and abroad local customers. Moreover, the Bank actively pushed forward cross-border personal banking business by introducing products that are specially tailored for customer groups, such as outbound tourists, students studying overseas, investment migrants, expatriates working overseas and foreigners living in China. It also expanded its overseas wealth management business and developed its one-stop offshore wealth management service “Nan Yang Ju Fu”.

As the most internationalised commercial bank in Chinese mainland, the Bank has also led the RMB offshore market development that became the primary channel of RMB cross-border circulation, the main driver of RMB internationalisation, and the main leader in RMB internationalisation products and services innovation. In 2013, the Bank’s cross-border RMB settlement volume was over RMB3.98 trillion, among which RMB1.77 trillion was attributed to the Bank’s domestic institutions and RMB2.22 trillion was attributed to Hong Kong and other overseas institutions, and achieved an overall growth of 60.2% year-on-year. Remarkably, the Bank had completed cross-border RMB settlement volume of RMB8.6 trillion since China launched its RMB cross-border settlement scheme. Apart from Hong Kong, Macau and Taiwan, the Bank is also the RMB clearing bank of Malaysia, Luxembourg, Cambodia, Philippines, Russia and other countries and regions. In addition, the Bank has become the main RMB clearing channel in countries and regions such as the UK, Germany, France, Japan, South Korea, Indonesia and South Africa.
The Bank has been continuously innovating RMB financial products and improving its cross-border RMB services. In 2013, it carried out a full range of product innovation, and simplified the cross-border RMB settlement procedure to facilitate enterprises’ cross-border trade and investment. The Bank conducted the two-way cross-border RMB cash pooling service, which was the first bank business after the financial reform policies in China (Shanghai) Pilot Free Trade Zone officially issued. It was the first bank to conduct RMB cross-border trading settlement in the Spot Commodity Exchange. (the Bank annual reports)

Table 9: BOC Key Financial Position and Operational Results 2009-2013

<table>
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<tr>
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<tr>
<td>(Unit: billion)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Assets</td>
<td>13874</td>
<td>12681</td>
<td>11830</td>
<td>10460</td>
<td>8752</td>
</tr>
<tr>
<td>Total Deposits</td>
<td>10098</td>
<td>9174</td>
<td>8818</td>
<td>7734</td>
<td>6717</td>
</tr>
<tr>
<td>Net Capital</td>
<td>924</td>
<td>825</td>
<td>724</td>
<td>645</td>
<td>516</td>
</tr>
<tr>
<td>Total PBT</td>
<td>164</td>
<td>146</td>
<td>131</td>
<td>110</td>
<td>86</td>
</tr>
<tr>
<td>Overseas PBT</td>
<td>41.24</td>
<td>34.88</td>
<td>35.93</td>
<td>28.28</td>
<td>25</td>
</tr>
<tr>
<td>NPLs</td>
<td>73.04</td>
<td>65.22</td>
<td>63.43</td>
<td>62.27</td>
<td>74.63</td>
</tr>
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<table>
<thead>
<tr>
<th>Operational Results</th>
<th>2013</th>
<th>2012</th>
<th>2011</th>
<th>2010</th>
<th>2009</th>
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<td>% percentage</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ROA</td>
<td>1.23</td>
<td>1.19</td>
<td>1.17</td>
<td>1.15</td>
<td>1.09</td>
</tr>
<tr>
<td>ROE</td>
<td>18.04</td>
<td>18.13</td>
<td>18.32</td>
<td>18.92</td>
<td>15.53</td>
</tr>
<tr>
<td>OPBT Ratio</td>
<td>25.15</td>
<td>23.89</td>
<td>27.43</td>
<td>25.71</td>
<td>29.07</td>
</tr>
<tr>
<td>Ratio of NII to OI*</td>
<td>30.41</td>
<td>29.83</td>
<td>30.53</td>
<td>29.86</td>
<td>31.68</td>
</tr>
<tr>
<td>CAR</td>
<td>12.46</td>
<td>13.63</td>
<td>12.98</td>
<td>12.60</td>
<td>11.14</td>
</tr>
<tr>
<td>NPL Ratio</td>
<td>0.96</td>
<td>0.95</td>
<td>1.00</td>
<td>1.10</td>
<td>1.52</td>
</tr>
<tr>
<td>Allowance to NPL</td>
<td>229</td>
<td>236</td>
<td>221</td>
<td>197</td>
<td>151</td>
</tr>
</tbody>
</table>

*NII: Non Interest Income
Source: Reformulated and Renormalized from BOC Annual Reports 2009-2013
Even though the Bank has had much better overseas performance compared with its Chinese peers by far, its overseas profitability is still at a relatively low level and its overseas business contribution is still not rationally well. For instance, its overseas total assets and deposits represented less than 20% and its profitability has contributed less than 30% for the group operation and development. The Bank’s asset quality seems to maintain a stable situation, but its potential lending risks is still a cause for concern. The Banks has made huge absolute profit figure, but more than two third still from home market, demonstrating its country-specific competitive advantage as well.

- **The Evaluation of ABC**

Agricultural Bank of China (ABC) was established in 1951. Since the late 1970s, the Bank has become a wholly SOCB and subsequently a state-controlled commercial bank. The Bank was restructured in 2009 and as the last one of the large CBs to be listed on the Shanghai Stock Exchange and the Hong Kong Stock Exchange in 2010. As one of the major integrated financial institution to provide comprehensive services in China, the Bank is mainly committed to catering to the needs “Sannong” (i.e. Countryside, Peasantry and Agriculture), and capitalizing on the synergy among the Urban Areas and the County Areas. Since the early 21\textsuperscript{st} century, the Bank has been striving to expand into the international markets and provide diversified services for its global clients and customers based on the comprehensive business portfolio, extensive distribution network and advanced IT platform. At the end of 2013, the Bank had total assets of RMB14562 billion, deposits of RMB11811 billion and loans of RMB7224 billion. Its CAR and NPL ratio were 11.86% and 1.22%, respectively, and achieved a net profit of RMB166 billion. The Bank holds 23,547 domestic branch outlets, including the Head Office, 351 Tier-2 branches (in the capital of the provinces), 3,506 Tier-1 sub-branches (in municipalities), and 19,648 other establishments. Its overseas branch outlets consisted of 7 overseas branches and 3 overseas representative offices, and its major subsidiaries consisted of 9 domestic subsidiaries and 3 overseas subsidiaries.

In 2013, the Bank was ranked No. 10 in The Banker's “Top 1000 World Banks” list in terms of Tier1 capital for the year of 2012, and ranked No. 64 in Fortune's Global 500; the Bank's issuer credit ratings were assigned A/A-1 by Standard & Poor's, the bank deposits ratings were assigned A1/P-1 by Moody's Investors Service, and the long-/short-term foreign-currency issuer default ratings were assigned A/F1 by Fitch Ratings. The Bank’s outlook ratings assigned by the above credit rating agencies were “stable”.

Recently, the Bank has steadily implemented the development strategy of engaging in the international market and further restructured the layout of overseas institutions. The scope of business, scale of operation, the cross-border financial service capability and profitability of its overseas institutions have been continuously enhanced. During the reporting period, its Dubai branch, Tokyo branch and Frankfurt branch were launched in operation. The application for the establishment of Hanoi branch, Luxembourg branch and Vancouver branch were also approved by the CBRC, whilst the application for the establishment of Sydney branch and Moscow branch were progressing as expected with milestone results. As of the end of 2013, its 13 overseas institutions in 11 countries and regions were formed, holding an overseas network covering Asia, Europe, North America and Oceania. Its total assets of
overseas branches and subsidiaries reached USD58093 million, and the net profit was USD362 million. 
(The Bank annual reports)

Table 10: ABC Key Financial Data Highlights 2009-2013

<table>
<thead>
<tr>
<th>Key Indicator</th>
<th>2013</th>
<th>2012</th>
<th>2011</th>
<th>2010</th>
<th>2009</th>
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<tbody>
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<td>Financial Position (RMB billion)</td>
<td></td>
<td></td>
<td></td>
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<td></td>
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<tr>
<td>TAs</td>
<td>14562</td>
<td>13244</td>
<td>11678</td>
<td>10337</td>
<td>8883</td>
</tr>
<tr>
<td>TLs</td>
<td>7224</td>
<td>6433</td>
<td>5640</td>
<td>4957</td>
<td>4138</td>
</tr>
<tr>
<td>TDs</td>
<td>11811</td>
<td>10863</td>
<td>9623</td>
<td>8888</td>
<td>7498</td>
</tr>
<tr>
<td>Net Capital</td>
<td>838</td>
<td>910</td>
<td>763</td>
<td>624</td>
<td>440</td>
</tr>
<tr>
<td>PBT</td>
<td>214</td>
<td>188</td>
<td>158</td>
<td>121</td>
<td>74</td>
</tr>
<tr>
<td>Overseas PBT</td>
<td>2.98</td>
<td>2.81</td>
<td>1.11</td>
<td>1.19</td>
<td>0.6</td>
</tr>
<tr>
<td>NPLs</td>
<td>88.13</td>
<td>85.56</td>
<td>87.42</td>
<td>100.63</td>
<td>120.42</td>
</tr>
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</table>

Operational Results (%)

<table>
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<tbody>
<tr>
<td>ROA</td>
<td>1.2</td>
<td>1.16</td>
<td>1.11</td>
<td>0.99</td>
<td>0.82</td>
</tr>
<tr>
<td>ROE</td>
<td>20.89</td>
<td>20.74</td>
<td>20.46</td>
<td>22.49</td>
<td>20.53</td>
</tr>
<tr>
<td>Ratio of NFCI to OI</td>
<td>17.86</td>
<td>17.71</td>
<td>18.1</td>
<td>15.78</td>
<td>15.94</td>
</tr>
<tr>
<td>NPL Ratio</td>
<td>1.22</td>
<td>1.33</td>
<td>1.55</td>
<td>2.03</td>
<td>2.91</td>
</tr>
<tr>
<td>Allowance to NPL</td>
<td>367</td>
<td>326</td>
<td>263</td>
<td>168</td>
<td>105</td>
</tr>
<tr>
<td>Overseas PBT to PBT</td>
<td>1.4</td>
<td>1.5</td>
<td>0.7</td>
<td>1.0</td>
<td>0.8</td>
</tr>
<tr>
<td>CAR</td>
<td>11.86</td>
<td>12.61</td>
<td>11.94</td>
<td>11.59</td>
<td>10.07</td>
</tr>
</tbody>
</table>

Source: Reformulated and renormalised from ABC annual reports 2009-2013

However, it has to be said that the income structure of the Bank has also been lacking. During the reporting period, the Bank’s profitability was relatively lower compared with its Chinese peers, in particular, its overseas business has not made a good contribution to the Bank. The average overseas PBT ratio was only 1.08%, this means that the bank’s profit-making is still very home-based, likewise, its average ratio of net fee and commission to operational income was also not good, just 16.88%. This means that most of the profit of the Bank was made from the interest margin. Additionally, the Bank's asset quality was also worse compared with other large Chinese CBs, but its business and management still seems to be stable according to its allowance to NPL ratio and CAR.

- **The Evaluation of BOCom**

Bank of Communications (BOCom) was founded in 1908, and it is the one with longest history in modern China. The Bank was listed on the Hong Kong Stock Exchange and on the Shanghai Stock Exchange in 2005 and 2007 respectively.

The Bank has 202 domestic branches, comprising 30 provincial branches, 7 branches directly managed by the Head Office and 165 managed by provincial branches. It has also set up 2,690 banking outlets in
215 cities and 159 counties nationwide, and 12 overseas institutions, comprising branches in Hong Kong, New York, San Francisco, Tokyo, Singapore, Seoul, Frankfurt, Sydney, Macau, Ho Chi Minh City, representative office in Taipei and Bank of Communications (UK) Co., Ltd. According to the “Banker” ranking of 2013, the Bank was ranked No. 23 among the global top 1,000 banks in terms of Tier 1 Capital, up 7 positions from the prior year, and it also ranked in world top 20 banks by its total assets and pre-tax profits.

The contributions from overseas business of the Bank continuously increased. By the end of 2013, the net profits of the Bank’s overseas institutions increased by 6.67% year-on-year to RMB2.8 billion, the total assets of its overseas institutions increased by 28.47% year-on-year to RMB519.876 billion, accounting for 4.49% and 8.72% of the Bank’s net profits and total assets respectively. The balance of the impaired loans in its overseas institutions decreased by 41.26% to RMB158 million, while the impaired loan ratio decreased by 0.06 % to 0.06% from the beginning of the year and achieved reductions in both the impaired loan balance and the impaired loans ratio.

In order to seize the great opportunity of RMB internationalisation, the Bank has further improved its global settlement system, enhanced the customer share and business synergy between domestic and overseas branches, and concentrated on the key businesses, such as cross-border RMB business and offshore business. Meanwhile, the Bank further strengthened the enterprise risk management of overseas branches and maintained a good level of quality for their assets. By the end of 2013, the Bank signed RMB settlement agreements with 108 banks in over 26 countries and regions, opened 175 cross-border RMB accounts and 54 overseas banking institutions, as well as opened 69 foreign currency settlement accounts in 17 currencies over 24 countries and regions. During the reporting period, the transaction amount of the coordination business was USD49 billion in total and its revenue was RMB4.67 billion, the transaction amount of the cross-border RMB settlement among domestic institutions increased by 81.25%, compared with the prior year, to reach RMB430.4 billion and the transaction amount of the cross-border RMB settlement among overseas institutions increased by 37.71%, compared with the prior year, to reach RMB299.7 billion.

In addition, the Bank has launched several new products, including the cross-border RMB remittance and credit between Mainland China and Taiwan, and signed the agreements with corporations in Shanghai FTZ on cross-border lending business. RMB business in overseas branches continuously made breakthroughs. For 4 consecutive years, its HK branch has obtained the qualifications of exclusive distribution, depositary agent and financial agent for certain RMB Treasury bond issued by the Ministry of Finance in Hong Kong, while its Sydney Branch successfully sold RMB Treasury Bond to the Reserve Bank of Australia. The Bank is also one of the 4 domestic CBs, who have been currently permitted to do offshore banking business. In 2013, the Bank made full use of its offshore license and actively supported enterprises for their needs of cross-border investment and financing. As of the end of Reporting Period, the total offshore assets increased by 13.23% year-on-year to USD11.9 billion, the offshore international settlement volume reached USD167.4billion, increasing by 34.80% year-on-year. In 2013, the Bank was
ranked as No.1 among its peers in the domestic market by offshore asset scale, loan balance and international settlement volume. (the Bank annual reports)

Table 11: BOCom Key Financial Data Highlights 2009-2013

<table>
<thead>
<tr>
<th>Key Indicator</th>
<th>2013</th>
<th>2012</th>
<th>2011</th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Financial Position (RMB billion)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>TAs</td>
<td>5961</td>
<td>5273</td>
<td>4611</td>
<td>3952</td>
<td>3309</td>
</tr>
<tr>
<td>TLs</td>
<td>3266</td>
<td>2947</td>
<td>2562</td>
<td>2237</td>
<td>1839</td>
</tr>
<tr>
<td>TDs</td>
<td>4158</td>
<td>3728</td>
<td>3283</td>
<td>2968</td>
<td>2372</td>
</tr>
<tr>
<td>Net Capital</td>
<td>516</td>
<td>463</td>
<td>352</td>
<td>299</td>
<td>226</td>
</tr>
<tr>
<td>PBT</td>
<td>79.91</td>
<td>75.21</td>
<td>66.45</td>
<td>49.95</td>
<td>38.3</td>
</tr>
<tr>
<td>Overseas PBT</td>
<td>12.27</td>
<td>11.46</td>
<td>2.5</td>
<td>2</td>
<td>1.89</td>
</tr>
<tr>
<td>NPLs</td>
<td>34.29</td>
<td>27.41</td>
<td>22.03</td>
<td>25.05</td>
<td>25.01</td>
</tr>
<tr>
<td><strong>Operational Results (%)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ROA</td>
<td>1.10</td>
<td>1.18</td>
<td>1.20</td>
<td>1.10</td>
<td>1.00</td>
</tr>
<tr>
<td>ROE</td>
<td>15.58</td>
<td>17.91</td>
<td>20.52</td>
<td>20.2</td>
<td>19.49</td>
</tr>
<tr>
<td>Ratio of NFCI to OI</td>
<td>19.87</td>
<td>17.38</td>
<td>19.05</td>
<td>17.04</td>
<td>14.08</td>
</tr>
<tr>
<td>NPL Ratio</td>
<td>1.05</td>
<td>0.93</td>
<td>0.86</td>
<td>1.12</td>
<td>1.36</td>
</tr>
<tr>
<td>Allowance to NPL</td>
<td>214</td>
<td>251</td>
<td>256</td>
<td>186</td>
<td>151</td>
</tr>
<tr>
<td>Overseas PBT to PBT</td>
<td>15.35</td>
<td>15.24</td>
<td>3.76</td>
<td>4.00</td>
<td>4.93</td>
</tr>
<tr>
<td>CAR</td>
<td>12.08</td>
<td>14.07</td>
<td>12.44</td>
<td>12.36</td>
<td>12</td>
</tr>
</tbody>
</table>

Source: Reformulated and normalised from BOCom annual reports 2009-2013

However, the Bank has similar issues with its Chinese peers. Basically, the Bank has been the smallest one among the 5 large Chinese CBs. Comparing with other large Chinese CBs, its business profitability, in particular its overseas business contribution was relatively weaker, its profitable base has been also country-specific, and most of its profit was made from home market with a comparative advantageous interest margin. Its asset quality seems like it is stable but the potential situation needs to be more deeply investigated.

After analysing the separate evaluation of the 5 large Chinese CBs, it could be concluded that: for the scale IC, the 5 large Chinese CBs all are very strong and with leading position in the world, for the profitability IC, the 5 CBs all are pretty strong at home, but still performed badly overseas, for the soundness IC, even though the 5 CBs have consecutively improved their asset quality, and the absolute figure of the banks’ sound indicators are seemingly well, the real situation of the sound quality of whole banking sector in China are still a cause for concern. The scale IC and overseas business IC are the most important indicators to evaluate the IC of CB, but Chinese CBs have performed quite differently on the two aspects: on business scale they have very strong IC, but on overseas business IC, they are still relatively weak comparing with their home profitability capacity. It is generally suggested that Chinese CBs are still too big but not really too strong. They have been rising up more and more in the world, but
they still need to further strengthen their international profit-making capacity and improve their global competitive strategy.

4.6.2.2 Joint Evaluation of the IC of the Five CBs

After separately evaluating the IC of the 5 large Chinese CBs, one still needs to jointly evaluate and analyse the IC with the international advanced CBs in order to better reflect the overall IC of the Chinese 5 CBs.

Based on the general evaluation model structured before for estimating the IC of Chinese CBs: \( IC=aCs+bCp+cCi-(1-a-b-c)Cq \), and respectively taking Tier1 Capital, PBT, Overseas Net Earnings and NPLs as the relative indicators to evaluate the Business Scale IC, Profitability IC, Overseas Business IC and Soundness IC, and according to the importance of each factor in the evaluation model to successively make the weighted value for them, such as: \( 0.3, 0.15, 0.35, 0.2 \), and then combine the relevant concrete financial data. Then, the joint evaluation of the IC of the Chinese CBs can be rationally measured and analysed.

In the evaluation process, the overall evaluation is divided into three parts in order to demonstrate the influence of each factor for the IC of CB. First is just considering the evaluation model with two factors for evaluating the Business Scale IC and Profitability IC; this model is simplified as: \( IC=0.3Cs+0.7Cp \), which is not just to emphasise the importance of the Business Scale IC, but also takes into account the Profitability IC. Second is to apply the evaluation model with three factors that is revised as \( IC=0.3Cs+0.15Cp+0.35Ci \), which further stresses the core role of the Overseas Business IC, but still give consideration for the Business Scale IC, as well as the Profitability IC (home-base). Third is to use the complete model with all the four factors: \( IC=0.3Cs+0.15Cp+0.35Ci-0.2Cq \), to make joint evaluation for the IC of the Chinese CBs.

The following Table12 shows the comparable evaluation results by the different reformulated models. From Table12, it can be learnt that applying the model \( IC=0.3Cs+0.15Cp+0.35Ci-0.2Cq \) to evaluate the IC of the select CBs will result in the calculated results being much smaller than the results calculated by applying the model \( IC=0.3Cs+0.15Cp+0.35Ci \) and the model \( IC=0.3Cs+0.7Cp \); the results are decreased by about 33.05% and 4.28% respectively. This shows that NPLs is an important factor that weakens the IC of CB. But, the results calculated by model \( IC=0.3Cs+0.15Cp+0.35Ci-0.2Cq \) are also much smaller than the results calculated by the model \( IC=0.3Cs+0.7Cp \) (difference of about 30.05%), this demonstrates that the overseas business profitability is the most important factor for the IC of CB.

According to the evaluated results by the models, the Chinese CBs: ICBC and CCB have the strongest IC on joint evaluation, while other two Chinese CBs: BOC and ABC are shown to be very powerful in terms of the overall IC. The select foreign banks: JP Morgan, Bank of America, HSBC and Citigroup, which are recognised as some of the most famous international banks, are shown to be weaker in terms of the overall IC than their Chinese peers. However, this do not just mean that the overall IC of Chinese CBs
have improved remarkably recently, but also shows that the previous advanced Western multinational banks have strikingly faded out since the latest world financial crisis happened.

**Table 12: The Overall Evaluation Results of IC of the Select Banks by Different Models**

<table>
<thead>
<tr>
<th>Select Banks</th>
<th>Tier1 Cap</th>
<th>PBT</th>
<th>Overseas PBT</th>
<th>NPLs</th>
<th>By Model: IC=0.3Cs+0.7Cp</th>
<th>By Model: IC=0.3Cs+0.15Cp+0.35Ci</th>
<th>By Model: IC=0.3Cs+0.15Cp+0.35Ci-0.2Cq</th>
</tr>
</thead>
<tbody>
<tr>
<td>ICBC</td>
<td>207614</td>
<td>55480</td>
<td>366</td>
<td>15135</td>
<td>101120</td>
<td>70734.3</td>
<td>67707.3</td>
</tr>
<tr>
<td>CCB</td>
<td>173992</td>
<td>45885</td>
<td>639</td>
<td>13948</td>
<td>84317</td>
<td>59304.0</td>
<td>56514.4</td>
</tr>
<tr>
<td>BOC</td>
<td>149729</td>
<td>34870</td>
<td>6764</td>
<td>11979</td>
<td>69328</td>
<td>52516.6</td>
<td>50120.8</td>
</tr>
<tr>
<td>ABC</td>
<td>137410</td>
<td>35099</td>
<td>488</td>
<td>14457</td>
<td>65792</td>
<td>46658.7</td>
<td>43767.3</td>
</tr>
<tr>
<td>JP Morgan</td>
<td>165663</td>
<td>25914</td>
<td>12489</td>
<td>23477</td>
<td>67839</td>
<td>57957.2</td>
<td>53261.8</td>
</tr>
<tr>
<td>Banks of America</td>
<td>161456</td>
<td>16181</td>
<td>2951</td>
<td>43627</td>
<td>59764</td>
<td>51896.8</td>
<td>43171.4</td>
</tr>
<tr>
<td>HSBC Holding</td>
<td>158155</td>
<td>22565</td>
<td>14476</td>
<td>34570</td>
<td>63242</td>
<td>55897.9</td>
<td>48983.9</td>
</tr>
<tr>
<td>Citigroup</td>
<td>149804</td>
<td>19565</td>
<td>9124</td>
<td>15450</td>
<td>58637</td>
<td>51069.4</td>
<td>47979.4</td>
</tr>
</tbody>
</table>

* Exchange Rate: USD/RMB 6.0968 (31-12-2013)
Source: Reformulated and renormalised from the Banker, BankScope
The Select Banks Annual Reports 2009-2013

Actually, these evaluated results still need to be critically analysed. Normally, the bank’s integrated profitability should coincide with its overseas business profitability, and the overseas business profitability of a bank is the key indicator to demonstrate the bank’s international competitiveness. In other words, the stronger is the overseas business profitability, the greater is the international competitiveness of a bank. Certainly, the Chinese CBs have absolute strength on capital position and their asset quality are also shown to be stable, however, their domestic profitability has been too great than their foreign peers. Even though their overseas business profitability is still much weaker than their foreign peers, their home-base competitive advantage still allowed them to hold huge capital and finance power to strongly facilitate their internationalisation development and global competition. From the calculated results, it can be clearly seen that the overseas business contribution of the foreign banks has been much more outstanding; in particular, HSBC’s overseas business even contributed more 50% of its total profits. This confirmed that HSBC is the most international bank compared with the banks selected here, and other selected foreign banks are also much more international than the Chinese CBs.

In conclusion, based on the multi-factor evaluation model, the results show that Chinese CBs have obvious international competitiveness on business scale and home-base profitability, even their soundness IC has been increasingly improved, but their international competitiveness of overseas business still requires further improvement and a boost. Chinese CBs must further restructure their operational model, improve their profit-making strategy, intensify their innovation mechanism, change their business philosophy and develop their international businesses. Otherwise, once the situation of
country-specific advantage, special interest margin, home industrial policy favour, regulatory preference and economic promotion have been completely changed, all Chinese CBs will have to face much fiercer domestic and international competition, and then their international competitiveness would fade off and even completely disappear.

4.7 Exploration of the IC of Foreign Banks in China

For increasing its international competitiveness, Chinese CBs have to fight not just internationally, but also domestically, because foreign banks also make their hardest effort to develop the advantageous businesses in China, while Chinese banks go out to make new markets and enlarge their international market share. As of the end of 2013, foreign banks from 51 countries and regions have instituted 42 locally incorporated entities, 92 foreign banks branches and 187 representative offices in China, and in order to prompt foreign banks to more efficiently compete in China, 36 locally incorporated foreign banks and 57 foreign bank branches were certified to conduct RMB business, 30 locally incorporated foreign banks and 27 foreign bank branches were approved to develop derivatives business, 6 locally incorporated foreign banks were authorised to issue RMB bonds and 3 locally incorporated foreign banks were allowed to issue credit cards in China. By the end of 2013, foreign banks largely set up a service network present in 69 cities of 27 provinces in China with a certain degree of the market coverage and penetration. The total assets, deposits and loans of foreign banks in China were RMB2.56 trillion, RMB1.49 trillion and RMB1.11 trillion, up by 7.45%, 4.72% and 6.47% year-on-year, respectively. Meanwhile, the NPL ratio and liquidity ratio and were 0.49%, and 72.42%, much better than their Chinese peers, and their pre-tax profits of foreign banks recorded RMB14034 million.

In this part, the fifth and sixth PWC survey on foreign banks in China are chosen and compared as the specific case study of this research. The two surveys both focused on the strategic and emerging issues surrounding foreign banks’ expanding activities in China. The surveys were taken through questionnaire that contained 47 and 50 question respectively and was completed during interviews of approximately one hour that were conducted in February 2010 and in May 2012 (respectively) in Beijing, Hong Kong, Shanghai and Shenzhen. Basically, the survey was aiming to synthesise diverse viewpoints, protect confidentiality and offer insights into China’ fast-changing financial services environment. The interviewees were selected from CEOs, senior executives and branch managers of 42 foreign banks in China; the responses have not been attributed to individual banks but rather collectively within three groups: Asian banks (14), European banks (20) and North American banks (8) (Table 14 in Appendix 2); and a group of locally incorporated banks is also used.

The survey was built on five surveys undertaken between 2005-2010 with the purposes of raising awareness of strategic and emerging issues for foreign banks in China, establishing data on certain industry trends, understanding the thought process of CEOs in the banking industry, provoking discussion and debating the best options for foreign banks to capitalise on trends and developments, and provide insights and perspectives on how banking in China may evolve over the next three years. However, despite some individual banks declined to answer particular questions or were unable to provide sufficiently accurate data, the time commitment and support from all banks in the survey was outstanding.
The surveys basically targeted seven aspects that were most concerned by the foreign banks in China: market environment, risk management, investments, liquidity and funding, regulation, performance, and peer review. According to the surveys, the situation of foreign banks in China has been continuing to fight hard to define their role and expand their operations in the market. In particular, they were not benefited from the surge in lending led by the government’s stimulus plan (RMB 4trillion) during 2008-2009 when the government acted to help minimising the impacts of the global financial crisis, but the domestic bank lending grew hugely (around RMB 10 trillion) during that time, which made the foreign banks in China start realising, for the first time, that competition from the domestic banks were the biggest challenge they have to face. For the foreign banks in China, the biggest concerns when it comes to expanding and operating business in China were cited as regulation changes, funding constraints, liquidity, development in the capital market and economic cycle. Even though the foreign banks have launched businesses in China for years, they still continue to believe that they are treated less fairly than their Chinese counterparts by the regulator, and feel that they are burdened by the cumulative weight of new regulations, and they anticipated that the regulations would continue to tighten and change to have significant future impacts on the speed, scope and depth of their business progression.

According to the surveys, in 2010 and 2011 the top positions on 16 business activities being developed by the foreign banks in China, are ranked by the peers based on the opinions of the interviewees during that time shown in the following Table 13.

**Table 13: Peer’s Ranking Summary of the Top Positions of FBs in China**

<table>
<thead>
<tr>
<th>Activities</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brand awareness</td>
<td>HSBC</td>
<td>HSBC</td>
</tr>
<tr>
<td>Cash management</td>
<td>Citibank</td>
<td>Citibank</td>
</tr>
<tr>
<td>Corporate finance</td>
<td>HSBC</td>
<td>HSBC</td>
</tr>
<tr>
<td>Corporate lending</td>
<td>HSBC</td>
<td>HSBC</td>
</tr>
<tr>
<td>Corporate social responsibility</td>
<td>HSBC</td>
<td>HSBC</td>
</tr>
<tr>
<td>Credit cars</td>
<td>Bank of East Asia</td>
<td>Bank of East Asia</td>
</tr>
<tr>
<td>Debt capital markets</td>
<td>HSBC</td>
<td>HSBC</td>
</tr>
<tr>
<td>Derivatives</td>
<td>Citibank</td>
<td>HSBC</td>
</tr>
<tr>
<td>Equity capital market</td>
<td>Goldman Sachs</td>
<td>Goldman Sachs</td>
</tr>
<tr>
<td>Foreign exchange and treasury</td>
<td>HSBC</td>
<td>HSBC</td>
</tr>
<tr>
<td>Investment banking</td>
<td>Goldman Sachs</td>
<td>Goldman Sachs</td>
</tr>
<tr>
<td>M &amp; A</td>
<td>Goldman Sachs</td>
<td>Goldman Sachs</td>
</tr>
<tr>
<td>Private banking</td>
<td>HSBC</td>
<td>USB</td>
</tr>
<tr>
<td>Project financing</td>
<td>Standard Chartered</td>
<td>HSBC</td>
</tr>
<tr>
<td>Retail banking</td>
<td>HSBC</td>
<td>HSBC</td>
</tr>
<tr>
<td>Trade finance</td>
<td>HSBC</td>
<td>HSBC</td>
</tr>
</tbody>
</table>
From the above table, it is clear to see that among the foreign banks in China, HSBC has been the most competitive on most business activities the FBs developed in Chinese financial market. Other dominant foreign banks on the 16 business activities ranked top three in China included: Goldenman Sachs, Standard Chartered, JP Morgan Chase, Morgan Stanley, and Deutsche Bank. This means that Chinese banks must compete with the above banks if they want to promote their businesses and boost their international competitiveness at home financial market.

Basically, to further expand the businesses in China’s financial market, the surveys have shown that being locally incorporated is still more optimal than branch establishment, and about 87% of all foreign banks were locally incorporated in the market by the end of 2013 according to the data from CBRC. This means that local incorporation are continued by the foreign banks and reviewed as the most suitable way to capitalise on their strengths and develop their businesses in the market. However, after most of the foreign banks were locally incorporated, in order to build up the customer base and branch networks, most FBs have to compete in and exploit the retail banking frontier. This interviewing group has estimated that they would collectively operate over 500 branches and sub-branches in the financial market by 2014. Other approaches to the market are preferred, they include: equity investment and corporate banking market, participation in rural banking, asset management, leasing, consumer finance, securities and trust, etc. As to the commitment to China in the next three year, even though the time constraint would be very challenging and they have to face against a more uncertain macro-economic and financial environment, the FBs strongly remained at the forefront of their future growth strategies. In order to achieve long sustainable growth, they have been pursuing strategic partnerships and making strategic acquisitions in many different sectors of Chinese financial market. This is also partly because of the inevitability of the defined and faster internationalisation of the economy that obviously underpins the foreign banks’ optimism by offering them greater chances. Additionally, according to a recent PWC UK report entitled “Banking in 2050”, China will become an increasingly important global banking market, and it even predicted that China could overtake the USA as the world’s largest banking market by 2023 based on the projected growth of domestic banking credit assets. This projection must further promote the CBI to take greater steps towards the internationalisation and globalisation.

According to the surveys, the corporate credit, consumer credit and domestic debt capital market are still viewed as stable and an area with the greatest opportunity for the FBs, despite their concerns on the uncertainty of the real economy. The FBs still envisaged a strong growth in revenue, although there would be the constraints of a tight regulatory environment and liquidity concern due to the 75% loan-to-deposit ratio after being locally incorporated. However, the surveys also show that the FBs will only consider these opportunities when the playing field is levelled.

4.8 Critical Thinking of IC Evaluation of Chinese CBs

Beim and Calomiris (2001) argued that there always involves financial regression in emerging market economies, and they also summarised the characteristics of this case, such as deposit rates manipulation, high deposit reserve requirement, lending direction intervention, daily activity interfering, borrowing and lending abroad imposing, etc. For China’s banking sector, even though it has been getting more
commercialisation, marketisation and internationalisation, the above characteristics have still more or less existed somehow.

Basically, China’s banking reform, thus far, could be explained through five steps: enabling the financial environment and building up the regulatory regime, changing the corporate governance and strengthening the required capital, restructuring the balance sheet and improving risk management, attracting foreign strategic investors and improving business models, and going to public listing and internationalising. It is undeniable that the CBI has been strikingly getting more competitive and powerful in the world financial markets. However, as to the real level of the IC of Chinese CBs, it is suggested that the way of critical thinking should be applied to estimate it.

4.8.1 The Economical Environment and Financial Ecology

Since the Economical Reform and Opening-up launched, the reform of CBI has never been stopped. However, the greatest progress of the banking development has only recently been made, in other words, the most important reform of the CBI was pushed along when China joined the WTO in 2001. Even though there are still many serious issues in the industry, the whole banking have achieved huge improvements in China. The former PM Wen (2007, the Third National Financial Meeting) confirmed that the whole financial industry has been historically changed and increasingly played the significant role of promoting the economic development since 2002. Looking back at the reforming track of China’s banking, two points have been established. Firstly, China’s banking system would not have had such a revival without the Reform and Opening-up. To be more specific, emancipating the mind, breaking the traditional obstacles, pursuing the innovation of systemic mechanism and business ideas have always been the pivotal guideline of the banking development. Secondly, the only right way to achieve sustainable development of the CBI is to firmly insist the scientific development and stabilising operation, appropriately work out the relationship between speed and control, size and efficiency, quality and profit, maintain the balance between business development and risk management, as well as short-term and long-term interests.

Actually, the reform of the CBI, in particular the reform of state-owned banks, had been the hard job to complete; if they had failed, the banking industry would become have gone bust. After the Asian financial crisis in 1997, most international consensuses or comments asserted that the CBI was technically bankrupt. British journal “The Economist” even valued Chinese banks as being the worst banks in the world at the time (1998). Krugman (1999) also predicted that there is a possibility of a crisis, caused by massive banks busting, happening in China. More seriously in 2003, S & P rated all Chinese Banks as junk level and declared that the true total NPL ratio of Chinese banks could have reached 44-45% and that it was impossible for Chinese banks to solve this issue. Under such a severe situation, the Party Central Committee and the State Council had to make grand policies in order to completely reform the existing banking system, especially the “Big Four” SOCBs in the beginning of 21 century.

The performance of China’s banking have undoubtedly improved by a huge amount, but when compared with the real modern commercial banking system, China’s banking still faces a series of systemic and
institutional “bottleneck”. In other words, the business mechanism of the post-reformed SOCBs has not been fundamentally changed and many deep issues have still not been solved thus far. The Chinese CBs could make and import the visible laws, rules, risk management technologies and standard financial statement, but could not rationally build and bring in the invisible support of the laws and rules, e.g. corporate culture, operative mechanism and core value philosophy. This is why the reform of the CBI has been rather formalistic than substantial. It has only coped with some superficial problems, but the deep issues still remain covered. If these issues are not tackled, the modernisation and internationalisation of the CBI would be seemingly impossible.

The fundamental issues of the CBI are actually the accumulation of the institutional conflicts during the political and economical movements in China, and the reform of the banking system could be basically characterised as incrementalistic and intra-self-motional, thus, it has absolutely been confronted by many obstacles. In this situation, the banking reform had to be pushed and promoted by the Opening-up policies. Therefore, foreign strategic investors were attracted and were decided as the significant factor that helped banking to gradually improve the corporate governance, increase the profitability, change the business ideas, boost the risk management, build up the human resources and standardise the operational process. However, if we deeply analyse the import of the foreign strategic investor now, we should clearly see that the efficiency of the import of foreign strategic investors has not been as well as expected. This is because the imported foreign investors, either strategically or financial, were always profit-driven, and the real purpose of their investment is to maximise the return, not help. The “Big Four” state-owned banks used to import many foreign strategic investors before the latest crisis, but after the crisis, most of them had left with their huge benefits. Even though few remained, most of them eventually changed to be financial investors. What foreign investors really cared about when they decided to invest on Chinese state-owned banks was the market monopolistic value, concession value and customer resources. Hence, strategically staking on the state-owned banks was really profitable and they suffered very little risk.

There has been a number of arguments in terms of why the deep issues of the banking could not be completely solved, but nobody thought that the real issues would be solved by the banking itself because of the essence of the banking reform. Realistically, the marketisation of China’s economy was mainly led by the government to coercive exert; the government overwhelmingly dominated the resource distribution during the period and even gradually exerted the power in the capitalisation. Consequently, the long-term economy development was obviously distorted and clamped down. Despite the government declaring at the beginning to clearly separate the party and the administration, the government and the enterprise, they gradually transferred the power to the local governments and release their functions. However, it seems like the government’s ability to distribute resource has not been getting weaker but increasingly stronger recently. This can be seen from the situation of long-term huge fixed investment in China, because the investment mechanism has been always controlled by the government thus far.

In reality, the banks may dismiss the direct interferences of the governments, but finally still could not break away from the existing regime and the institutional framework due to the heavy business pressures. Therefore, the core issue of China’s banking system is to really reform the banking business institution
and mechanism. The emphasis of the banking reform is not only on inside but also outside the system. The banking risks in China are actually rather widely from the economic environment and the special financial ecology, including imperfect laws and rules, planned and authoritarian interferences, economic policy, societal credit environment and social security, etc. If the whole economical environment and financial ecology is not radically changed in China, the banking system, as the intermediary of economy, absolutely could not play its full roles. The feature of China’s economy is neither real market economy, nor traditional planned, but government-led. Under such a background, the financial resource distribution would obviously prefer the government’s aptitude, not the market principles. Hence, the resource distribution would be done quite inappropriately.

The concept of “Financial Ecology”, inspired by Zhou (2004), the governor of the PBC, is an explicit, significant expression of the situation of China’s financial business under the deep institutional and systemic conflicts, which imply that the essence of China’s financial risks are systemic and external ecological rather than deriving from internal corporate management. In 2013, the investigation conducted by PBC with the purpose of finding out the historical reasons that caused such a huge NPLs in the banking industry gave shocking results. Only 20% of the whole NPLs of the banking were caused by the banks themselves. This investigation also declared that the causality of NPLs of the banking had been more greatly due to the non-financial departments in the economy. Similarly, the Financial Research Institute of Chinese Academy of Social Science issued the regional financial investigation in China in 2005, and this report also suggested that 70% of asset quality of the banks were closely related to the regional financial business environment.

Conclusively, it must be clear that the reform of China’s banking system would never be really fulfilled if the existing “Financial Ecology” could be not fundamentally changed. The government must continuously transferring its functions, greatly build up the whole social credit system, steadily improve the financial ecology and further reform the banking institution to accelerate the banking internationalisation and boost its international competitiveness, otherwise, any efforts that just focus on inside improvements and changes would be mostly in vain.

4.8.2 Real Motives and Impetus of the Banking Reform

It seems like China’s banking industry has made remarkable progresses since the economic reform and opening-up launched. However, it would not be so exciting if we deeply anatomise the real motives and impetus of the movement of China’s banking reform.

The development and reform of any kind of market should be a natural evolutorial process; and the innovation and establishment of any market institution should start from the marginal areas in order to have lower costs, and the relevant interest relationships could be easily adjusted. Certainly, there could be exceptions; some policies or institutional grafts could suddenly happen during the reform, but this would clearly make the reform costly and high-riskily. In particular, it should be mentioned that if the financial institutional framework is positive enough, nobody and no class can monopolise a special industry and activity, and make special benefits through their special power of the resource control. Every
participant could be fairly benefited according to their activeness and contribution, and in particular, the industry would be promoted sustainably and healthily. Also, with such an institutional system, the political regime should be acceptable, meaning that the political power would be widely shared and strictly balanced. However, this has been not the case in China so far. The reform of CBI has been basically designed by the elites; in other words, the banking reform has been executed based on western references and experiences. At the beginning, the elites of the banking reform first found out a successful model from the advanced markets, then designed the basic route and framework for China's banking reform based on the model, and exerted them in reality. Therefore, when we look at the set-up of the banking system, the restructure of the banking institutions, the development of banking products, the establishment of banking laws, etc., it is clear that all the actions were following this plausible development model. Unfortunately, these reforms have not taken root in the home market and played its real roles. To analyse further, the banking reform and even the whole financial reform has been led by very powerful financial interests groups. In these groups, there is a very complicated human resource chain, which has made a subtle and sophisticated social network, through which almost all financial powers and banking business have been controlled.

In reality, interests groups are formed by people who have the same interest requirements or the same purposes, and consensually attempt to effectively impact other groups or individuals with their special powers. The main way the interests groups manipulated the movement of the systemic evolution was to closely combine their state political power in order to get the state's powerful support, and vice versa. Olson (1995) argued that interests groups play a decisive role for a systemic movement and institutional change. If there is a dominant group, which is at the absolute leading position, it could take the most possible interests from the society, and consequently, this certainly leads to the situation where the group feathers its own nest and intertwines business with politics. In contrast, if different groups' powers can be balanced, this situation may have a positive effect on the society. Modern economics analysed the governmental regulation and claimed that the regulatory rules of different professions made by the government are caused by the struggle and fight between the different groups for their special interests. Even though every government always strongly commits that all the policies they made are to serve the common people, actually, every policy of distributing the social fortunes and resources still obviously firstly inclines towards the special interests groups.

In China, the interests groups even have its own particularity. The colossal monopolistic interests groups, which are formed through the restricted factors, such as the huge ordinary capital advantage, the state’s operational concessions and the dominant discrimination of state-owned system and so on, have large effects on the politics, economy and other social activities and policy-making. Under such a situation, solo monopolistic industry could exploit the distribution of the monopolistic profits and welfares. Likewise, this interests’ distribution is also actively imitated and improved on by other monopolistic industries, and then the collective collusion among the groups is set up aiming to absolutely influence the industrial gaming rules and make the collective-private interests politically legal, meanwhile, other weak social groups have to finally accept the status of the interests gaming.
Even though the influences of the interests’ groups for China’s banking reform are seldom discussed due to some sensitive reasons so far, the market entry and policy movement of banking industry in the last three decades has actually been the process of the gaming result of the interests’ groups. Four main interests’ streamlines have played the decisive roles thus far for China’s financial system.

The First has been the gaming between the central and local. The central government and its departments, who have more control of the financial resource distribution and regulation, mainly focus on the central and whole interests, whereas the local governments, who expected to have more powers on local financial resources and regulation, mainly emphasise the local economic and social development targets. China is a country with powerful financial control, although the central government has been trying to release more power to the local governments since 1978, and the local governments have also had the passion for financial development. However, because severe financial events have frequently happened due to the bad financial regulation and supervision in locals, the powers have been clawed back to the central again. This gaming has had very deep impacts for the 30 years of China’s financial reform.

The Second has been the gaming among the local governments. There are more than 600 cities and 2860 counties in China, there is always terrible competition among them. There would be no debate if the competition is for the local economy developments. Nevertheless, in reality, the main purposes of most local economical activities and financial behaviours are for the personal political performances of the special interests groups. The local markets are powerfully penetrated and segmented by the local governments, the government-driven-economy has been evolved to be a dual-directional robbing economy in many regions, i.e. robbing the natural resources but inefficiently utilising them, and common people are severely exploited but the dignitary is mostly benefited. In particular, under such an economical model of government-driven-investment, the most typical focus is on the outputs rather than the inputs. Many reports have warned of the local platform debts, which is accounted to reach more than 20% of the GDP and named as the Chinese sub-prime loans (Cheng Siwei, the former Vice-chairman of the Congress of PRC, 2010). In fact, the local platform debts have seriously blocked the in-depth changes of the financial reform and slowed down the further development of the banking system in China.

The Third has been the gaming among the state-owned, private and foreign economical entities. Before joining the WTO, the financial sector was one of the slowest developing sectors due to the influences of the thoughts of state financial sovereignty and the theoretical ideology of public ownership in China. However, thanks to the WTO entry commitments and the strong requirements of developing the financial market, the private and foreign financial entities have been gradually rising up. The three economical powers have been sharing the whole cake of China’s financial market and taking the huge financial interests through their own ways to affect the policy movements and rule-making. Basically, the state-owned financial entities are still the most dominant, and then are the foreign financial powers, and then the private financial sector; but the situation of private financial sector has been improving since 2009 in order to meet its market demands and tendency.
The Fourth has been the gaming between public and individual interests. Accompanying the financial reform, a multivariate interests’ structure has been gradually formed; individual interests and greed have rapidly swelled under the non-standard market and soft ownership restraint, hence, the conflicts and gaming between the public and individual interests have been getting fiercer, particularly in the financial sector.

As a special interests group, the financial bureaucratic class has its own familiar values and rules, and the main ideology of it is elite ruling and authoritarian thinking. Therefore, they favour political skills more than market ideas and modern management technology; likewise, this kind of ideology has abated the distribution of core power and the balance mechanism in the banking system. Actually, China’s banking reform has always been intensifying the monopoly of the state-owned banks and its concentration of the social financial resources. Under such a financial system, the state-owned banks could be guaranteed by the state’s credit and first favoured by the industrial policies, hence, it is easily to get the monopolistic and policy profits, but of course, they must do all the projects according to the government’s orders. If we deeply analyse the reform results of the state-owned banks, it should be clear that the vibrant performance of the banks has actually been the results of policy preference, for instance, the peeling-out of the huge NPLs, the standardising and restructuring of the financial statement and process, the improvement of the corporate governance, the listings at home or overseas, etc. Additionally, in order to boost the economy, the government has deliberately kept very low interest rate for years, which has absolutely deviated from the rapid development and booming market, and this could also help the banks to make unbelievable interest margin, e.g. according to the international convention, the margin between lending and saving rate is normally around 2% in commercial banking, but in China, it is commonly around 4%. This obviously promotes the banks to focus more on the incomes from the enlargement of lending volume than from other service. If the margin is shrunk to 2%, just in the “Big Four”, about RMB 200 billion of pre-tax profits would be gone, thus, the administrator and interests’ groups are absolutely not willing let it suffer.
CHAPTER 5: STRATEGIC APPROACHES FOR PROMOTING THE IC OF THE CBI

In this chapter, firstly the new trend of the world banking industry after the crisis is declared; and then the significance and necessity of the banking internationalisation is argued. For the global competitive strategy, the researcher further addressed the strategic alternatives of the banking internationalisation, and then suggested strategies and approaches to further improve the IC and promote internationalisation of the CBI.
5.1 New Trends of the World Banking After the Crisis

“We shall reform, but should step steadily. Because the issues of our reform are complicated, hence, should not do rashly. Surely, the reform needs some proper theoretical studies, economical statistics and forecasting, however, it is more important to first launch a pilot project, simultaneously sum up the experiences, i.e. so-called “Crossing the river by touching the stones”. The paces should be short at the beginning, then step slowly.”


The latest global financial crisis has offered a rare historical chance for universal banking. This crisis has disclosed the shortage of liquidity, the simplification of management and profitability of investment banking, however, commercial banks with the support of deposits, in particular, the universal banks with comprehensive businesses, have been outperforming the other kinds of banking since the crisis happened. Hence, we can see that the trends of global banking movement after the crisis would be characterised as follows:

- The global banking would need a long time to recover after suffering the big blow, meanwhile, the hegemonic position of American banking has been shaking and the development of global banking has been changing to become more diversified.
- The business model of independent investment banking would be gradually abandoned, but universal banking business model would be dominant again.
- Separate banking regulation would be replaced; the global banking system would be supervised more rigorously.
- Financial over-innovation will be restricted but the impetus of creation would not disappear.
- The M&A of global banking would be more intensified, and tend to a monopolistic and concentrated situation.

With the development of productivity and social economy, the world is gradually unitised and economy globalisation remains inevitable. After joining WTO, China’s banking opening-up has entered into a new phase and the banking international competition became much fiercer at the home and overseas. Under such a global economical background and domestic financial context, further strengthening the IC is the only way to ensure the survival and development of CBI.

5.2 Internationalisational Significance of the CBI

To find out the significance and necessity of internationalisation of the CBI, a question must be firstly answered: why go out? Generally, the reasons could be summarised as follows (relative data cited from www.mofcom.gov.cn):

- The economic globalization requires the banks “going out”. Undoubtedly, with more than 30 years of reform and opening up, China's economic opening and globalization have been continuously
deepening and improving. Consequently, China's economic internationalization absolutely requires the banking internationalization in order to offer on-demand services.

- The real economy requires the banks "going out". By the end of 2013, about 15,300 Chinese enterprises invested overseas and established more than 25,400 overseas subsidiaries, distributed in 184 countries and regions in the world. In 2014, China's domestic investors totally invested in 6128 overseas enterprises with the direct investment in over 156 countries and regions around the world, the accumulated investment reached to RMB632.05 billion (or about USD102.89 billion), an increase of 14.1% year-on-year, and by the end of 2014, China's non-financial foreign direct investment totalled about RMB 3.97 trillion (about USD 646.3 billion). Hence, with Chinese enterprises and residents going out, this requires Chinese CBs going out to provide assorted financial services for them, and this is not only to meet the needs of the clients, but also the chance to expand their overseas businesses.

- RMB internationalization requires the banks "going out". The internationalization of the RMB is an inevitable trend, and Chinese CBs will play a significant role in RMB settlement of cross-border trade. By the end of 2013, China's cross-border trade RMB settlement reached RMB 4.63 trillion, up 57% year-on-year. The future development of RMB offshore market requires Chinese CBs to establish stronger international business systems.

- The future development of Chinese CBs requires themselves "going out". Comparing with their foreign peers, the degree of internationalization of CBI is still very low-levelled according to its IC of overseas business, which is still relatively weak. The average net earnings of overseas businesses of China's five large banks were only about 6% so far, this is still a big gap compared with the European and American peers whose overseas business net earnings accounted for more than 35%.

Actually, after years of reform and opening-up, Chinese CBs, in particular the large banks, have already held the conditions for "going out". The total overseas assets of Chinese banks were just over USD 9 billion in 2005, but in 2013, it reached more than USD12 trillion, and Chinese banks have set up more than 1027 overseas outlets in 51 jurisdictions. Likewise, the international reputation of Chinese CBs has risen up remarkably. During the latest global financial crisis, CBI successfully withstood the impact from the crisis, which hugely enhanced its international reputation and strengthened their IC. Additionally, the improvements of China's financial regulatory context have been significantly recognized by the international banking sectors. Therefore, Chinese CBs should go out sequentially, powerfully and effectively. Their competitive strategies should be based on its real level of the IC to accurately choose the appropriate markets, consecutively optimize the layout, closely consolidate the customer and comprehensively provide high quality services for overseas clients. In particular, the CBI should further import the advanced management model from western developed CBs, attract the most suitable people with international background, advance the capability of risk discernment and control, promote the banking managerial level, and familiarise with the local customs and cultural context.
5.3 Strategic Approaches to Boost the IC of CBI

Considering the way of Chinese thinking and acting philosophy, the evolution of China’s economic reform, the development of China’s banking internationalisation, the experiences and know-how of Chinese bankers, the following should be debated as the most rational and realistic strategic approaches for Chinese CBs to boost its international competitiveness and more strongly compete in the world financial markets.

5.3.1 The Management System Strategy

To improve and boost the international competitive strategies for Chinese CBs, the first point should be to improve the whole set of strategic management system. Different from the day-to-day operations, strategic management system is not as definite and detailed as business management system, but the highest level of management, which is the main duty of the Board of Directors of CB.

Basically, the specific functions of strategic management system mainly consist of strategic study, strategic intelligence, strategic organisation and strategic control, etc.

The functions of strategic study include two aspects: strategic and tactic study. Strategic study refers to the strategic goals and planning for the future environmental change, and this is sometimes confused with business objectives, plans and measures. Tactical study refers to the corresponding policies and measurements of different aspects, levels and parts under the guidance of the strategic study. Strategic intelligence functions are different from business information management, its scope is not limited to the market environment, but also covers the social environment and other environments; it is not just to investigate existing changes, but also to anticipate new changes that may occur in the future. Hence, its functions are more focused on the research, which is based on the gathered information and investigation, while the market information is often just a reference to the strategic Intelligence. Strategic organization refers to the collaboration of strategic projects to create or get new opportunities through the organization of all aspects of relationships and resources, including the various forces and elements, which are controllable and uncontrollable, inside and outside of the enterprise. However, these functions of strategic organization are still weak and seldom worked out due to the lack of conditions for Chinese CBs. Strategic control includes planning control, organization control, cost control and publicizing control, etc.

The practice of strategic management system demonstrates that the strategy-making is important, but what is more important is the implementation of strategy. A good strategy is only a prerequisite for the success of the strategy, while the effective implementation is the guarantee for the smooth realizing of the strategic objectives. If a bank does not develop a good strategy for future development, but could overcome the deficiencies of its original strategy in the implementation, this may still ultimately promote the improvement and success of the strategy. Therefore, it is necessary to highly emphasize the significance of execution, which plays a vital role in the operation and management of the banks. The famous American financial magazine "Fortune" published a far-reaching impact research article a few years ago, and concluded that: around 70% of the failed presidents were because of the strategic execution. Nowadays, execution has been paid more attention to like the competitiveness and innovation,
and among them, execution plays a fundamental role as it determines the level of innovation and competitiveness of an enterprise. The reform of SOCBs has entered into a crucial stage, and the full internationalization and globalisation of the CBI is also imminent, and the future banking market competition will be more intense at home and overseas. Therefore, Chinese CBs should have a sense of urgency to quickly improve their strategic execution to further improve their innovation mechanism and international competitiveness as soon as possible.

5.3.2 The Geographical Expanding Strategy

Economic globalization and financial integration have become an irreversible trend, and the internationalization has also become an inevitable tendency of the banking industry’s development. With the further opening up of the Chinese economy and the deepening reform of the financial system, the CBI has been facing external pressure to participate in the international competition and meet the inherent requirements of internationalization. Since the gap compared with the developed leading CBs is quite large, the process of China's banking internationalization cannot be done overnight, but has to be incrementalistic.

For the banking internationalization, to be locally branched in the world main financial markets should be the priority. People have been trying to set up overseas branches of Chinese CBs for a relatively short time. Besides the Bank of China, which has dispersed its branches abroad, several other large Chinese banks' overseas branches are mainly located in the international financial centres. Based on the point of phased-in financial internationalization, it is correct to start businesses from international financial centres with more developed financial institution, however, the banking internationalisation should not be confined at this stage. Chinese CBs, in particular the LCBs, must pursue more profits through the extensive worldwide distribution and the appropriate scale expansion, then achieve scale and scope economic benefits. Even though the CBI has been developing its global businesses much more widely, to further implement the international competitive strategy, the geographical expansion still needs to be exploited more.

To establish geographical expansion strategy, it should implement rational regional development strategy. The so-called rational regional development strategy means that the internationalising bank chooses the preferred regions to institute branches based on the regional advantageous theory. The regional advantages should be prioritized by host country’s legal environment, financial regulation, economic development, per capita income, trade relationship with home country, social and political stability, import and export convenience, etc. The advantages of developing businesses in the preferred regions could be summarised as: Firstly, it will help to develop a certain scale of retail and wholesale business and other intermediate businesses, then to form the scale and scope economy to gradually reduce operating costs and promote the local competitiveness. Secondly, the deregulatory financial policy and supervision will increase banking business freedom, reduce market entry cost, and obtain the cost advantage. And thirdly, the stable socio-political economic and legal environment will reduce non-market risks.
Therefore, China's CBs should consider the preferred regions for expanding their overseas subsidiaries and businesses. Basically, the main preferred regions should firstly focus on the famous international financial centres, such as London, New York, Frankfurt, Tokyo, Hong Kong, Singapore, and other world's leading international financial centres, where a bank could more easily develop businesses, deal with other countries’ financial institutions, rapidly expand business scope and get more information about the international financial operations and management. Likewise, to internationalise, the banking business should focus on the countries or regions with large turnover of business, for instance, the United States. In particular, Hong Kong and the Mainland are closely connected in trades and transactions, and many re-export trades between China and the United States or other countries are conducted through Hong Kong, hence, it is more necessary to establish branches there rather than other places. Additionally, banks should consider foreign cities with a high population of Chinese people, such as New York, San Francisco, Vancouver, Canada, and Toronto, where it is easier to market the business by the locating branches.

5.3.3 The Organisational Adjustment Strategy

Organisational adjustment strategy of the banking internationalisation includes two aspects: the adjustment of the bank's internal organizational structure, which is not only the market-oriented content, but also the internationalisational content, and the choice of bank internationalisational organisation form.

Chinese CBs have to firstly adjust their internal organizational structures before participating in the competition in international financial markets, because a high efficient internal organisation is the precondition to ensure the bank operational efficiency. Their Commercial bank's internal organization system includes the decision-making system, control system, supervision system and so on. Banking internationalisational competition requires banks to make efficient decisions, and this is a prerequisite. If an organization does not have an efficient decision-making mechanism, it will achieve nothing. Commercial banks, which participate in the international market competition, must inevitably face big events and changes in the external environment; therefore, they must have a great decision-making programme. Likewise, the scale and complexity of banking internationalisational network system requires banks to implement efficiency control; additionally, the characteristics of banking capital liquidity and derivative also require the banks to establish an efficient internal control system, because CB operates financial capital and derivative securities that have a high degree of liquidity and leverage effect, any loophole in the internal supervision system will lead to the collapse of the banking system. Actually, the choice of form of bank internationalisational organizational adjustment is very important, and it determines the cost for the bank’s internationalization, thereby affects the future international revenues and profits.

For the requirement of the banking organisational adjustment, it needs to actively work out two jobs: first is to meet the external requirements on organizational adjustment. The uncertainty of the external environment requires the correspondent banking organizations to adapt to this uncertain world, strengthen risk management and control. Financial liberalization has brought great opportunities to the banking internationalization and also gave huge challenges to the banks. Likewise, interest rate liberalization and the opening up of the financial services markets have greatly increased the uncertainty.
of banks’ operating environment. Unlike domestic banks, internationalisational banks must consider the global business environment as well. To face the uncertain world, the internationalisational banks must strengthen risk management and internal control mechanisms in order to avoid the impact of uncertainty of the external environment.

The second is to efficiently process information. In the international markets, the immense amount of information in the outside environment demands banking organizations to improve the ability to process information. Basically, the operation and management of internationalisational banks relies on the given information to make decisions; therefore, scientific information processing is a prerequisite. Nowadays, information competition is the key to banking international competition. Basically, the real essence of international competition is a capability to process external information. Even though the application of super computers has greatly improved human's ability to collect and process information, the expansion of information has even been faster than that; thus, internationalisational banks must adapt to the requirements of business and management in the information era. In reality, internationalisational banks all established their own high efficiency information center to collect, sort and transmit useful information for banks’ decision-making and international management.

For the adjustment of the banking internal organisation, it is suggested to improve the following jobs:

First is to establish the M-shaped organizational structure and the clear-cut division of labour management system. According to modern organization theory, M-shaped organizational structure has more advantages comparing with the U-shaped structure, because it is stronger in terms of resource controlling and information processing; this could better suit the modern business management requirements for large enterprises. Modern western banks have gradually shifted the management pattern from U-shaped to M-shaped, while the large Chinese CBs are still practicing the U-shaped organizational management system, which does not match the scale of China's CBs. In order to comprehensively improve the bank's management efficiency, the large Chinese CBs are suggested to establish an M-shaped organizational structure to adapt to the socialising mass production and the requirements of the information era. For the development of international banking network, it is recommended to institute regional headquarters for hierarchical management and decision-making mechanism, and shift the functional departments to customer-oriented sectors to fit the requirements of the external financial and economic environment.

Second is to convert functional department to customer-oriented sector to accommodate the environmental requirements. This means to enhance market competitiveness through strengthening new product development, marketing and business innovation. For the customer-oriented idea, it is required that they constantly create new products, exploit new markets and adapt to the fierce competitive environment. The innovation of financial products should be mainly based on the head office level, so that the innovated products could be better plotted and promoted top-down; while, the marketing department should not just be set up in branches, because the business marketing development in HQ should be more important.
Third is to set up the scientific decision-making mechanism for the banking internationalising organization. In recent years, Chinese CBs set up more and more overseas branches and agencies; these are the foundation for the banks to explore international financial business. However, a lot of the banks’ international business network has not had its due effects. The development of overseas agencies and branches is undoubtedly important. It is the key job of the banking internationalization, and we cannot only focus on the form but also the content. The international developed network should play their due role when it is developed. Meanwhile, it should be noted that Chinese CBs established a decision-making mechanism for the set-up of overseas agencies and branches, as well as M&As in the process of the banking internationalization. In addition, it should pay more attention to study and formulate the equity share decision-making mechanism for the subsidiary bodies and affiliates overseas.

5.3.4 The Business Structural-mode Strategy

This strategy is the main content of banking internationalization. Banking internationalisation should make profits from all aspects, no matter balance-sheet or off-balance-sheet business, commercial banking or investment banking business, and retail business or wholesale business. Although the banking internationalisational business is different at different stages of its development, there are some common contents of the basic internationalisational business in various stages. Actually, the internationalization of Chinese bank businesses has been still urgently developed; it is mainly displayed as:

- The bank businesses are still not fully intentional, which mainly limits the import / export settlement and trade finance;

- The bank international businesses development have been slowly growing with the opening up of China’s real economy, and the banks themselves do not have enough awareness and ideas to expand overseas business scope and scale;

- The banks still lacks international business innovation; and in particular, the banking regulation is still strict and has not completely adapted to the development requirement of the information era; hence, the implement of China’s banking business strategy should mainly pay attention to innovative-pattern businesses, and then increase its international competitiveness.

- The international business development of the CBI is still more limited to the traditional commercial banking, and the investment banking businesses have not been stressed enough. In fact, with the development of global financial markets and the real economy structure adjustment, the investment banking businesses have much more space to make profits than the traditional commercial banking business. Therefore, the banks should focus much more of their attention on investment banking businesses. The commercial banks should not only engage in international investment banking businesses in foreign countries, but also should rely on the domestic market to exploit the country's international investment banking.

The internationalisational competition is essentially for attracting customers by providing comprehensive and diversified services. Diversified business can boost the banks’ ability to resist and disperse risks;
however, professional advantage can also dominate the competition. Even though it is better to hold more resources in the bank’s internationalisation, the bank’s resources are limited, and the excessive fragmentation of resources is often not more valuable. Therefore, the banks should make the choice between diversified operation and professional operation based on their actual situation; and there have been a lot of experiences in the international financial markets to learn from.

In the international competition, Chinese CBs have to appropriately make divisions of the business to characterise their special development strategies. A decade after the banking system reform, China has formed a multi-level commercial banks systems, and different types of commercial banks have different advantages in resources, businesses and management; thus, in the process of China’s banking internationalization, multi-modes of business development should be considered early on.

In particular, Chinese CBs must further expand their business depth and breadth in the process of internationalization. In other words, the banks should expand their business scope to achieve scale economies effect; meanwhile, the banks should be also extraordinary professional in certain businesses to acquire specific competitiveness. The two aspects are a unity of opposites, and one can not only emphasize one side of them, and should seek a balance between diversified operation and specialized operation in the way of internationalization to maximize the benefits and avoid the risks. For the banks with large scale, adequate resources, high level of management, and excellent staff training ability, they could apply the diversified operation strategy to expand the businesses from existing international businesses to the new emerging businesses. For the banks with small scale and limited resources, they should focus on developing a particular aspect of international business, for example, only focusing on traditional commercial banking businesses in a region or regions. For the emerging banking institutions without splendid resources, they should just rely on a business in domestic market to be leading in a special field. There is no point to operate internationally if they could make decent profits but not be strong enough to play the game overseas.

Conclusively, the internationalization mode of the CBI should be different. The banks sector should moderately make divisions (naturally), and the development of diversified international banks and specialized international banks should be both intensified. Also, due to the big domestic market in China, some Chinese banks should be just oriented at home to find local opportunities.

5.3.5 The Regulatory Improvement Strategy

The bank internationalization does not just mean the internationalization of business or institution, but also the internationalization of the banking regulatory institution and system. An effective and efficient financial regulatory institution and system is the foundation of banking internationalization. Over the past 30 years, the international organizations, e.g. BIS, has launched deep research on international financial supervision and formulated three protocols. In particular, the Core Principles for Effective Banking Supervision, co-formulated by IMF and World Bank in Sept., 1997, is much more specific and fruitful than Basels, and was acknowledged by member states of Basels as the general principles for banking supervision. To implement financial internationalization and develop international banks, Chinese bankers
must follow the Principles to build up the financial regulatory institution and system for the banking internationalisation. Actually, there are still a lot of problems in China's macro-financial regulatory regime that are not suited to the monitoring requirements of the opened-up banking industry. Hence, China's banking regulatory and supervision regime must constantly improve to pave the way for the banking internationalization.

The past financial system in China (due to the underdevelopment direct financing, the financial regime here mainly refers to the banking regime) was primarily a closed financial regime under the government control; so, under such a situation, the macro-financial regulation and supervision were also closed in correspondence. Nowadays, the CBI is on the way to internationalization, so the banking regulatory authorities must also adapt to the changes of the global financial environment to regulate and supervise the risks and uncertainties of the banking internationalisation. In order to adapt to the changes of the global financial environment, the banking regulatory and supervisory authorities must first achieve a shift in consciousness or way of thinking to follow the movement of the banking internationalisation. It can be said that the insufficient opening consciousness of the banking regulatory authorities is still one of the biggest problems, which has seriously affected the financial regulation and supervision in the process of the banking internationalization.

Even though different types of regulatory and supervision divisions have been responsibly set up for separate regulating and supervising the markets, this way of banking regulation and supervision still could not make deep regulations for the industry due to the limited information and skills. With the development of banking internationalization that requires much higher international financial technologies, it needs a specialized regulatory body that is familiar with the international financial markets to regulate and supervise the international banking businesses. Meanwhile, the financial regulatory and supervision body must accumulate more experiences to better fit into the new financial environment in order to more efficiently serve the banking internationalisation.

Basel Regulatory Commission has proposed five "prerequisite for banking supervision, i.e. robust and sustainable macroeconomic policies, perfect public financial infrastructure, effective market restrictions, highly efficient procedures to solve the banking problems, and appropriate systemic protection (or public safety network) mechanism. However, in reality, the CBI is still quite far from the above required five prerequisite, or at least not mature enough at its current stage. Hence, under such circumstance, China's financial regulatory authorities should not only effectively supervise the banking industry, but also pay full attention to the financial risks caused by the institutional factors.

Economic globalization and global financial integration has become an irresistible trend of the era; the CBI has to follow the trend to create conditions for its internationalization and actively participate in the competition of international banking markets. In order to increase the opening financial regulatory awareness of China's banking supervisory authorities, taking the following measurements is suggested:

a) Systematically making research on international financial market risks to raise the risk awareness of the financial regulatory authorities;
b) Deeply analysing the past global banking crises to improve the capabilities of risk identification of the banking supervisory authorities;

c) Further strengthening the international banking regulation training for the people who are working with the banking regulatory authorities to promote the supervisory quality and level of the regulators;

d) Comprehensively improving the banking monitoring system with incentives and indicator system to intensify the early warnings of internationalisation risks;

e) Establishing the insurance mechanism for the internationalisation banks as soon as possible; in particular, the insurance of overseas branches’ deposits should be made early on.

5.3.6 The Innovation Mechanism Strategy

Comparing with the western advanced CBs, which have centuries of accumulated innovation experience, the financial innovation of China's CBs still have a long way to go. Chinese CBs have to make new breakthroughs on the financial innovation if they want to hold a leading position in the international competition.

A: Financial innovation must take the efficient corporate governance as a precondition

The corporate governance is the basic premise of the normal operation and healthy development of a modern financial institution. The corporate governance change has been a benchmark of China's banking reform; however, it is still fragile, which further indicates the importance of corporate governance in the banking operation. To further greatly improve the corporate governance for the CBI, on one side, requires improvements of the internal inspecting and balance system, clearly defining the respective duties of board of directors, board of supervisors and the management in the decision-making, supervision and implementation of the financial innovation in order to form the efficient internal inspecting and balance mechanism and avoid the moral hazard; on the other side, requires intensifying the role of the board and management in the corporate governance, in particular, the comprehensive improvement of the professional quality of the various members of the Board of Directors, which allows them to fully understand and independently judge the risks of financial innovation. These could push the board and management to increase their qualified supervisory level which could help to timely discover the potential risks and take full responsibility for the innovation activities. Additionally, distinct and smooth internal information communication and reporting channels are also important for financial innovation by providing a more diversified understanding of the bank's internal and market conditions for the innovative team, and helping the board and management to grasp the progress of the bank's internal innovation activities and associated risks.

B: Financial innovation must be worked out within a reasonable range

The latest world financial crisis has importantly warned people that the financial over-innovation must be restricted. The main driving forces of financial innovation is to make up the incomplete market, meet the needs of the market financing and liquidity, carry out the issues of principal-agent and information
asymmetry, reduce the transaction costs, evade the regulation and taxation, and disperse risks, etc. The above targets all represent the requirements for market efficiency and institutional gains of financial innovation. However, for the countries which have been directly impacted by the financial crisis, most of those financial institutions have deviated from the above objectives. For example, many commercial banks have shifted from the traditional “absorbing deposits-lending loans” model to “granting loans-loans packaged securitization” model, which has deviated from deposit business. It is like a castle in the air that is almost without any liquidity risk resilience ability and vulnerable to fall into a liquidity crisis and could lead to wider range of credit risk. Therefore, in the process of the development of financial innovation, the CBI should adhere to a scientific and sustainable development as its basic premise; likewise, the development of the CBI also requires that the deposit-taking business, as the foundation at this stage, should not be given up. The board of directors, management, and regulatory authority should pay full attention to the large abandonment of traditional commercial banking businesses in the process of financial innovation, re-examine whether the bank’s current business conditions are matching its development strategies and resources, as well as always make the necessary adjustments in a timely manner.

C: Financial Innovation must adhere to the principle of "Controllable Risk and Calculable Cost".

The CBRC has proposed the principle of "controllable risk and calculable cost" that has been demonstrated to be scientific and significant by this crisis. In fact, some of the traditional risk management instruments are not suitable for estimating the specific "fat tail" potential losses of the structured credit product. Before the crisis, the market participants severely underestimated the default risk, concentration risk, market risk and liquidity risk and so on; some banks were even really poor in bank's asset and liability management and off-balance sheet risk management. During this crisis, some financial institutions, which had made large investments in senior collateralized debt obligations (CDO), suffered from huge losses due to risks of CDO being far harder to control and mitigate than imagined. After reflecting on the crisis, we can see the significance of risk management for financial innovation activities. Actually, the principle of "controllable risk and calculable cost" is the core experience summarized from the long-term process of innovation; and it seems like it is easy to do, but has a high level of requirement for financial innovation. The overall risk management capability of the CBI, in particular risk pricing and control of complex derivative products, is severely behind the western banks; therefore, they should emphasize the construction of risk management mechanism and pricing power in the innovation process. To control the risks, the commercial banks should establish a comprehensive risk management department capable of independently and accurately identifying, measuring and controlling the risks of the initial innovation and the investment on other new financial instruments. They should not blindly carry out innovation without the appropriate risk management capabilities. To calculate the costs, commercial banks should establish effective cost-benefit calculation system of financial innovation to finely analyse the costs and benefits of the innovative products, and then form the pricing power mechanism. If the commercial banks are still unable to accurately measure the overall costs of a product, or even carry out related accounting, it means that the CBs still does not have enough innovation capability in the field. The principle of "controllable risk and calculable cost" actually also reflects two important aspects of modern
bank internal management - economic capital allocation and internal fund transfer pricing, which are not only the basic requirements of innovation, but also the basis of the modern bank management.

D: Financial innovation must embrace the reasonable incentive and restraint mechanisms

Before the latest crisis, the irrational incentives that existed in many countries’ financial system has greatly contributed to the accumulation and spread of risk, and in particular, to creation of moral hazards. In reality, due to the remuneration system of the bank management being closely connected with short-term profits, and there being no negative incentives at the time of losses, the bank management tended to adopt high-risk, high-yield products. In particular, the mode of “loan granting-distribution” further fostered the moral hazard by transferring credit risk through securitization, which caused the amplification of the risks within the financial system. The financial innovation of CBI should learn from this crisis, establish a reasonable incentive and restraint mechanisms to urge the bankers to pay more attention to the long-term interests, rationally allocate resources, then further improve asset-liability management and liquidity management and reduce the chance of the short-term market fluctuations. Basically, the CBI should establish and maintain an appropriate capital constraint mechanism to discourage the free development of financial innovative action. Under the capital constraint mechanism, a bank's own capital is also part of the cost for innovation; therefore, the bank should be prudential about its innovation activities (e.g. the regulatory authorities could require the bank to assume a certain degree of credit risk in securitization business). Also, the banking industry should emphasise long-term remuneration incentives linking to the shareholders’ and bank's long-term interests; thus, the management innovation action would be more suitable to the sustainable development of the bank, and the management would emphasize more on risk assessment in the innovation process. Additionally, the banking industry should complete the innovation-related incentive mechanism, which not only awards the innovation that can bring extra profit for the bank, but also punishes the innovations which makes intolerable losses.

E: Financial innovation must be intensified with the regulation and supervision

Market-oriented management and supervision-oriented management are two main mechanisms to promote the transaction efficiency. There are certain inherent contradictions between these two mechanisms. In some developed countries with relatively sound market mechanism, the regulators believe that the regulation will not only undermine the market mechanism, but also bring the risk of moral hazard; therefore, they tend to let the market regulating itself. However, the crisis showed us that the market mechanisms could only play an important role if it is based on completely symmetric information in the financial market, so that the investors are able to identify and decide all financial risk. As the financial innovation progresses, the structure and risk characteristics of financial instruments have become more and more complex, the information has become seriously asymmetric even in the worldwide recognized mature markets (e.g. the USA, European), where investors also cannot fully understand the risks of innovative financial instruments (e.g. CDOs), and people realised that its covering risks were far beyond the imagination and control of a lot of investment institutions. Although the innovation of the CBI has not yet developed to the degree of complexity as the United States, it must be clearly understood that the risk identification and tolerance ability of China's financial investors are still much lower. Under this
circumstance, it is very necessary to strengthen market entry and day-to-day supervision of the financial innovation; in particular, the information disclosure and investor education should be especially stressed as an important complement to the supervision. Actually, the situation of Chinese banking market demonstrates that the market-oriented banking management cannot entirely replace supervision-oriented management; the banking regulatory authorities also need to keep up with the pace of development of financial innovation, focus on the improvement of the regulatory approach and philosophy, balance encouraging financial innovation and maintaining financial stability, then soundly and rapidly develop the CBI internationalisation. Basically, the regulatory philosophy of “supervise the legal people, risks and internal control, and promote transparency” proposed by the CBRC, combined with the risk-based regulatory manner and advanced experience of the international regulatory supervision, caters for China's banking innovation. Meanwhile, China's banking regulatory authorities also need to further strengthen their communication with the banking sector to further improve the professional judgment of financial innovation, take prudential supervision of commercial banks and financial innovation under the principle of “controllable risk and calculable cost”, and promote a positive interaction between financial innovation and supervision. In other words, it should neither loosen risk regulation on innovation, nor shackle our banking financial innovation.

5.3.7 The International M&A Strategy

After the latest global crisis, several Chinese LCBs have been restoring their overseas expansion and have regained their internationalization plan. The increasing influence of China's economy and finance has caused widespread concern around the world. For the overseas M&A strategy of Chinese LCBs, the following four aspects should be mainly focused on:

First focus: the choice of "going out" mode

Actually, the choice of Chinese banks "going out" mode is nothing more than setting up overseas branches and international M&As. To answer the question: “what focus of "going out" mode is better?” It depends. For instance, if the main purpose of going out is to provide services for the overseas key clients, then instituting branches overseas is a more reasonable strategy; if the main purpose of going out is to learn about a new market, aiming to prepare for more actions in the future, a proportional strategic investment is a better mode; if the main purpose of going out is to really enter into the market with the target of playing a leadership role, overseas M&A is a strategic idea to bring your specific advantages there. Nevertheless, the real strength and international competitiveness of Chinese CBs suggests that Chinese CB overseas M&As must face some serious challenges, such as the due diligence of the acquired company, the integration of the acquired company into the parent company and so on. Therefore, with the present situation of overseas M&A, a proportion of share-staking investment is the most optimal strategy if the main goal of going out is to fully understand the target country, in preparation for future implementations of large-scale M&As.
Second focus: the choice of “going out” target regions

In the past several years, for overseas targeted M&A markets, Chinese banks mainly focused on the neighbouring Asian countries and regions, but very few on developed countries, such as the United States, Europe and Japan, because they are not familiar with the cultural background of the countries or regions. Basically, starting with the neighbouring cross-border M&A is a good choice, but not necessary every time; this is really dependent on the purpose of going out. Actually, some Chinese banks, especially the ICBC and BOC, have made good achievements of M&A in the Asia-Pacific. With the bank’s important customers increasingly going out of the country, the demands for Chinese banks to execute the M&A abroad and the establishment of branches in other parts of the world have been growing rapidly. Even though it is still very difficult for Chinese-funded banks to enter into western developed countries, this situation is not a problem only encountered by Chinese banks. Other western banks face the same problems when trying to take over a bank in some European areas (e.g. France or Germany). Hence, it is really necessary to take due diligence and communicate well with the target country government, industry, social community, before the establishment of M&A there.

Third focus: the choice of “going out” occasion

It is said, with good reasons, that RMB is appreciated externally and devalued internally, and the commercial banking deposit reserve rate is spiralling at its current stage, thus, it is the right time for Chinese CBs to accelerate “going out”. According to the point of valuation, the value of overseas banks got low enough that it made the price of M&A much more appropriate after this financial crisis. It is concerned that the CBI has been in a relatively strong position with excellent balance sheet and high market value, whilst the market value of the overseas banks are relatively lower; hence, this is a rare opportunity for Chinese CBs who are planning or have planned to execute overseas M&As. However, it must be said that even in such a good timing, there are still some cases, which were over-paid for the acquired overseas banks even during this special time. Therefore, Chinese financial institutions, which intend to take M&A overseas, should learn from the successful companies who have done such good jobs in the field. Additionally, even if the pricing of the acquired banks has been quite low, the key to success of this acquisition case will still depend on its real value. Actually in the past, some Chinese companies, which have bought overseas companies, seemed to have paid little at beginning, but paid much more at the end. Obviously, this was not a successful case of overseas takeover.

Fourth focus: the choice of “going out” risk management

Cultural integration is one of the most important issues in overseas M&A activities. If a Chinese bank failed to improve its cultural integration after the M&A, the final success of this acquisition will obviously be doubted. The international experiences regarding cross-border M&As can be taken as a reference: almost 80% of the global M&As were deemed a failure in the end. Hence, when a Chinese CB is launching an M&A project overseas, the risk is the biggest concern. Basically, Chinese commercial bank overseas M&As are mainly involved in three risks: strategic risk, integration risk and operational risk. To deal with these risks, it is suggested that one must first fully prepare before the real action, in particular,
there must be a specialized team in charge of the job; secondly, one must pay special attention to the integration, in particular focus on the cultural integration; and thirdly one should always keep effective communication with external stakeholders, internal staffs and customers, particularly in large M&A, it is necessary to have a good partners in the job.

Conclusively, the internationalisation of the CBI is a systemic engineering; the approach to achieve the internationalisation of the CBI should be incrementalistic in order to learn more about the local financial markets and to better deal with the uncertain issues and risks during the internationalising process. To compete internationally and globally, the CBI must further strengthen its body, boost its skills, improve its institution, perfect its strategy and learn more information; otherwise, competing internationally and globally will be much more dangerous, costly and will take a longer time.
CHAPTER 6: CONCLUSION AND FUTURE PROPOSALS

In this chapter, the research conclusion is addressed, including the research findings, innovations and implications, and finally the future research proposal is suggested.
6.1 The Conclusion

In a society, no part can be isolated; they inevitably interact and interplay to create the co-existing environment and context. To multi-dimensionally examine the international competitiveness of the CBI, it is rational and necessary to base the examination on the whole social context and financial ecology, including the political, economic, financial and cultural foundation, if we want to anatomise the deciding factors, which have promoted the phenomenal development of the banking industry in the decades. In this thesis, the NIE, in particular the Institutional Change Theory is applied in order to present a plausible theoretical explanation with realistic joint analysis and critical discussion on the dramatic evolitional movements of the banking industry in China, particularly focusing on the last three decades.

For the social cultural context, as we discussed before, the Confucianistic philosophy and the Confucius way of thinking have deeply influenced the whole Chinese society in the long-lasting Chinese history, and Confucianistic ideology has always been adopted by the ruling class in different dynasties as the cementing tools to build up the societal set-up and consolidate their unchallengeable power and leadership. Hence, Confucianistic ideology is the core of the administrative foundation, which enables the ruling class to create a “common sense” of the whole state in Chinese society. Basically, the shifts of the administrative ideology in new China can be chronologically expressed as Marxism-Leninism and Mao Zedong Thought, Deng Xiaoping Theory, Theoretics of “Three Representative” and the Conceptual Ideology of Scientific Development, which covers the four generations of the leadership of the CCP during the last six decades, and guides the whole economic reform, opening-up, financial movement and banking industry development.

Even though there was a severely chaotic political, economic and cultural situation during Mao's leadership, thanks to the flexible and careful incrementalistic strategies, which have been exercised by the administrative party since 1978, the state was led to progressively, experimentally and prudently step towards the market economy and banking commercialisation. As a result, the economy and banking was able to maintain a remarkable growth for such a long time. Through insightful analysis of China's economic miracle, it is clear that the reason for this miracle was due to Chinese reformers learning from the past mistakes. Thus, the outcomes of China’s reform have been due to a mixed effectiveness of the political-economic development, market evolution and cultural shift. And the key to such a successful reform and opening-up was the pragmatistic change to the Party's spirit and role, especially since 1992, when Deng made the South-tour Speeches.

Basically, the banking industry in China did not have international competitiveness at all before the reform and opening-up, but accompanying the stunning development of China's economy in the last three decades, the banking industry has also made a great deal of achievement. The world banking landscape has been changed significantly over the last decade, in particular, the emerging financial markets have been remarkably rising up, whereas the western financial market have been dramatically fading since the latest world financial crisis happened. Chinese CBs, which showed off striking performances to the world during and after the latest crisis, are historically respected as the new financial giants rising in the world. There were 5 Chinese banks in the world top 25 largest banks by TAs and 5 Chinese banks in the world
top 20 largest banks by market capitalisation and PTPs (ICBC and CCB were No.1 and No.2 respectively) in the last two years. Additionally, Chinese CBs have been accelerating their international expanding paces recently in order to further increase the market shares and new growth point of profit.

This thesis initially derives a multi-dimensional empirical examination and applies critical thinking to the IC of CBI and made plausible strategic suggestions to further improve the IC and promote the internationalisation of CBI. This study assumes that as a kind of industry, banking is comprised of types of institutions; the economy development heavily relies on the performance of the banking industry. Basically, the banking performance is mainly dependent upon its competitiveness and international competitiveness. In this thesis, the IC of CB is hypothesised to be mainly influenced by the business scale, management level, sound quality and overseas business capacity, as well as some macro- and micro determinants. For improving the IC and promoting the banking international competitive strategy, a set of approaches are suggested as the optimal way to develop the businesses internationally based on the real sense of the IC of the CBI.

The findings here suggest that the international competitiveness of CBI has been continuously improving; the real international competitiveness of the banking industry has been developing sustainably, and the comprehensive contributions for the economy from the banking sector have been growing more and more. However, the multi-dimensional examination results also claimed that the banking performance is still greatly influenced by the economical environment and financial ecology. The banks’ income structure seems to still have big shortcomings, because the operation income still hugely relies on the home-base advantage, country-specific competence and the big interest margin. Even though the main Chinese banks are one of the most profitable banks in the world, most of their profits are from the domestic market, and the overseas business contribution are still not convincing. Additionally, some others still argue that because the government is the biggest shareholder (direct or indirect) in most Chinese CBs, political or authoritative aspects can seriously influence the banks business activities, in particular the credit lending and the appointment of top executive positions. The real situation of the loan quality of the banking industry are also still questioned due to the information disclosure manipulation, especially after the government-commanded lending spree during and after the crisis, the new NPLs and the capital shortfalls were a major cause of concern for the market. Furthermore, the vulnerable housing market, soaring asset bubble, huge borrowing of the local governments’ funding vehicles, as well as many non-lucrative loan projects (e.g. bridges, sewage pipes), have added enormous fears to the banking lending default.

After applying critical thinking to China’s banking evolution, market status quo and international competitiveness, it is strongly acknowledged that the real essence of China banking reform has been the elite designing, and in particular, influenced by the special interest groups, any movement in the banking evolutional progress was mainly directed by the government, and the administrative party’s ideology has greatly manipulated the orientation and positioning of the banking development. Chinese bankers must first be a politician, then a banker. The Confucian notion has deeply influenced the way of thinking of the bankers’ behaviours. The performance of Chinese banks has been mostly dependent on the social financial ecology, in particular the causality of the NPLs in the commercial banks. Even though Chinese banks have been reforming for years, the fundamental issues of the banking system have still not been
completely worked out. The financial ecology of the banking business is still one of the greatest factors for the banking performance. The most competitive advantages of Chinese banks are still mainly state-specific but have no institution-specific powers. The total assets and the market capitalisation of the Chinese banks are not a result of their performance, but through macro-economic policies, political pushing, loans exploding, asset pricing bubble, etc. Several Chinese banks produced the most pre-tax profits (in absolute term) compared with their world peers in the last two years, but most of it was created from home market. There was very little profit from their overseas businesses, and even huge losses occurred. Likewise, the real status of the ROA, ROE, gearing ratios, profitability model, liquidity ratio, risk management and product innovation of China’s CBs clearly show that Chinese banks are still not really strong enough to look down on its foreign counterparts. In particular, the real quality of the banking assets and the adequacy rate of the banking capital have been highly concerned by the markets after the two-years lending wave. In reality, a series of recent announcements from the banks for refinancing in the stock markets have confirmed the above market concerns. In addition, even though the latest global crisis have shown that the state-owned commercial banks may have stronger anti-risk capability during serious banking crisis, but too much political intervention on the banking business activities would absolutely affect the real international competitiveness of banks. It is very dangerous to go international and global if the Chinese bankers think that they can also make huge profits overseas as they do at home. Actually, this has been recognised as a result of the domestic monopolistic market power, hence it is considered by some as an illusion of real strengths.

To continuously promote the international competitiveness of CBI, the Chinese CBs still face many challenges in the future, in particular the corporate governance, profitability mode, lending mechanism, risk management and regulatory environment. If Chinese commercial banks cannot change their competitive pattern (from country-specific advantage to institution-specific advantage) as soon as possible, the internationalisation of the banking industry will take a much longer time, and there might even be the danger of huge losses occurring. Hence, the CBI must clearly realise the great challenges they face right now and in the future. The current vulnerable domestic and international macroeconomic situation, the huge local governmental platform debts and over-fever housing market have been the most serious risks for China’s banking system thus far. Therefore, the real quality of the banking assets must involve extreme risks if the three radical issues could be not effectively handled in a short time. Likewise, Chinese banks still need to further intensify the product and service innovation, optimise the credit industrial structure, capital distribution, lending mechanism and product diversification, build up the business process and organisational framework, promote own market distinguished brand and operational differentiation, strengthen the anti-risk capability, fetch in more international-background elites and rationally position the strategic development orientation. Additionally, the government should gradually reduce the political intervention for the banking operation, and the banking regulators and supervisor should further increase their competence in preventing banking systemic risks, interconnected risks, cross-border risks, moral hazard, as well as the potential issues relating to the “too big to fail” banks.
6.2 Innovations of the Research

As to the research topic in terms of the international competitiveness of CBI, there have been some relevant studies in the field before, but this research was made to further explore and discuss the IC of CBI based on the research findings of the previous relevant studies. Even though this doctoral level research has taken the references from other relevant studies, this research has still at least made the following special innovations:

First, this research has established a basic framework, which is claimed as a more rational, systematic and relatively scientific approach to reflect the important determinants and constitution of the international competitiveness of CB. In the previous researches, there were some studies about the deciding factors of the competitiveness and the international competitiveness of CB, but most of them have mainly discussed what deciding factors influence the IC of CB, very few have explored how the deciding factors affect the IC of CB, and what to degree the deciding factors influence the IC of CB. The modelling of the influential mechanism of the deciding factors was not mentioned much.

Second, this research has formed the separate and joint evaluation models, which are specially for evaluating the international competitiveness of CB. The distinguishing features of these models are that it clearly embodies the difference between the competiveness and the international competitiveness of CB. Therefore, these models could be much more reasonable and rational when used to reflect and evaluate the real international competitiveness of CB, and the evaluation results should be closer to the reality.

Third, this research has more deeply and critically discussed the special social context, politico-economical environment and financial ecology in China that have had huge impacts on the banking reform and development. In particular, the Confucius cultural ideology, the administrative ideas of the Party, the financial regime and the banking institutions were paid special attention to in order to fully evaluate the real IC of the CBI.

Fourth, this research has initially applied the NIE, in particular the Institutional Change Theory as the theoretical foundation for studying the IC of the CBI, to further discuss the interrelated theories and arguments, and explain why this theory is particularly suitable as the theoretical fundamental for this kind of study for China’s case.

There have been also other small innovations, but not obvious, for instance, the data reformulation and renormalizing, the analysis approach of the internal and external causes of the IC of the CBI. In conclusion, the researcher can be satisfied with the achievements made in this research and finally achieved what he has expected.

6.3 Future Proposals

Some biases or empiricism might still exist in this research. Due to the very complicated social context and special political background in China, it is very hard to make a widely accepted conclusion for the real deciding factors of the banking industry development. Many ways of further researching the essence of the banking institutional shifts in China would be proposed in the future. However, the speciality of
Chinese social culture and the particularity of the politic-economical ecology should be always carefully thought over; otherwise, it would be hard to fully evaluate this issue. Even though the researcher has made his best attempt to estimate the real level of the IC and suggested the optimal ways to further promote the international competitive advantages for Chinese CBs, the research methodology in this paper still needs further improvements and suggestions from this kind of studies in the future, in order to make more convincing and persuasive results.
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APPENDIX 1:

Table 7: 2013-2014 World Top 20 Banks Key Indices Synthesis and Analysis

<table>
<thead>
<tr>
<th>Ranking</th>
<th>Institutions</th>
<th>Country</th>
<th>Tier1 Cap ($ million)</th>
<th>Total Assets ($ million)</th>
<th>Capital to Assets (%)</th>
<th>Pre-tax Profits ($ million)</th>
<th>Profits Change (%)</th>
<th>ROA (%)</th>
<th>CAR (%)</th>
<th>NPL Ratio (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>ICBC</td>
<td>China</td>
<td>207614</td>
<td>3100254</td>
<td>6.7</td>
<td>55480</td>
<td>13.10</td>
<td>1.8</td>
<td>13.10</td>
<td>0.9</td>
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<tr>
<td>2</td>
<td>CCB</td>
<td>China</td>
<td>173992</td>
<td>2517734</td>
<td>6.9</td>
<td>45885</td>
<td>14.7</td>
<td>1.8</td>
<td>13.3</td>
<td>1.0</td>
</tr>
<tr>
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<td>165663</td>
<td>2415689</td>
<td>6.9</td>
<td>25914</td>
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<td>4</td>
<td>Banks of America</td>
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<td>16181</td>
<td>426.8</td>
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<td>5</td>
<td>HSBC Holding</td>
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### APPENDIX 2

**Table 14: The Participants of the Interview Conducted by PWC in 2010 and 2011**

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**Note: in 2012**

* Bank of America changed to Bank of America Merrill Lynch  
** Bank of Nova Scotia changed to Scotia Bank  
*** Wachovia Bank changed to BBVA