BRIC Banks' Overseas Expansion: the Impact on Banks' Stock Prices from Opening Overseas Branches

by

Ying Jiang

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Saint Mary's University

Approved: Dr. J. Colin Dodds

Faculty Advisor

Approved: Dr. Francis Boabang

MFin Director

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Abstract

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Emerging markets are experiencing fast economic development, the especially in Brazil, Russia, India and China, which are so called BRIC nations. BRIC banking industry is facing a difficult decision, whether they should expand their business to western countries or focus on domestic markets. This paper tests the impact of overseas-branch opening announcements on the daily stock price of BRIC banks. Forty-six events in the past 10 years are examined in the test. The event study is used to measure abnormal returns around the announcement dates.

The test results showed generally negative returns for BRIC banks as they announced the opening of overseas branches, but Chinese banks did generate positive returns. For BRIC nations, expanding their banking industry to other emerging countries seems to be a better alternative, if the bank is at the beginning stage of internalization.

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Chapter 1 Introduction

Banking is the one of the fastest growing industries over the past decades in emerging markets, especially in Brazil, Russia, India and China, the so called BRIC countries. Banks expand their international services by opening new branches or representative offices overseas. After the recent financial crisis, even western banks started to re-evaluate the balance between the costs and benefits of internationalization. For BRIC nations, whether they should open more branches in foreign countries or keep investing in domestic market is an issue. As Mishkin (2009) stated,

> "Banking globalization can lead to institutional and regulatory or supervisory improvements, which promote strong property rights and a financial system that directs capital to its most productive uses which are crucial to achieving high economic growth and the eradication of poverty."

This paper will examine whether or not BRIC nations should develop their banking industry overseas by testing the impact of announcements of opening branches overseas on banks' stock prices.

It is broadly recognized that emerging markets are in the process of dramatic economic growth. Based on Heinz's (2012) report, the BRIC countries' average yearly growth rate amounted to 3.7% in Brazil, 7.1% in Russia, 7.2% in India and 10% in China. "The emerging markets are on a growth escalator" said KPMG (KPMG, 2011, p.3). In Financial Executive's (2011) report of BRIC banking, it stated that the old world economic order is undergoing a major shift; BRIC nations hold more than 40% of the world's foreign exchange reserve and 15%($15.4 trillion) of the global gross domestic product. Also it is predicted that by 2050, the world's dominant economic leaders will be

BRIC countries. Moreover, according to the list of the 50 largest banks in the world based on market capitalization as of January20, 2012, China had 4 of the top 7 banks, including the top 2; Brazil had 4 of top 50 banks; both India and Russia had one bank respectively on the list. Also, most of those banks have overseas branches or representative offices around the world. For example, ICBC, which ranks the largest bank by market capitalization, has over 200 branches aboard in major cities such as Singapore, Tokyo, Seoul, Frankfurt, New York City, Sydney, London, Moscow, Toronto, Paris, etc.

According to Global Investor (2011), Chinese banks were looking to expand their international market in a fast speed;

> "The rapid growth of Chinese banking franchises throughout Asia are being driven mainly by foreign companies' desire to form relationships with Chinese banks to facilitate their business expansions in that country, and Chinese companies' need for banks to facilitate their own international growth. Eighteen percent of Asian companies now use Bank of China for cross-border banking services, up from just 12% in 2009. Twelve percent of companies use ICBC for cross-border services, up from 6% last year."

In fact, banking globalization was interrupted by the recent financial crisis and resulting recession, and this has led to a controversial debate. On the one hand, international banking provides simple access for Foreign Direct Investments (FDIs) and a bank itself could improve its economic growth. HSBC is a successful example of this, as a British-owned bank, HSBC is the second-largest multinational bank. Instead of operating just in Britain, it focuses on the universal market which is a larger consumer-based marketplace. On the other hand, moving funds globally is much more complicated than domestic transfers. Also, opening new branches in other countries involves excess costs compared to local branches due to potentially higher labor costs, market research fees, and agency

costs. According to the Cetorelli and Goldberg's (2011) study of global banks under crisis, they argued that the recent financial crisis in 2007 was even worse because of banking globalization, and the international banking linkages had spread contagion.

This paper will examine stock price fluctuations when the bank makes an announcement of opening new branches or representative offices overseas. Chapter 2 begins with a brief introduction of several influential BRIC banks and their roles in the world market. While BRIC banks have their own advantages, they are still conservative. Also regulation of BRIC banks will be explained. Chapter 3 will provide an econometric analysis of banks' stock prices, focusing on the effect of the announcement of opening foreign branches. The event study methodology will be utilized in this paper. By building a CAPM model, this paper uses STATA to analyze whether or not there are abnormal returns. Chapter 4 concludes the methodology and results. The summary and recommendations will be provided in Chapter 5.

Chapter 2 Literature Review

2.1 Banks in BRIC nations

At the beginning of the twentieth century, the world's largest banks by assets were either Japanese or French banks, but the situation did change quickly during the following twenty years.

In Brazil, the stated-controlled Banco do Brazil is the biggest financial firm, with 1/5 of total bank assets. After 2007, they are looking for international opportunities. Itaú Unibanco was formed through a merger in 2008 which saw it overtake Bradesco by size. They are both private banks and their services include insurance, credit card and investment banking operations. Two dominant Russian banks are all state-owned. Sberbank controls almost one third of the aggregate deposits in the country; VTB bank relies on its retail banking and has increasingly expanded its branches.

India's banking system is small but catching up rapidly. In fact, that contributed to the economic revolution. As Mishra and Sharma (2011) reported, the Indian economy has been changing with a dramatic transformation from a highly regulated environment to the one which is more market-oriented. The State Bank of India, which is listed, but state-controlled, dominates about a quarter of the market. According to Accord Fintech (2011),

" public sector lender State Bank of India is looking to acquire banks in Africa and Southeast Asia as it seeks to ramp up its overseas operations. The country's top lender planned to spend roughly $200 million on overseas acquisitions and would mainly focus on banks with strong corporate banking services in the two regions. SBI is aiming to raise

the contribution of international operations to the group net profit to 25 per cent over the next five years, from about 16 per cent now. SBI's international loan book grew nearly 18 per cent from a year ago to touch $24.6 billion as of end-December. The bank's total loan book stood at $164 billion as of end-December."

Canara Bank, which is 73% state-owned, is India's third largest bank. The rest of the shares are listed with foreign institutions, including 66% with Citibank and HSBC. In Robinson's (2010) report, Canara Bank

"is on a major drive to upgrade its technology and services in order to increase its fee income as competition from foreign and domestic banks increases. The Bangalore-headquartered bank, with a return on assets of 1.16, making it the 12th most profitable in India, according to The Banker's Top 1000 listing, is spending $40m on its core banking technology, plus other sums on areas such as internet banking. Currently, less than half of its 2542 branches offer internet and mobile banking."

China's top banks are still stated-owned. For example, ICBC is the world's largest bank by market capitalization and had made various foreign investments in Asia and Africa. According to The Banker's interview with ICBC's chairman Jiang Jianqing in 2007, Jiang declared that ICBC was not an international bank in the real sense, but it felt the necessity to move internationally. The bank's next target was going to take more steps in the international arena and they would consider opening more branches or subsidiaries or making acquisitions.

"Our overseas business has been growing very quickly, with a 30%- 40% annual growth rate, but our overseas relations need time to cultivate and this is a slow process. While growth in some overseas branches is quick - 30%-40% - growth in domestic branches has been even higher. In the past four years in the domestic market, ICBC assets grew at 18.2% annually with growth in profitability at 30% each year. With asset growth of more than 18%, this means that our assets grew by more than Rmb1000bn each year. From this you can clearly see that if overseas assets are going to contribute significantly to the bank, organic growth is not enough. Only if we can make important acquisitions can we deliver. It will be a long process to grow overseas" (The Banker, 2007).

2.2 Western Countries Need More Loans

Market demand is the main concern in respect to bank internationalization for BRIC nations. According to Bloomberg search, developed countries are usually borrowers, since they have excess loans over their deposits. However, for Asia, it is saving that comes to mind. The Economist pointed out in 2008 that the surplus of customer deposits over loans at listed emerging-markets banks was about $1.6 trillion, compared to a deficit of about $1.9 trillion at developed-nation banks. It went on to report that especially after the crisis, for banks whoever has the deposits and the capital usually wins.

In general, emerging-market banks tend to open vast branches to collect deposits from conservative households and enterprises. Since there are cultural differences, the majority of families in BRIC countries prefer to spend money they own instead of borrowing money. As a result, banks either end up buying government bonds or maintaining deposits with central banks. The country in turn works as the international recycling agent and it lends money to developed countries from foreign reserves or through a sovereign-wealth fund. For example, China is the largest holder of US debt. Japan used to be US's majority debt holder until 2008. In 2011 (February), China held $896 billion and Japan owned $877 billion. In total, foreign central banks hold $2,604 billion of Treasuries, according to Federal Reserve data in 2011.

The Fed is buying Treasury debt under two programmers and the largest is QE2.

"It was also buying $30 billion of Treasuries to reinvest principal payments from its largest holdings of mortgage debt and debt issued by government housing agencies" (Michael, 2011).

In addition, Michael (2011) pointed out that only 5% of the Fed's buying had been for Treasury debt longer than 17 years, and that means US had to pay the remaining 95% of them in 17 years.

It is not only the United States that needs this external financing. The recent European crisis tends has led to the need for some financial support to relieve economic pressures in many Eurozone countries. According to the Economic Intelligence Department of Norges Bank, even before the recent crisis, the debt burden was high in many countries in the Euro zone, especially in Denmark and Netherlands. In this report, it determined that household debt and mortgages were on an increasing trend and the repayment period had increased gradually. Marek (2010) argued in his report that the euro crisis was due to a debt crisis. In addition, the public debt crisis influenced was confined not only to Greece but to the Euro area and beyond. In fact, several other developed countries confront fast growing debt-to-GDP ratios, and this raises uncertainties about their long-term solvency. Anderlini (2010) declared in his report that, China had promised to take further action to support European financial stabilization, including buying the bonds of countries at the center of the sovereign debt crisis.

2.3 What Benefits Does an Expansion of the BRIC's Banking Industry Bring?

For all BRIC countries, they have similarities of great population, a potential consumer market, fast economic growth and large territories. With 40% of the world's population, the BRIC already account for 25% of global GDP (Ranjan&Agrawal, 2011). Hence, BRIC countries themselves have gigantic markets to serve. However, the problem is that large populations and natural resources attract foreign investment and competition. For example, foreign banks with superior reputation would lessen local banks' customers and

for some international banks, the majority of their profits come from overseas markets. In Invest Beijing's report about overseas expansion of Chinese banks, pointed out two majority reasons why BRIC countries should go abroad. First, globalization, including financial institutions facilitated the development, and banking internationalization was an essential force. Secondly, opening new branches overseas would assist local companies' expansion. As companies developed their international exposure, overseas branches were necessary to provide retail banking and loan services. Also it figured out four stages of banking industry by its domestic and overseas services. Most Chinese banks were in Stage two, which was the beginning of an international bank; but some developed-country's banks were mature to be at Stage four, which is a universal and powerful financial institution.

Globalization also benefits the expansion of the banking industry. Since the last decades, globalization has always been a popular issue around the business world. It involves the integration of economies, from promoting international business trade in goods and services, information, technology, people and investment (Thompson, 2007). Obviously, a bank is an imperative intermediary. In Hinojosa's (2011) report, it was clearly stated that it costs less and faster for all parties to pay the local currency to the foreign supplier's, although US dollar is more accepted overseas. Assume one party prefers to pay in US dollars, both banks of all parties will charge a fee.

High profits and returns are also key aspects for BRIC banks. The ICBC announced in a stock report on December 2010 that its investment in South Africa generated about 7% return, and it was much higher than the return of foreign bonds. In addition, in comparing

the profits of Bank of China's overseas debts, to the ICBC the latter realized potentially higher returns. Since most BRIC banks are state-controlled, they gained from government support for credit evaluation, particularly during the crisis period and the later recovery period. Gautier (2011) predicted that both China's and India's performances in 2012 would be satisfactory, and that India and Russia would remain at the 2011 level, even though their economies including governments were hurt by the financial crisis.

For westerners, we can pose the question, which debt resources attract them more, domestic or foreign debts? In Abbas and Christensen's (2009) research about domestic debt markets, they pointed out the pros and cons of domestic debt. First of all, the most concern is that governments may use up domestic private savings thereby crowding out private investment.

" In turn, the smaller residual pool of loanable funds in the market raises the cost of capital for private borrowers, reducing private investment demand, and hence capital accumulation, growth and welfare. In shallow financial markets, especially where firms have limited access to international finance, domestic debt issuance can lead to both swift and severe crowding out of private lending."

Secondly, domestic debt is more expensive than some external financing. The high interest burden of domestic financing shrinks government revenues and lowers economic growth. In addition, an overload of domestic debt may also postpone tax mobilization efforts and be politically costly. Thirdly, if government credit lowers, the cost of domestic financing will be extreme due to unpredictable time problems. Abbas and Christensen (2009) gave an example in their study,

"If the state has weak (direct) tax collection, as is the case in most LICs, the state will have a strong incentive to monetize deficits and use the net domestic financing window to both, generate seigniorage, and, reduce the real burden of existing domestic debt. Under these circumstances, the government faces a classic time inconsistency problem and, therefore, either cannot issue nominal debt at all, or has to pay a significant premium to compensate investors for the potential risk of surprise inflation."

Finally, high-yield domestic debt formulates an illusion that the banks perform perfectly, and it may diminish their incentive to gather more deposits and fund private sector developments.

2.4 BRIC Nations' Concerns

Overseas expansion usually has three methods: purchasing foreign banks' shares, acquiring foreign banks and opening overseas branches. Compared to merging and acquiring, banks have no immediate control rights if they purchase a portion of shares. In contrast, acquiring or opening new branches requires high levels of overseas management experience. Merging saves times and cost for applying for certificates, selecting locations, and hiring staffs, but still, it requires higher investment and capital support. To sum up, not all banks are suitable to be international, and they should obtain the following characteristics; corporate governance and risk management, powerful capital backups, high profit margin, international customer-based market, and overseas management experiences (Xiao, 2010).

As this paper mentioned before, BRIC banks do gather excess deposits, and are looking for foreign governments who need capital. However, different government policies may hinder the expansion process. For example, the Chinese regulator requires banks to keep at least 17% of their deposits within the central bank, and the purpose is to control the economy. The Indian government requires their banks to use 25% of their deposits to purchase government bonds, in order to help the country to manage its development and budget deficit. Besides, western countries set limits and regulations for foreign banks,

and both IBA (The International Banking Act) and FEBSEA (Foreign Bank Supervision Enhancement Act of 1991) work on that, and provide requirements foreign banks must obtain the approval of the Board to open a new branch in the United States. Under the IBA and Regulation K, foreign banks are willing to establish a branch, they must consider

> "whether (1) the foreign bank engages directly in the business of banking outside the United States; (2) has furnished to the Board the information it needs to assess the application adequately; and (3) is subject to comprehensive supervision on a consolidated basis by its home-country supervisors.7 The Board also considers additional standards as set forth in the IBA and Regulation K" (Frierson, 2008).

The RBI is the principal supervisory authority of all banks, including foreign banks and its subsidiaries and affiliates. The RBI has authority to license banks, and it is in charge of the regulation of banks' activities and expansion for all domestic and foreign banks. For management purposes, the RBI has two examination methods. An on-site examination is monitoring operation, capital adequacy, management including risk management strategies, asset quality, earnings, liquidity, and internal controls and procedures. The examination frequency is at least annually, and it sometimes depends on a bank's risk profile. Moreover, off-site observation requires the review of required quarterly or monthly reports, including asset quality, earnings, liquidity, capital adequacy, loans, and on- and off-balance sheet exposures. Yearly auditing is obligatory and reports are submitted and approved by the RBI. This auditing process goes through financial statements, asset quality, internal controls and anti-money-laundering procedures. In addition, a special audit may be ordered by the RBI at anytime.

Another problem is what if foreign markets prefer to utilize domestic debt, such financing can improve money and financial markets, motive private saving and stimulate trade investment. Abbas and Christensen (2009) also conclude there are good aspects of national debt;

"Government securities are a vital instrument for the conduct of indirect monetary policy operations and collateralized lending in interbank markets."

In fact, internal borrowing motives local banks to manage their own liquidity more efficiently. For central banks, this would lesson intervention on commercial and private banks. Moreover, central banks do not have to rely on controls of credit ceilings, interest rates and high reserve requirements. Also, internal financing benefits bond markets. Long-term private bonds which are issued by banks or companies would have a fair benchmark that is the yields on government securities. Finally, the availability of domestic debt instruments can provide savers with an attractive alternative to capital flight as well as lure back savings from the non-monetary sector into the formal financial system.

"The possible benefits here can go beyond saving mobilization and extend to a reduction in the size of the black economy, widened tax base, increased financial depth, de-dollarization and improved perceptions of currency and country risk" (Abbas & Christensen, 2009).

Chapter 3 Methodology

In this paper, it tests stock price reactions when a bank announces opening a new overseas branch. To examine whether abnormal returns exist, an event study is utilized in this research. The event study methodology was first presented by Fama et al (1969), in a published financial paper. Later on, event studies have become an essential part of financial economics, especially in accounting, finance and economics research.

An event study is an analysis to test whether "there is a statistically significant reaction in financial markets to past occurrences of a given type of event or information that is hypothesized to affect public firms' market value" (Gershgoren, 2006, p.1).

In addition, the event study contributes to studies on the efficiency of capital markets. Fama (1991) pointed out that, abnormal returns which happened sometime after an event are inconsistent with market efficiency.

In this paper, it generates data on all the listed banks of the BRIC nations from the Bloomberg system. There were 128 banks. Once a bank announced an overseas-branch opening this is classified an event. In fact, only 34 banks of BRIC banks are currently international banks, and they either have overseas branches or representative offices; 78 events in the past 20 years were found during the research. If we assume announcements occur N events, i=1, 2, 3…, N, and abnormal returns refers to AR_i, and that is the difference between the expected return $\bar{R}_i$ and the real return R_i, and the cumulative abnormal return CAR_i is the sum of abnormal return AR_i; AR_i is based on 30-day observation, that is 5 day in the past of the event, and 25 days followed by the event, he formula format is shown as follow:

$$AR_i = R_i - \bar{R}_i \tag{3.1}$$

$$CAR_i = \sum_{j=-5}^{25} AR_{ij} \quad (3.2)$$

Once the CAR_i of each event is estimated, this paper use STATA to run a regression, and the purpose is to examine whether the abnormal return is significant or not.

For expected return $\bar{R}_i$, the Capital Asset Pricing Model (CAPM) is applied to this paper. CAPM delivers estimates of the expected returns of an investment, and it is a critical factor in the determination of an asset or portfolio value (Suh, 2009). The formula format is shown as follow:

$$\bar{R}_i = \alpha_i + \beta_i R_m + e_i \quad (3.3)$$

Therefore, in Chapter 3, we present the results of the regression tests of the event study and CAPM model in the estimation of stock impact from a perspective of BRIC banks' overseas corporate investment decision-making. All data in this paper were collected from the Bloomberg system, including company daily stock price and market index. To obtain daily returns, the study requires two following days' stock price. The difference of the two-day stock price is divided by the previous-day stock price. The result is shown as following formula:

$$R_i = \frac{(P_{n+1} - P_n)}{P_n} \quad (3.4)$$

$$R_{i,mt} = \frac{(P_{n+1.mt} - P_{n,mt})}{P_{n,mt}} \quad (3.5)$$

Consequently, the bank daily stock price provides the real return, and the expected return is the benchmark, which comes from the market index. For instance, ICBC announced its

Abu Dhabi branch was opening on November 11, 2010. The bank's stock price increased from 5.248 to 5.257 in one day, and the market index, which was Shanghai stock exchange index, decreased from 3178.61 to 3175. 192. That means ICBC's one-day real return was 0.1715%, and the expected return according to the benchmark was, -0.1075%.

After all raw data were categorized into rate of returns, this study analyzes all data and dates by a program called STATAIC 11(64-bit). In the first step, STATA runs a regression to test whether the abnormal return is significant or not. In general, the p-value which is less than 5% considers being a statistically significant result. The coefficient indicates whether the positive or negative impact of the factors, and how much influence they have. In addition, this paper adds a dummy variable on the second step, to check whether the dummy variable has an influence. Since China comprises 3 banks of the world's top 5, the Chinese bank is the dummy variable. The purpose of the second test is that the result would provide detailed statistical information about the Chinese banking industry. In fact, Chinese banks' assets have a large portion of the whole BRIC nations, and it is almost 3 times as much as Indian banks. Thus, it is necessary to look at the individual country separately.

As has been noted, all raw data were collected from the Bloomberg system, and it included 128 BRIC banks, their daily stock price and the market index. The time range was 8 months related to the event, specifically 6 months before and 2 months after the event. Unfortunately, due to information limitations, some emerging countries in the Bloomberg system could not provide comprehensive market index, daily stock price and accurate announcement date. As a result, the samples in the test are narrowed down to 46 events.

To demonstrate the limitation of data gathering, there are the three concerns. Firstly, as a bank published an announcement, it sometimes did not declare the exact date of the opening of new branch; thus in this paper's list of announcement, it is mixture of overseas-branch opening date, planning opening date at exact cities or probable countries and areas. Secondly, some banks only report weekly stock price, and the result is that the daily stock prices of that trade week are identical. Hence, the impact on the daily stock price is challenging to examine. In addition, in the case of the Russia's market index, which refers to the Moscow stock exchange index from Bloomberg, it is is not extensive, so as result there are data deficiencies.

Chapter 4 Analysis of Results

In this Chapter 4, this paper documents the size and power of the test for BRIC banks at an 8-month horizon, and the test discoveries that the stock price is influenced by the announcement for a 30-day period. The test results are significant supported by the p-value which is 0.069. The test results are shown as follows:

Table 4.1

CAR_i	Coef.	Std.Err.	t	p>|t|	[95% Conf. Interval]
_cons	-1.232108	0.66198777	-1.86	0.069	-2.5654 0.1011835

Table 4.2

CAR	Coef.	Std.Err.	t	p>|t|	[95% Conf. Interval]
China	2.525191	1.437237	1.76	0.086	-0.37137 5.421752
_cons	-1.945749	0.764049	-2.55	0.014	-3.48559 -0.4059093

In Table 4.1, the statistical results are explained that once a BRIC bank announces an overseas branch opening, the stock price decreased during the 30-day observation period; the 30-day observation period was from 5-days in advance of the event, and 25-days after the event. The P value, which equals 0.069, presents a 93.1% chance that the test result is correct. However, in Table 4.2, the dummy variable China shows a different, but important outcome. The second test for the dummy variable indicates that the coefficient is positive; the other constraints, including Russia, India and Brazil, still show a negative coefficient, and the p-value is 0.014. In other words, there is a 98.6% chance that an

overseas-branch opening announcement on those three countries had a negative impact on stock price. However, for Chinese banks, they did generate positive returns.

From our first test, an overseas-branch opening announcement had a negative impact on the stock price, but we could not indicate that the overseas expansion is not appropriate for BRIC countries. However, the sample size is still small that is because BRIC banks are young compared to those powerful and mature international banks. Fortunately, the dummy variable China does generate positive returns; though the p-value is not significant. That is because the sample of Chinese listed banks is only 13.

Since an opening-branch announcement is a frequent event, our study focused on short term fluctuations instead of the long-term range. Sometimes, an event could reflect quickly on the stock prices in the same day, for example, Apple's new products are usually revealed immediately on its stock price. However, bank's announcements are hard to predict, so the investor may get the correct information a few days after the event and then make an investment decision. The observation range we had on the test is, 5-days in advance and 25-days after the event. For the observation period that is 5-days earlier than the event, the possible explanation is investors may obtain the information through other media prior to the announcement date, so they react quickly to the event.

The Chinese stock market was launched in 1990, and it grows rapidly in listed firms, market participants and market capitalization. Even after 20-year development, Chinese stock market is still different from developed markets due to government regulation, investor structure and market segmentation. In detail, Chinese stock market contains various classes of stocks, including A-, B- and H- shares in three Chinese stock

exchanges- the Shanghai Stock Exchange, the Shenzhen Stock Exchange and the Hong Kong Exchange. One special thing about the Chinese economy is that it is highly segmented. The Chinese government views the stock market as a capital pool to finance large stated-owned enterprises (SOEs), and even during a financial crisis, those SOEs are secured.

In our paper, all listed Chinese samples are state-owned corporations, and that is why usually they outperform in the market. In Sutthisit et al (2012) report about the Chinese stock market, their empirical evidence showed especially in the A-share market, that positive feedback trading behavior is strong, but there was no significant positive reaction in the Hong Kong stock market. In either case, they attributed this result to investors' behavioral biases and a government regulatory effect.

In general, SOE's stocks are made up of three types of shares, state shares, institutional shares and public shares. Before 2006, both state shares and institutional shares could only trade in the primary market. Public shares are traded in the secondary market and they are only available to domestic investors. In addition, domestic and foreign investors can invest in dual classes of stocks; A-shares are traded for domestic investors and B-shares are available for overseas investors. Due to the expanding amount of official foreign currency reserves, in 2001, the Chinese regulators allowed domestic investors to invest in B-shares. However, foreign investors can invest in B-shares only.

H-shares, which trade on the Hong Kong Exchange, are issued by mainland Chinese companies. They are only available for foreign investors although there have been indications that this policy may change. In our samples, China Construction Bank, Bank

of China, Bank of Communication, and China Citic Bank are all listed in Hong Kong Exchange. In Sutthisit's et al (2012) finding, it showed no significant positive feedback trading behavior in Hong Kong, because the majority of market participants in the Shanghai and Shenzhen market are individual investors, these inexpert investors tended to be chasers or noise traders, and they bought stocks when prices rise and sold when the index declined. As a result, the Chinese stock market had its imperfections due to market segmentation, government regulations and market investors.

The National Stock Exchange of India (NSE) was founded in 1991 by the Government of India, located in Mumbai, India. In December 2011, the NSE is the 16th largest stock exchange in the world by market capitalization around $985 billion and 1646 listed companies (NSE, 2012). However, Sen(2009) published a report about illiquidity of the SNE of India which indicated lack of liquidity or illiquidity would result in negative concerns for the investing community. It is important to realize that liquidity on stock market defines the ability to trade large quantities of shares quickly without high transaction fees and a large dispersion in the existing price, thus, liquidity has an essential impact on market performance.

Firstly, exogenous trading costs, including brokerage fees, order processing costs and transaction taxes, may bring illiquidity risk to a security through its entire life. Secondly, an agent may sell a security to a market maker if the security could not be sold quickly. In turn, the market maker potentially has a risk of adverse price changes while holding the security in inventory. Thirdly, information asymmetry between buyers and sellers contributes to illiquidity problems. Finally, difficulty in locating counterparty and lack of frictionless trading add to illiquidity.

To conclude, our empirical tests proved that Chinese banks benefit from the overseas branches, but the other three nations did not yet. The market index is a critical factor to determine the banks' performance, but in BRIC countries, it is government intervention that causes stock market imperfections. Although the test results did not support the idea of positive earnings on stocks, bank internationalization for BRIC nations could work on different aspects and the recommendations are be provided in the next chapter.

Chapter 5 Conclusion and Recommendations

Banking globalization for emerging countries is a new stage of economic development. Large market capitalization, excess deposits and government support are the main initiatives for emerging-banks, especially for BRIC countries. For some top banks of BRIC countries, the current status and large market capitalization are valuable assets to build on future expansion. Especially after the recent financial crisis, the one with excess deposits win more opportunities. Western investors and governments is desiring liquidity, usually possess different characteristics to those in the BRIC nations savers. The latter are typically savers and this poses a tradeoff for BRIC banks.

Globalization leads international business and building overseas-branches become a necessity and can be profitable. However, those mature dominant western international banks are powerful competitors to many of the small and developing banks of BRIC countries. Our statistical test results show negative earnings for BRIC banks while they announced new openings in foreign markets. Though the test result is negative, it does not mean that international expansion of banking should be interrupted. At some points, the BRIC banks could expand their banking service to small developing regions first instead of western developed countries. Certainly the expansion for Chinese banks, they benefit from positive earnings from the announcements.

As a result, emerging markets are good choice for BRIC banks to consider. Firstly, BRIC banks could invest in countries that are geographically close, and might share similar cultures and historical background. For the whole emerging markets, BRIC nations are the most competitive countries, and their economic advantages make position their banks in a superior level compared to those small countries. In fact, there is around 2.5 billion

population that is unbanked around the world. 88% of this population is located in Africa, Asia, Latin America and the the Middle East. Secondly, building brand reputation is the key for banks to survive in a new location, especially for the unbanked population. For example, financial products innovation advances the bank's service and competitiveness. For foreign customers, specialized-designed services can better match diversified customers and strengthen a company's reputation. Finally, service system, such as ATMs, mobile banking, and online banking, would allow banks to extend their presence to the previously unbanked population. Instead of physical building branches, self-service banking saves time and money for both customers and the bank.

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Appendix A: List of Bank Announcements

Bank	Date	Country/City
IND & COMM BK-A	4/27/2012	Portland
IND & COMM BK-A	11/11/2010	Abu Dhabi
IND & COMM BK-A	2/9/2009	New York City
CHINA CONST BA-H	6/2/2009	London
CHINA CONST BA-H	2/1/1993	Tokyo
CHINA CONST BA-H	11/1/2007	Sydney
CHINA CONST BA-H	10/1/2000	South Africa
BANK OF CHINA-H	12/1/1995	HoChiMinh
BANK OF CHINA-H	12/8/2010	Cambodia
BANK OF CHINA-H	2/23/2001	Malaysia
AGRICULTURAL-A	2/20/2012	Seoul
AGRICULTURAL-A	5/17/2012	New York
BANK OF COMMUN-H	7/16/2012	Taipei
BANK OF COMMUN-H	11/28/2012	Sydney
BANK OF COMMUN-H	11/16/2012	San Francisco
CHINA MERCH BK-A	3/15/2011	Taipei
CHINA MERCH BK-A	10/8/2008	New York
CHINA CITIC BK-H	4/18/2011	Singapore
CHINA CITIC BK-H	3/30/2012	Hong Kong
SHANG PUDONG-A	5/16/2011	Hong Kong
BANK OF BEIJIN-A	11/26/2008	Hong Kong
HDFC BANK LTD	10/27/2008	Bahrain
STATE BANK IND	5/22/2011	Amsterdam
STATE BANK IND	3/11/2008	New York
STATE BANK IND	10/6/2005	Saudi Arabia
STATE BANK IND	2/21/2006	Shanghai
STATE BANK IND	9/1/2011	Singapore
STATE BANK IND	11/9/2009	Toronto
ICICI BANK LTD	11/26/2007	Toronto
ICICI BANK LTD	11/21/2007	US
ICICI BANK LTD	11/15/2005	Hong Kong
ICICI BANK LTD	4/11/2006	Shanghai
AXIS BANK LTD	6/14/2010	Trinidad
BANK OF BARODA	9/23/2008	Auckland
BANK OF BARODA	8/5/2008	Guangdong
BANK OF BARODA	7/23/2008	Malaysian

BANK OF BARODA	7/10/2008	Shanghai
BANK OF BARODA	8/4/2011	Leh
BANK OF BARODA	1/31/2008	Hong Kong
PUNJAB NATL BANK	12/17/2007	Hong Kong
PUNJAB NATL BANK	10/23/2008	Bahrain
PUNJAB NATL BANK	3/23/2008	Beijing
BANK OF INDIA	4/4/2007	Shenzhen
BANK OF INDIA	2/21/2006	China
BANK OF INDIA	9/10/2001	China and Vietnam
BANK OF INDIA	8/11/2008	Shanghai
BANK OF INDIA	1/16/2003	Dubai, London
CANARA BANK	9/7/2010	Bahrain
INDUSIND BANK	6/4/2010	Dubai
YES BANK LTD	7/8/2012	Sydney, Dubai and London
IDBI BANK LTD	9/5/2010	Dubai
UNION BANK INDIA	8/4/2008	Hong Kong
UNION BANK INDIA	3/19/2008	Dubai
UNION BANK INDIA	9/25/2012	Israel
INDIAN BANK	6/20/2007	Abu Dhabi
FED BANK LTD	8/7/2009	N.A.
ORIENTAL BANK OF	8/29/2011	Asia
ORIENTAL BANK OF	2/26/2007	Hong Kong
ALLAHABAD BANK	8/6/2010	China
ALLAHABAD BANK	10/30/2011	N.A.
ALLAHABAD BANK	5/12/2011	Dubai and China
INDIAN OVERSEAS	11/4/2005	Malaysian
INDIAN OVERSEAS	3/27/2011	N.A.
UCO BANK	11/4/2005	Malaysian
UCO BANK	3/27/2011	Overseas
ITAU UNIBAN-PREF	4/29/2011	Chile
ITAU UNIBAN-PREF	12/3/2007	Brazil
ITAU UNIBAN-PREF	10/1/2004	Tokyo
BRADESCO SA-PREF	4/25/2000	Argentina
BANCO DO BRASIL	2/7/2003	
BANCO SANTAND-PF	3/8/2012	Sydney
BANCO SANTAND-PF	9/29/2011	UK
SBERBANK	3/11/2009	India and China
SBERBANK	10/12/2010	India
VTB BANK OJSC	6/6/2009	Dubai

VTB BANK OJSC	4/22/2009	Hong Kong/New York
VTB BANK OJSC	2/12/2008	India
VTB BANK OJSC	1/18/2008	India
ROSBANK	11/26/2004	N.A.