

What drives strategic foreign bank investments in Vietnam?

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Abstract

This paper examines foreign banks' market entry motives into Vietnam and gives evidence showing whether the efficiency hypothesis or the market power hypothesis better explains strategic investments by foreign banks. The efficiency hypothesis suggests that efficient foreign banks target inefficient local banks to transfer their superior technologies and management practices. On the other hand, the market power hypothesis explains that foreign banks target large local banks irrespective of their degree of efficiency. The framework in this paper differs from previous studies because we compare financial data of local banks. Results indicate that the market power hypothesis better explains foreign banks' behavior. As empirical studies regarding foreign banks' entry-mode decisions are scarce, this paper presents original evidence regarding foreign banks' motives and strategies into local markets.

1. Introduction

Vietnam became the 150th member of the World Trade Organization (WTO) in January 2007 after approximately 20 years of the Doi Moi policy reform. The entry into the WTO forced Vietnam to open its banking sector to foreign banks. Commitments imposed by the entry into the WTO cover trade in goods and services. Although only a brief period has elapsed since 2007, the number of foreign banks entering Vietnam is striking. Considering the potential

growth that Vietnam may encounter in the near future, this paper focuses on foreign banks' market entry and the impact of their actions on the Vietnam economy.

The existing frameworks used to examine market entry do not correspond well with Vietnam's situation. Empirical studies of multinational banks have used two traditional frameworks to investigate market entry. The first framework examines whether the follow-the-client hypothesis or lead-the-client hypothesis better explains market entry incentives. The second framework attempts to determine critical factors for the location choice of multinational banks. The aim of these frameworks analyzes multinational service banking¹. However, because multinational service banking does not satisfactorily explain foreign bank motives, this study does not use these traditional frameworks.

We examine whether the efficiency hypothesis or the market power hypothesis applies to Vietnam's situation. The efficiency hypothesis states that efficient foreign banks will target inefficient local banks in Vietnam to transfer their superior technologies and management practices. On the other hand, under the market power hypothesis, we expect foreign banks to target large local banks irrespective of their degree of efficiency. Effects of foreign bank investments depend on the bank's motivation. Since increasing efficiency in banks by foreign investments be-

¹ Grubel (1977) presents three classifications on multinational banking (i.e., multinational service banking, multinational retail banking, and multinational wholesale banking).

nefits the entire banking sector, the effect of investments is exerted is a concern for the authorities.

We will now establish two objectives for analysis. First, we will clarify the current market entry trends of foreign banks in recent years. The Vietnam banking sector has changed dramatically because of successive reforms. The economic scene of Vietnam's past does not remotely resemble the current situation. Here, we will depict the banking sector's industry structure by identifying precise moments of foreign banks' entry in chronological changes after the 2007 accession into the WTO.

Next, we will examine the motivation for market entry by comparing local banks that foreign banks have invested in with local banks have been neglected, and attempt to determine any significant differences between both groups. Specifically, we will statistically investigate the difference of average values regarding hypotheses by using the financial data of local banks. On the basis of the results gained from these statistical investigations, we will search for a pattern of market entry in multinational retail banking. This study corresponds to groundwork for evaluating upper-limit regulations on investment in local banks by foreign banks.

The remainder of this paper is organized as follows. Section 2 depicts the structure of the banking sector that has been formed through the recent reform process. Section 3 describes in detail the entry of foreign banks after the WTO accession. Investments in local banks and establishment of local branches of foreign banks stand out among entry modes. Describing how respective foreign banks entered the Vietnam market demonstrates an overview of the market entry. Section 4 presents motivation factors of market

entry for multinational banks. We will describe motivations both in the context of the Vietnam economy and from the points of discussions in previous studies. Section 5 analyzes investments of foreign banks by using statistical methods. This investigation will clarify incentives of foreign banks. Furthermore, we will consider the results of multinational retail banking. Finally, we summarize the results of our investigation and explain the meaning of the results for future studies of multinational banking.

2. Overview of the banking system

2.1 Financial deepening

Measuring a degree of financial deepening demonstrates a state of development for a financial sector. Financial deepening is a concept that captures the development of the financial intermediary. This concept is often measured by money stocks, specifically $M2/GDP$. $M2$ is composed of cash, deposit currency, and quasi currency. Increased $M2$ indicates that bank deposits are a credible means of savings. It also indicates that the banking sector mobilizes scarce domestic financial assets. Mobilized funds by financial intermediary functions are allocated to projects like capital investments, thus contributing to further economic growth.

Table 1 shows an example of financial deepening. The ratio of $M2/GDP$ was around 20% in the 1990s. This ratio is smaller than those of other Southeast Asian countries because the credibility of the Vietnamese dong was low and the financial system in rural areas was undeveloped. Some studies report that households preferred real assets as a means of savings because real assets seemed safe and secure. For example, households with higher income were inclined to invest in gold, whereas households

Table 1: Changes of M2/GDP (Unit: %)

| | 1995 | 2000 | 2003 | 2005 | 2007 |
|-------------|-------|-------|-------|-------|-------|
| Vietnam | 19.8 | 44.6 | 61.6 | 77.3 | 109.6 |
| Malaysia | 84.7 | 98.9 | 128.0 | 121.9 | 122.2 |
| Thailand | 79.1 | 105.4 | 115.5 | 107.7 | 97.6 |
| Indonesia | 48.6 | 53.9 | 47.5 | 43.4 | 41.7 |
| Philippines | 51.8 | 61.6 | 56.7 | 52.6 | 54.2 |
| China | 103.8 | 152.2 | 162.2 | 158.3 | 163.6 |

Source: Author's calculation based on International Financial Statistics, IMF

with lower income held not only gold but also rough rice and milled rice.

Financial deepening accelerated rapidly after 2000, and by 2007, the M2 stock exceeded the GDP. A Comparison of neighboring countries suggests that Vietnam will rise above Thailand and come close to Malaysia in terms of financial deepening. It is not the increase in cash holding but the sharp rise in bank deposits that leads to financial deepening. This is because of efforts to stabilize the banking system and high-income growth.

Nonetheless, the banking system in rural areas remains underdeveloped. The evidence is that the ratio of bank accounts is approximately less than 10% of the population. This figure is miniscule because people in rural areas do not clearly understand the role of banking and they have a high level of mistrust in banks. This mistrust originated because Vietnam experienced a chain bankruptcy of credit cooperatives in the 1990s because of a lack of supervising frameworks².

It takes time for a banking system to prevail. In other words, low utilization of the banking

² Financial liberalization in the 1990s provided an environment conducive to indiscriminate establishment. The number of credit cooperatives amounted to over 300. Vietnam experienced successive failures of credit cooperatives due to the mismanagement of assets and liabilities. More specifically, credit cooperatives received deposits with a monthly interest rate of 15% while they could not find borrowers who could pay comparable interest rates for the deposit.

Table 2: Banking sector in Vietnam

| | |
|-----------------------------|--|
| State Owned Commercial Bank | Vietnam Bank for Industry and Trade (Vietinbank) Vietnam Bank for Agricultural & Rural Development Bank for Investment & Development of Vietnam (BIDV) Bank for Foreign Trade of Vietnam (Vietcombank) Mekong Delta Housing Development Bank (MHB) |
| Policy Bank | Vietnam Bank For Social Policies Vietnam Development Bank |
| Joint-Stock Commercial Bank | 37 |
| Joint-Venture Bank | 5 |
| Foreign Banks' Branch | 33 |
| Peoples' Credit Cooperative | 926 |

Source: State Bank of Vietnam, website

system indicates potential growth in the future. In this sense, Vietnam is an attractive market for banking businesses.

2.2 Competition in the banking sector

We will now overview the structure of the banking sector from the micro perspective. Table 2 represents various Vietnam banks. State-owned banks consist of five state-owned commercial banks and two policy banks. Private banks are classified into three categories. There are 37 joint-stock commercial banks, 5 joint venture banks, and 33 branches of foreign banks. In addition, five foreign banks established locally incorporated based on licenses from the authority after 2008.

Oligopolistic competition characterizes the banking sector. State-owned commercial banks account for 70% of outstanding lendings. Above all, the market share of loans to state owned enterprises reaches 90%. The degree of competition in the banking sector is low because state-owned commercial banks maintain an

overwhelming market share.

Meanwhile, joint-stock commercial banks have increased their lending share in recent years. In 2007, the market share of joint-stock commercial banks was 17.6% in Hanoi, but it was 38% in Ho Chi Minh. Major borrowers from joint-stock commercial banks are small and medium enterprises (SMEs). Recent rapid economic growth has encouraged a sudden rise of such enterprises. The growth of SMEs seems to have broadened the customer base and the market share of joint-stock commercial banks. However, state-owned commercial banks, of which the main customers were state-owned enterprises, have expanded their customer base to private enterprises. Loan outstanding to private enterprises has already exceeded that to state-owned enterprises. The competition for customers has intensified and the degree of competition has increased.

Categorizing joint-stock commercial banks allows us to overview the structure of the private banking sector. IFC (2008) classifies joint-stock commercial banks into three categories. The first category is composed of the top five banks, namely, Techcombank, Sacombank, Vietnam International Bank, Asia Commercial Bank, and East Asia Commercial Bank. The banks of the second group do not compare with those of the first group, but these 19 banks do establish market positioning. This group includes Hanoi Building Commercial Bank, Viet A Commercial Bank, and others. The third group consists of small banks that changed their business category from rural joint-stock commercial banks to city joint-stock commercial banks.

A high level of interest in retail banking business attracts attention as a business strategy. For example, Asia Commercial Bank sets out retail businesses such as car loans, mortgage loans

and credit cards mainly in the southern region of Vietnam. In addition, Vietcombank, which is a state-owned commercial bank expands retail businesses in a dynamic way. This bank had an overwhelming share of lending to healthy state-owned enterprises, specifically export-oriented firms. Thus, it is considered that Vietcombank adapted to orient wholesale banking; however, this bank quickly entered the market with credit cards. Furthermore, it conducts multipronged strategies of retail businesses by holding security companies, asset management companies, and insurance companies.

3. Entry of foreign banks

3.1 Strategic investments to local banks

The financial reform of Vietnam entered a new stage with the accession to the WTO in January 2007. This accession requires Vietnam to open its banking sector to the international market within seven years in accordance with mandatory principles of the General Agreement on Trade in Services (GATS). The basic principles of GATS require a commitment to market opening, a commitment that promises market entry of foreign banks. In addition, Decision No.112/2006 of the Prime Minister on the strategy to develop Vietnamese banking sector up to 2010 and towards 2020 was officially announced prior to the accession to the WTO. This plan aims at the liberalization of market entry and international standards of financial supervision.

There are various modes of entry for foreign banks. The first one is a resident office. The main operations of a resident office are collections of local information and support of counterparty companies in a host country. The establishment of resident offices is a preliminary stage prior to the opening of branches. As of 2009, there are 54

Table 3: List of investments

| Year | Invested Banks | Strategic Investors | Nationality | Investment Ratio |
|------|-------------------------------------|-------------------------|---------------|------------------|
| 2002 | Sacom Bank | IFC | International | 10 |
| 2005 | Asia Commercial Bank | IFC | International | 8 |
| | Asia Commercial Bank | Standard Chartered Bank | England | 8.56 |
| | Sacom Bank | ANZ Banking | Australia | 10 |
| | Techcombank | HSBC | England | 10 |
| 2006 | VP Bank | OCBC | Singapore | 10 |
| 2007 | Habubank | Deutsche Bank | Germany | 10 |
| | Techcombank | HSBC | England | 5(15) |
| | Orient Commercial Bank | BNP Paribas | France | 10 |
| 2008 | Eximbank | Mitsui Sumitomo | Japan | 15 |
| | Asia Commercial Bank | Standard Chartered Bank | England | 6.16(15) |
| | Phuong Nam Bank | UOB | Singapore | 10 |
| | Seabank | Societe Generale | France | 15 |
| | An Binh Commercial Joint Stock Bank | Maybank | Malaysia | 15 |
| | Techcombank | HSBC | England | 5(20) |
| | Phuong Nam Bank | UOB | Singapore | 5(15) |
| | VP Bank | OCBC | Singapore | 5(15) |

Note: Numbers in parenthesis are accumulated investment ratios.

Source: Thomson ONE Banker, various reports

foreign bank resident offices in Vietnam.

The next mode of entry is branch establishment. Opening branches allows foreign banks to provide financial services such as deposits and loans. Operating resident offices incur costs while branch operations can raise revenues. However, the customer base of foreign banks tends to comprise companies from the home country because the authorities restrict the number of branches allowed by foreign banks.

Accelerated financial reform because of the WTO accession produced new entry modes, one of which is the capital subscription of local banks. Decree No.69 (April 2007) on purchase by foreign investors of shareholding in Vietnamese commercial banks prescribes investment details in local banks. The upper limit of the total investment ratio by foreign investors is 30% in this regulation. Of them, a strategic investor can invest up to 15%. However, the upper limit can increase up to 20% with the authorization of the State Bank of Vietnam³.

Table 3 presents a list of investment transactions. Strategic investors are classified into two types of financial institutions: worldwide financial institutions and financial institutions that concentrate on the Asian market. Among the former, the HSBC group demonstrates active entry into Vietnam. At first, HSBC purchased a 10% share of Techcombank in 2005. HSBC then successively increased the investment ratio to 15% in 2007 and 20% in 2008. Notably, this is the first authorized case of 20% investment. The relationship between HSBC and Techcombank is not limited to capital ties; HSBC also contributed \$13.5 million for five consecutive years to support the technical improvement of credit cards and consumer loans⁴.

Standard Chartered Bank has strengthened

³ There have been no investments to state-owned commercial banks so far. According to a media report, the upper limit is only 7% - 10% for state owned commercial banks (The Banker, January 2009, p.87).

⁴ HSBC also invested in Bao Viet, which, as of 2007, is the largest insurance company in Vietnam. Its investment ratio is 10%.

its involvement in Vietnam with additional investments in Asia Commercial Bank. This investment contains strategic alliances that offer technical assistance in the areas of risk management and retail business. Standard Chartered Bank and Asia Commercial Bank corporated to interconnect ATMs and issue co-branded credit cards in 2009. In addition, European banks, such as Deutsche Bank and Societe Generale, have not only invested in local banks but also established partnerships with retail businesses.

The investment in Sacombank by the ANZ group has a high profile among the financial institutions that conduct business in the Asian market. An increase in the growth of both businesses is expected by combining the customer base of Sacombank and the experience of ANZ. These banks have already co-founded a joint venture in the credit card business. In addition, the investment of the ANZ group to local banks has spread all over Asia, (e.g., Panin Bank in Indonesia, Metrobank in Philippines, ANZ Royal Bank in Cambodia and Tianjin City Commercial Bank in China).

Maybank from Malaysia is also actively investing in local banks of emerging market countries. In 2008, Maybank purchased a 15% share of MCB Bank, the fourth largest bank in Pakistan, and acquired Bank Internasional Indonesia. The investment to An Binh Commercial Bank is considered to be a component of successive strategic investments.

OCBC (Singapore) has strengthened its involvement in the VP Bank with additional investments. OCBC contributed \$7 million for educational staff training, and it supports the long-time development of financial techniques by hiring the staff of VP bank as interns. This investment is based on the potential growth of

lending to small businesses, medium-sized enterprises, and consumers. Furthermore, VP Bank decided to purchase 1000 ATMs in 2007, expanding its business base actively. This implies that VP bank has developed retail banking business models.

Among the activities of Japanese banks, the investment by Sumitomo Mitsui Bank in Eximbank is worth noting. This investment is part of a conveyance of strategic knowledge concerning consumer loans, credit cards, and risk management. The main activities of overseas investment by Japanese banks are purchasing shares of financial institutions in developed countries. In fact, Japanese megabank announced investment to ailing financial institutions in the USA and England to strengthen its securities business. Contrary to recent trends, this investment in Vietnam is a very rare transaction targeting retail business.

The strategic investment is a reliable method for establishing a presence in the Vietnam market. Many financial institutions have conducted investments during a short period since accession to the WTO. This paper examines these strategic investments and the motivation of foreign banks as strategic investors⁵.

3.2 Overview of motivations

We now describe the background of active market entries by foreign banks. High potentiality of the Vietnam market explains the motivation of foreign banks to enter the market. Evidence of high potentiality is the size of population. Viet-

⁵ More recently, a new entry mode has emerged: the establishment of locally incorporated bank by foreign banks. Five foreign banks—HSBC, Standard Chartered Bank, ANZ group, Hong Leong Bank and Shin Han Bank—have already started to open locally incorporated banks since 2009.

nam's population, as of 2010, is approximately 85 million, larger than Thailand (approximately 61 million) and Malaysia (approximately 26 million). Furthermore, the population of Vietnam is predicted to exceed 100 million in the half of the 2010s.

Furthermore, demographic structures the population under 30 accounts for 58% of the national population possess significance for the banking business. Per capita income exceeded \$700 in 2007 because of recent economic growth. This data suggests that the middle class, with robust spending intentions, will come to the forefront. The consumption trends of the middle class will progress toward home electric appliances, cars, and houses. This consumption behavior will lead to an increase in the demand for retail financial services such as credit cards and housing loans.

High potential is also backed by the fact that using banks is not common in rural areas. Less than 10% of Vietnam's population holds a bank account. Generally, people conserve wealth in terms of real assets like gold and hard currency. However, future economic growth potential and the increase of banking credibility will increase the use of banks in rural areas⁶. As mentioned above, the banking business holds vast potential, despite the small size of the Vietnamese market. Thus, foreign banks must enter the markets with extended commitments.

Meanwhile, local banks in Vietnam are prepared to reap the benefits of foreign banks' entry. We can observe practical value from investments in joint-stock commercial banks. A number of joint-stock commercial banks have allocated business resources to retail banking.

⁶ Government agencies have started payroll accounts since 2008. This will encourage the utilization of banks.

These banks have expanded the number of ATMs and Internet banking services to strengthen relations with customers. A strategic alliance with foreign banks plays a major role in a scene that needs well-established information technologies. In addition, foreign banks have accumulated experience and know-how of financial services and products, which are helpful for local banks when expanding retail businesses.

4. Previous studies

4.1 Studies on Vietnamese banking sector

Previous studies concerning Vietnam's banking sector are quite scarce. However, despite such a poor accumulation of facts, we can find the following studies. Anwar and Nguyen (2009) investigated the development of the financial sector from a macro perspective. This study discusses whether financial development encourages economic growth. By regressing the economic growth of respective provinces on its loan outstanding/GDP, they examine the effect of financial development under the framework of the endogenous economic growth theory. This empirical study uses samples of 61 provinces from 1997 to 2006. Results confirm that financial development boosts economic growth.

Nguyen (2007) is one of the few studies on the industrial structure of the banking sector. This study examines the banking sector from the efficiency viewpoint. More specifically, the study uses data envelopment analysis to determine efficiency and total factor productivity of respective banks. An assessment of the financial reform in this study is a well-timed analysis because the reform is currently being implemented. Samples covered 13 commercial banks from 2001 to 2003, and the results reflect that contributions of technical efficiency improve total factor produc-

tivity.

We cannot find any quantitative analyses of foreign banks' entry into Vietnam, but we know that the entry of foreign banks is a critical issue for the assessment of financial reform. After conducting a thorough literature review, we discovered that such a critical work has not yet been conducted.

4.2 Motivations of investments

According to Lanine and Vennet (2007), two hypotheses account for the motivations of foreign banks. The first is the efficiency hypothesis, which explains that foreign banks with higher efficiency target local banks with lower efficiency. The investment by the foreign bank improves the efficiency of the local bank by transferring detailed business management techniques and financial products to inferior local banks. This motivation requires the foreign bank to make a long-term commitment with the local bank because harvesting the benefits of investment requires extended periods⁷.

The second theory is the market power hypothesis, according to which, the local bank with a higher market share becomes the target of investment by a foreign bank. Foreign banks do not have interest in the efficiency of the local bank because the aim of its investment is to build market share. This is a matter of concern for the authorities because entry into the WTO does not necessarily encourage development of the banking sector.

Previous studies have examined which hypothesis best explains strategic investments. After reviewing the literature, we can see that the

⁷ All foreign banks seem to have long-term ideals for business in Vietnam. However, ANZ group consults with Sacombank about readjustment of partnership to pull out its investment.

efficiency hypothesis best explains the motivation of foreign banks.

Traditional studies use two validation methods, one of which is an event study. This method examines how stock markets respond to news of cross-border M&A. If abnormal returns are caused by news reports, then M&A increases enterprise value and leads to higher efficiency. However, previous studies that used the event study cannot adopt the efficiency hypothesis. For example, Cybo-Ottone et al. (2000) and Beitel et al. (2004) cannot detect abnormal returns caused by news reports concerning M&A among European banks.

The other method investigates whether the market entry of foreign banks improves the efficiency of local banks. This study detects differences between the efficiency and dependence on the presence or absence of investments by foreign banks. This method is often used in studies on Central and Eastern European Countries. Grigorian et al. (2006) and Fries et al. (2005) report that local banks in which foreign banks have invested exhibit relatively higher efficiency; thus supporting the efficiency hypothesis.

However, neither of these methods are applicable to Vietnam because most of the local banks in which foreign banks invested are not listed on the national stock markets. In addition, measuring the effects of foreign banks' investment is unfit for Vietnam's situation because sufficient time to investigate the effects has not elapsed. As a result, the examination of hypotheses requires other research methods.

5. Quantitative analysis

5.1 Method and data

The method that was used in this paper

investigates the financial characteristics of local banks that foreign banks have invested in. Using financial data of local banks, we can contrast the difference between invested banks and non-invested banks. Detecting significant differences in bank's financial characteristics, such as profitability and size, can determine which hypothesis best explains the motivation of foreign banks to enter the market.

Comparative analysis requires a classification of samples (i.e., invested banks and non-invested banks). This section will note how to deal with the data of invested banks. Data beginning one year before the year when investment occurred are classified with the data of invested banks. Data prior to two years before the year when investment occurred are classified with the data of non-invested banks. Samples do not include the data after the investments were initiated. This means that the data of the year when the investment occurred are not included. This method of data collection aims to remove unbalanced effects of investment because costs are likely to incur by the investments in the year when investment occurs. This study applies classification of data according to Lanine et al. (2007).

There are variables that compare invested banks and non-invested banks. The first variable measures the size of banks (*SIZE*). Normalizing the total assets by the consumer price index and taking natural logarithm of this figure yields *SIZE*. The increase of the consumer price index in Vietnam is as high as 7% – 8% during the sample period. Nominal values without modification are not applicable for this analysis because we use pooled data. Therefore, normalization is conducted in *SIZE*. The other variable is *LYOKIN*. This variable is also modified by normalization of

the consumer price index and taking logarithm. These two variables are used for the verification of the market power hypothesis. That is, we take this hypothesis if the size of invested banks is larger than that of non-invested banks.

The next group consists of three profitability variables: return on asset (*ROA*), return on equity (*ROE*), and net interest margin (*NIM*). Dividing net interest revenues by earning assets yields *NIM*. Variables of the third group measure management efficiency from the aspect of costs. This group includes *NIEXP* and *CI*. *NIEXP* is obtained from dividing non interest costs by total assets. *CI* is the ratio of total costs to total revenues. A smaller value of these two variables indicates better management efficiency. The variables of the second and the third groups are used for the verification of the efficiency hypothesis. That is, we accept this hypothesis if invested banks demonstrate higher profitability or efficiency than non-invested banks.

The last group consists of capital adequacy ratio (*CAP*) and *LTA*, which captures lending behavior. The *CAP* here is different from that defined by the BIS regulation. This *CAP* signifies the figure that divides capital stock by total assets, whereas *LTA* is the ratio of loans to total assets. Using these variables, we can compare the difference between invested banks and non-invested banks. Table 4 shows the list of variables.

Here, we will test the mean differences for the above-mentioned variables between invested banks and non-invested banks using Wilcoxon rank-sum test. This method is popular because of its efficiency for testing the difference of means between two independent groups. Using a *t*-test assumes normal distribution among samples. If this assumption is not satisfied, a non-parametric test is applicable for the examination. Most of the

Table 4: List of variables

| Variables | Definition |
|------------------------|--------------------------------------|
| <u>Bank size</u> | |
| <i>SIZE</i> | LN(total asset/consumer price index) |
| <i>LYOKIN</i> | LN(deposit/consumer price index) |
| <u>Profitability</u> | |
| <i>ROA</i> | net profit after tax/total asset |
| <i>ROE</i> | net profit tax/equity |
| <i>NIM</i> | net interest revenues/earning assets |
| <u>Cost efficiency</u> | |
| <i>NIFXP</i> | non-interest costs/total asset |
| <i>CI</i> | total costs/total revenues |
| <u>Others</u> | |
| <i>CAP</i> | equity/total asset |
| <i>LTA</i> | net loans/total asset |

variables in this study do not satisfy normality because of the small number of samples; hence, we chose the Wilcoxon rank-sum test for comparisons⁸.

5.2 Results and discussion

Table 5 shows the comparison results. We observe significant differences in variables regarding the size of banks. This means that invested banks are bigger than non-invested banks in terms of *SIZE* and *LYOKIN*. This result indicates that foreign banks target large joint-stock commercial banks for market entry. The size of banks is also a proxy variable for branch networks. Bigger banks have a larger number of outlets and sales networks throughout the nation. This suggests that foreign banks intend to commit to long-term retail banking with local banks that have a well-developed branch network. This comparison offers supporting evidence for the market power hypothesis.

While the market power hypothesis has strong evidence, our test comparisons do not

⁸ Another candidate for this examination is the logit model, which can identify features of invested banks. However, a highly accurate estimation is impossible because of an adequate sample size.

provide strong evidence to support the efficiency hypothesis. The means of invested banks are bigger than those of non-invested banks in terms of profit variables such as *ROA* and *ROE*; however, these differences are not statistically significant. We cannot observe the behavior of foreign banks that invest in local banks with lower profitability and improve efficiency. Comparison of *NIEXP* demonstrates that the means of invested banks is relatively low. In other words, local joint-commercial banks that foreign banks have invested in take advantage of cost efficiency compared to non-invested banks. This advantage of invested banks may attribute to merit of scale. These results are incompatible with the efficiency hypothesis.

Our test results fully support the market power hypothesis by demonstrating that foreign banks choose large local banks with higher efficiency as targets of investments. Such behavior reveals foreign banks' intentions to acquire an advantage in Vietnam by investing in qualified local banks. In Central and Eastern European countries, we can observe similar investment patterns by foreign banks, where the foreign banks have purchased local banks that maintain a large market share. The pattern of market entry by investments in prime local banks may be considered general behavior for foreign banks.

However, it is hasty to reject the efficiency hypothesis at this time. It takes time to assess whether strategic alliances with foreign banks improve the efficiency of local banks because most investments have been conducted within the past three years. The examination of efficiency improvement requires more financial data. Authorities may be concerned with the effect of foreign banks' investments on efficiency. If foreign banks' investments as minority shareholders do

Table 5: Result of comparisons

| Variables | Invetsed Banks | | | | Non-Invested Banks | | | | Wilcoxon |
|----------------|----------------|------|-------|-------|--------------------|-------|-------|-------|----------|
| | mean | s.d. | min | max | mean | s.d. | min | max | p-value |
| <i>SIZE**</i> | 4.68 | 0.49 | 3.89 | 5.44 | 3.95 | 1.09 | 1.69 | 7.14 | 0.01 |
| <i>LYOKIN*</i> | 4.05 | 0.62 | 3.24 | 5.05 | 3.36 | 1.18 | 0.51 | 6.76 | 0.03 |
| <i>ROA</i> | 1.74 | 0.35 | 1.09 | 2.25 | 1.49 | 0.48 | 0.22 | 3.07 | 0.07 |
| <i>ROE</i> | 18.28 | 8.53 | 8.82 | 33.77 | 14.23 | 4.85 | 3.09 | 26.13 | 0.33 |
| <i>NIM</i> | 3.20 | 0.13 | 2.88 | 3.25 | 3.21 | 0.19 | 1.94 | 3.25 | 0.43 |
| <i>NIEXP*</i> | 1.58 | 0.36 | 0.79 | 1.95 | 1.91 | 0.51 | 0.40 | 3.43 | 0.03 |
| <i>CI</i> | 35.92 | 9.50 | 18.82 | 49.30 | 39.86 | 6.70 | 26.69 | 52.56 | 0.28 |
| <i>CAP</i> | 11.81 | 4.92 | 4.58 | 18.67 | 11.90 | 7.23 | 4.76 | 46.26 | 0.62 |
| <i>LTA</i> | 49.70 | 8.01 | 39.60 | 63.93 | 56.82 | 16.40 | 22.00 | 82.19 | 0.15 |

Note: * and ** denote significance at the 5% and 1% level respectively.

not lead to efficiency improvement, this may force authorities to consider an adjustment of regulations concerning market entry. Examination on effect of efficiency is the critical issue to be observed not only in the context of the study on multinational banks but also from the standpoint of financial supervision.

6. Conclusion

This paper investigated the motives of foreign banks to enter countries with emerging markets. Foreign bank motives were analyzed by the examining on location choice and follow-the-client hypotheses. Various frameworks were required because foreign banks have entered emerging market countries mainly to conduct multinational retail banking. Hence, this study used the analytic framework comprised of the market power hypothesis and the efficiency hypothesis.

Since the accession to the WTO in 2007, Vietnam has opened its banking sector. Market entry by the means of strategic investment in local banks provides an excellent opportunity to study motives of foreign market entry.

The points of this paper are as follows. First, this paper analyzed the detailed situation of foreign banks' market entry. This study pre-

sented a comprehensive vision of market entry by using the Thomson ONE Banker database and local English newspapers. Furthermore, we analyzed the current structure of the banking sector. State-owned banks have a large share in loan markets, indicating that oligopolistic competition characterizes the banking sector. Meanwhile, joint-stock commercial banks and foreign banks have increased their share rapidly by aggressive business expansion. Financial liberalization appears to have an effect on keener competition.

Second, we investigated the motive of market entry by the comparative analysis. The question is whether the efficiency hypothesis or the market power hypothesis better explains foreign banks' investments. The samples are classified into invested banks and non-invested banks. Using this classification, we can examine differences in financial data related to hypotheses between both groups. Results support the market power hypothesis. Invested banks are of relatively larger size. Cost efficiency of non-invested banks is significantly smaller than invested banks. This result is contrary to the expectation of the efficiency hypothesis.

The choice of investment by foreign banks is directly related to decisions related to multinational retail banking. Large local banks are

preferred because the retail business requires a strong sales network to access customers easily. We can observe similar trends of foreign banks' market entry in Central and Eastern European countries. Hence, results in this paper suggest the generality of such trends of foreign banks' investments.

The question of this paper belongs to studies of multinational banks, which present a theoretical framework to explain the emergence of multinational banks. The most common explanation, the eclectic paradigm by Dunning (1979), consists of three factors; namely, ownership advantage, internalization advantage and location advantage. Among these factors, this paper is most concerned with internalization advantage. In this sense, this paper presents new realization concerning materialization of internalization advantage and some contributions for the studies of multinational banks.

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What drives strategic foreign bank investments in Vietnam?

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本稿の分析対象は多国籍銀行の新興国への参入行動である。アジア地域においては近年になって多国籍銀行の進出が顕著であり注目を集めているが、本稿では2007年にWTOに加盟して銀行部門の対外開放を進めるベトナムを取り上げた。2007年からわずかな期間しか経過していないが多くの外国銀行が地場銀行への出資を実行しており、ベトナムは多国籍銀行研究の対象として注目を浴びている。

参入行動の実証に用いられてきた枠組みは主に2つある。1つ目は、進出動機を特定するために追従仮説と主導仮説の説明力を検証するというやり方である。2つ目は、進出先をどこにするかという立地選択を説明する要因を特定するというやり方である。本稿では、近年の多国籍銀行の動向として進出先における現地企業や個人を取引対象とするローカルビジネスの展開が顕著であることに注目して別の枠組みを採用する。それは市場支配仮説と効率性仮説のいずれが有力かを検証する。現地でのシェア拡大を目的に大規模行に出資するという説明が市場支配仮説であり、効率性仮説は出資の目的が経営効率の劣った地場銀行へ技術移転して企業価値を向上させることにあると説明する。

本稿でまず明らかにしたのはWTO以後の外国銀行の参入状況である。情報源の乏しいベトナムについて外国銀行を包括的に提示する基礎作業も行われていない研究状況にあっては本作業は地道ながらも貢献は大きいと考えられる。また、国有銀行による寡占的な競争構造にありながら、商業銀行や外国銀行によって競争度が高まりつつあるという銀行部門の競争構造についても俯瞰できた。

第二に、参入動機を説明する仮説を比較分析によって検証した。結果は市場支配仮説を支持するものであった。多国籍銀行の出資対象となった地場銀行は企業規模が相対的に大きいことが確認された。また、費用効率については被出資行の方が数値が小さく効率性仮説の予想とは逆の結果であった。多国籍銀行による出資対象の選択には多国籍リテール業が関係している。リテール展開では顧客に対する販売網の構築が前提であるため規模の大きな地場銀行が選好されたと推察できる。

こうしたベトナムを対象とした実証分析は筆者の知る限り試みられていない。そうした意味で、アジアを対象とする多国籍銀行研究の蓄積に本稿が貢献するものと評価できよう。