universität wien

MASTERARBEIT

Titel der Masterarbeit

Internationalization of Chinese and Indian Banks: Patterns and Strategies

Verfasser

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angestrebter akademischer Grad

Master of Arts (MA)

Wien, 2011

Studienkennzahl lt. Studienblatt:	A 066 864
Studienrichtung lt. Studienblatt:	Masterstudium Wirtschaft und Gesellschaft Ostasiens
Betreuer:	Prof. Dr. Rüdiger Frank

Acknowledgments

I would particularly like to thank Prof. Dr. Rüdiger Frank for preparing me to accomplish my thesis by supervising me during the whole masters program, including valuable support during the development of the topic and conception of my master thesis as well as being ready to help throughout the entire writing process.

I must express my greatest thanks to my girlfriend Marion Noack for her affectionate and patient support while I worked on this thesis. Marion Noack, my brother Holke Brammer and Jani Juhani Mustonen deserve special thanks for countless advices, many valuable ideas and suggestions during numerous discussions as well as for proofreading.

Last but by no means least, I thank my parents Friedrich and Ute Brammer not only for enabling me to pursue my studies but also for their full support during my whole education. I would sincerely like to thank them and my brothers Thorsten and Holke Brammer for their sympathy and encouragement.

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1 Introduction

While American and European banks are consolidating their businesses after the Global Financial Crisis, banks from emerging countries are increasingly expanding. According to a survey conducted by The Economist Intelligence Unit (EIU) in 2008, 65% of 275 executives of global banks and other financial institutions focus their operations on domestic markets and reduce product lines while 48% in Asia-Pacific said they plan to increase their international presence (The Financial Express 2009). Particularly, Chinese and Indian banks are increasingly fostering their internationalization[1] (Ho 2011; India Incorporated 2011).

In China, the Industrial & Commercial Bank of China Ltd. (ICBC) is the most aggressively expanding bank (Cambreleng 2011). For instance, in only one month, January this year, ICBC opened five new European branches in Paris (France), Brussels (Belgium), Amsterdam (Netherlands), Milan (Italy) and Madrid (Spain) (ICBC 2011a). Moreover, in May this year, the bank started operating two branches in Pakistan (ICBC 2011b). Li Lihui, president of the Bank of China Ltd. (BOC), recently said in a report in the China Daily that the bank has made overseas business a strategic priority and will further expand its international presence to become a "truly world-class bank" (Xinhua News Agency 2011). Furthermore, China Construction Bank Corp. (CCB) is planning to enhance its global footprint. Regional hubs and economies with close trade and investment relations with China take top priorities (Wang 2010).

Indian banks have been slower than their Chinese counterparts in building up international operations, yet today they are not less actively involved in extending their international presence (livemint.com 2011). The State Bank of India (SBI), for example, is planning to acquire banks in Africa and Southeast Asia in order to raise its international presence. The bank wants to scale up the international operations' contributions to net profit from about 16% now to 25% until 2016 (livemint.com 2011). Moreover, Punjab National Bank (PNB) sees expansion in Europe. Besides further plans for expansions in the UK, the bank takes new market entries in Europe into consideration (Ram 2010). Finally, ICICI Bank just recently raised USD one billion through bonds from the overseas market to fund the expansion of its international operations (India Incorporated 2011b).

[1] In accordance with Hans E. Büschgen (1998: 599), internationalization is defined in this study as: process

These committed expansions of international operations stem from massive changes in China's and India's banking sectors in recent years making these sectors more competitive. On the one hand, policy makers have made notable efforts to improve regulation in these sectors (Deloitte Touche Tohmatsu 2007: 4; McKinsey & Company 2010: 3). On the other hand, banks turned their attention to making commercial business decisions instead of sticking to their traditional approach of accepting deposits and lending. New products and services have been introduced, including consumer finance and wealth management on the retail side, and investment banking on the wholesale banking side (Deloitte Touche Tohmatsu 2007: 4; McKinsey & Company 2010: 4).

However, these are not the only similarities between China's and India's banking industry. China and India are the two most populated countries of the world. Each country's population exceeds one billion people, which constitutes huge markets (CIA 2011a, 2011b). Besides the enormous size of their markets, both contain high potential for further growth since, for example, consumer banking is just in an early stage of development in China and many people still do not have a bank account in India (Kern 2009: 13; Page et al. 2007: 4). Furthermore, both countries are emerging economies that showed high and steady growth over the past decades. This vibrant growth of the countries' economies was important for the bank's development (Tarantino 2008: 56; Standard & Poor's 2011), enabled them to grow fast (Glas and Junker 2007; Jones 2011) and still provides enormous opportunities for future growth (Deloitte Touche Tohmatsu 2007: 2). ICBC, CCB, and BOC are today three of the world's four largest banks by market value (Lagerkranser 2009) and India's major banks show high double-digit growth in profits (Hauschild 2009: 1). Nevertheless, Chinese and Indian banks have an inferior international presence, in comparison to banks from industrial countries such as Citigroup, HSBC, or Deutsche Bank, (Kamp 2011).

These similarities between China's and India's banking industry lead to the following hypothesis: Chinese and Indian banks pursue similar internationalization patterns and strategies. A potential, decisive factor for these similar internationalization patterns and strategies are similar home market conditions of China's and India's banking industry. The research question of this paper is therefore: *Which similarities/differences exist between the internationalization of Chinese and Indian banks?*

Understanding the nature, characteristics and determinants of internationalization patterns and strategies of large companies is one of the main research foci within international business (Fortainer and Tulder 2008: 5). This paper is conductive to a better understanding of the characteristics of the internationalization of Chinese and Indian banks in order to draw conclusions regarding the future development of China's and India's banking sectors, as well as changes to newly penetrated markets and the international banking landscape. While building up international operations can have various favorable effects such as the possibilities to acquire new clients, to raise more and cheaper capital, to provide better service for customers, or to gain economies of scale, also disadvantages can emerge. Alfred Slager (2005: 3-4) found out that foreign profitability is in general lower than domestic and that banks which intensely enhanced their international operations generated the lowest shareholder return. In addition, presence in many foreign countries increases rather than decreases bank risk (Buch, Koch and Koetter 2010, 2). These negative effects of internationalization would be particularly dangerous for multinational banks (MNBs) in view of current economic instability and turbulent financial markets. Furthermore, augmenting internationalization of Chinese and Indian banks affects other banks because it creates greater competition on entered foreign markets. Especially, if Chinese and Indian MNBs pursue similar internationalization patterns and strategies, the degree of competition could significantly increase. Therefore, it is of particular interest to analyze the internationalization patterns and strategies of Chinese and Indian banks.

This paper contributes to the existing literature since most research has focused on the causes of internationalization or its procedure (Wengel 1995; Zineldin 1996; Grönroose 1999; Slager 2005; Lehner 2008) rather than case studies analyzing the internationalization patterns and strategies of banks (Paula 2002; Parada et al. 2009; Hsieh et al. 2010). Moreover, the existing literature mainly focuses on MNBs from developed countries. Consequently, the literature about banks from emerging countries is even thinner. This paper makes a contribution to fill this gap.

In order to analyze the hypothesis, one of the two main foci is on the home market conditions of the banking sector in China and India, estimating their similarities. This offers explanations for the utilization of strategies as, for instance, competitive advantages have a major impact on internalization strategies. The second focus lies on the internationalization processes of the three biggest Chinese and Indian banks analyzing

their international operations regarding timing, local dimension, causality, and modality to assess the similarity of the internationalization patterns and strategies.

The data of the banks' internationalization have primarily been obtained from the respective homepages of the MNBs, their subsidiaries, or branches. Furthermore, annual financial statements, newspapers, or journals have been used to gain data. Finally, the databases of international organizations like the International Monetary Fund (IMF) or the World Bank have been used to receive macroeconomic data, especially for identifying whether the banks pursue the client following or the market seeking strategies.

This paper is organized in five sections. Section 2 gives the theoretical framework of this work. Since there is no all-embracing theory explaining the internationalization of companies (Kutschker and Schmid 2005: 372), five different models are applied to analyze the internationalization of Chinese and Indian banks. First, the Diamond Model developed by Michael E. Porter (1993) is used to identify competitive advantages of China's or India's banking industry. Second, the timing of the internationalization processes of the banks is examined by means of three different timing strategies: waterfall strategy, sprinkler strategy, and combined waterfall-sprinkler strategy. Third, the local dimension of the banks' international operations or the market selection of the banks is determined by applying the psychic distance chain developed by Jan Johanson and Jan-Erik Vahlne (1977). Fourth, the causality of internationalization is analyzed by studying if the banks are applying a client following or a market seeking strategy. Fifth, the modality of internationalization is elaborated through having a look at the organizational form of the banks in foreign markets. Section 3 gives information of the six analyzed banks necessary to understand their background. Section 4 contains the main analysis. In this chapter the internationalization patterns and strategies of the banks are analyzed on the basis of the models presented in section 2. In section 5 the preliminary findings of each bank are compared and interpreted. It is elaborated if the Chinese and Indian banks show similar internationalization patterns and strategies among themselves and which common features or differences exist between the banks of the two countries. The last section summarizes the findings of this study and states identified research gaps that could not been addressed within the scope of the present study.

2 Analytical Framework

First of all, the comparative method, which is used in this study, is illustrated. Subsequently, five different models are outlined with the purpose of identifying categories for the comparison of Chinese and Indian banks' internationalization. Since no all-embracing theory explaining the internationalization of companies exists (Kutschker and Schmid 2005: 372), it is reverted to different theories. Home market conditions of the banking industries are analyzed, using the Diamond Model developed by Michael E. Porter, to identify which competitive advantages are at the banks' disposal for an internationalization strategy and to determine the similarities and differences of China's and Indian's home market conditions. Furthermore, models for exploring the timing, local dimension, causality, and modality of the banks' internationalization are elucidated. Regarding the timing of internationalization, three different strategies are available for the timing of market entries: waterfall strategy, sprinkler strategy, and combined waterfall-sprinkler strategy. The psychic distance chain model serves as basis for analyzing the market selection or local dimension of internationalization. Whether banks are market seekers or client followers allows conclusions concerning the reasons behind the banks' internationalization and finally entry mode choices are described to analyze the modality of Chinese and Indian banks' international operations.

2.1 Comparative Method

The comparative method is "one of the basic methods – the others being the experimental, statistical, and case study methods – of establishing general empirical propositions." (Lijphart 1971: 682) The comparative method allows identifying empirical relationships among variables but is not seen as a method of measurement since comparison stands for ordinal measurement (Lijphart 1971: 683). Furthermore, the method can be applied on testing hypotheses and may "contribute to the inductive discovery of new hypotheses and to theory-building." (Collier 1993: 105) Comparison has three major goals: first, the examination of covariation among cases, second, the parallel demonstration of theory on multiple cases, third, the interpretation of how similar processes have developed differently (Collier 1993: 108). According to Charles C. Ragin (1994: 108-109), the comparative approach is especially appropriate for the goal of exploring diversity among cases. The purpose of research in this case is to detect causal conditions that engender different outcomes. "The goal of exploring diversity is important because people, social researchers included, sometimes have trouble seeing the trees for

the forest. They tend to assume uniformity or generality when, in fact, there is a great deal of diversity." (Ragin 1994: 109) The comparative method is used to study multifaceted patterns of differences and similarities among cases (Ragin 1994: 115). Therefore, the comparative method is well suited for this study.

However, the method faces two major problems: many variables and a small number of cases. Whereas the former problem is a general one within the social science research, the latter is special for the comparative method and complicates the problem of many variables. The problem of how representative one's sample is is closely related to the problem of a small number of cases. Therefore, one should increase the number of cases as much as possible and try to focus the analysis on cases that are similar in a large number of central characteristics (Lijphart 1971: 685-687).

2.2 Porter's Diamond Model

Porter (1993) shows in his book on the competitive advantage of nations how strategy and internationalization of companies are influenced by the domestic environment of a company. Although Porter does not primarily analyze the development of an internationalization strategy, he points out that home market conditions have a significant impact on the internationalization strategy of companies (Perlitz 2004: 134). According to Porter, companies "benefit from having strong domestic rivals, aggressive home-based suppliers, and demanding local customers." (Porter 1990a: 73) Differences in national values, culture, economic structures, institutions, and histories all have an impact on companies and their competitiveness (Porter 1990a: 73). Since competitiveness is necessary for success on the world markets, these factors have a major impact on the internationalization of companies.

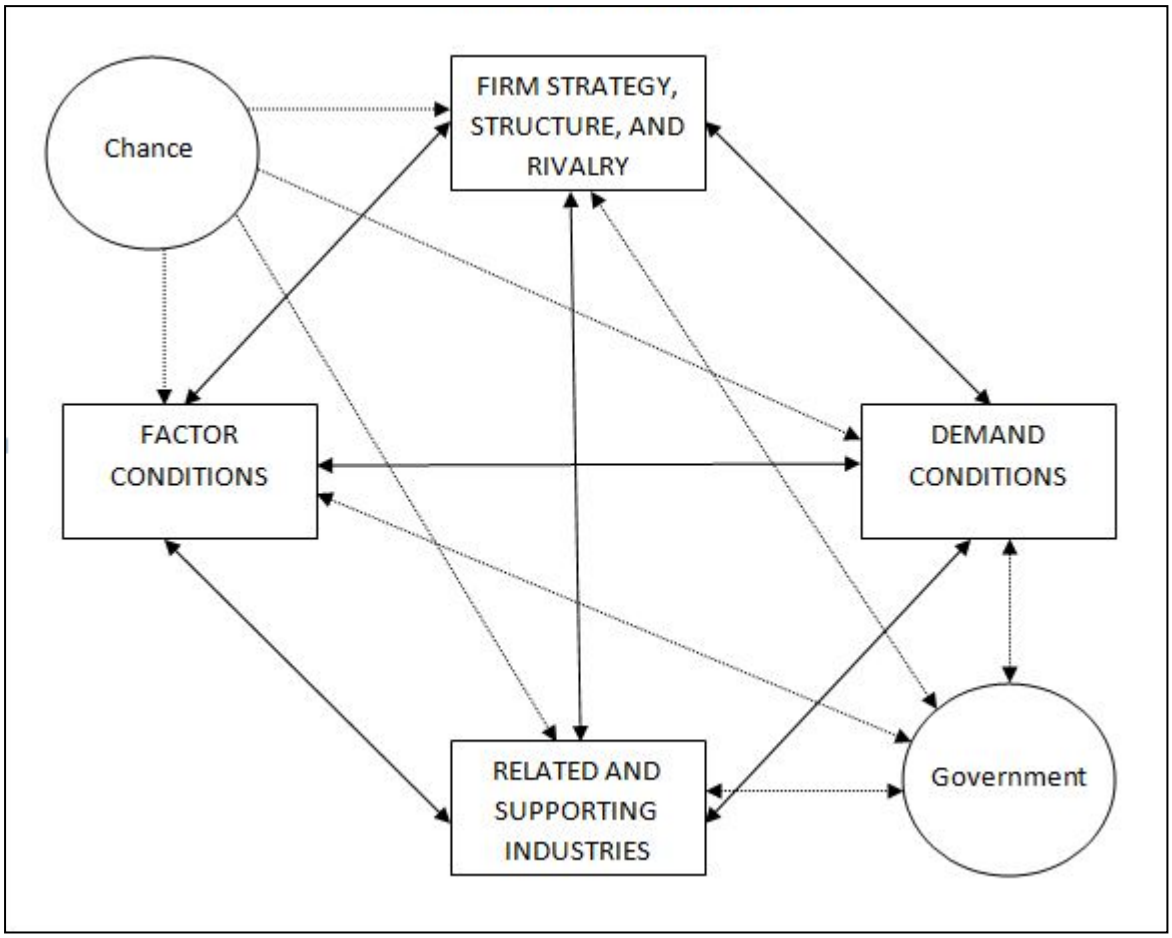
The unit of analysis Porter focuses upon is not the nation itself at the macro level but the company. He argues that nations are most likely to succeed where their companies exhibit a favorable environment (Kuah and Day 2005: 4). This environment consists of four broad attributes which determine the competitiveness of a company (Porter 1990a: 78):

(1) Factor conditions: the quality and quantity of factors of production such as skilled labor or infrastructure which are crucial to compete in a given industry.
(2) Demand conditions: the size of the domestic market as well as the aspiration level of customers.

(3) Related and supporting industries: the existence of supplier industries and other related industries in the nation that are internationally competitive.

(4) Firm strategy, structure and rivalry: the conditions of how companies are created, organized, and managed as well as the intensity of competition.

Figure 2-1 Porter's Diamond Model



Source: Porter 1990b: 127

Besides these four broad attributes, Porter introduces two minor elements into his model: chance and government (Perlitz 2004: 135). “These [six] determinants created the national environment in which companies are born and learn how to compete.” (Porter 1990a: 78) Porter positioned the six attributes in a diamond-shaped structure. The elements of Porter’s diamond are illustrated in Figure 2-1 and are elucidated in the following. The arrows connecting the elements of the diamond represent the relations between the attributes. Single arrows stand for unilateral influence. Arrows pointing in both directions symbolize reciprocal relations.

2.2.1 Factor Conditions

Porter classifies factors of production in human, physic, knowledge, and capital resources along with infrastructure instead of the classical division into land, labor, and capital goods. Under human resources Porter subsumes the quantity, skills, and cost of personnel as well as work ethic. Physical resources cover the nature of a nation's land, climate, location, and geographic size. Knowledge resources comprise the nation's stock of scientific, technical and market knowledge. Capital resources contain the amount and cost of capital available to the finance industry. Finally, infrastructure describes the type, quality, and costs of infrastructure that affects competition (Porter 1990b: 74-75).

A hierarchy among these factors has been established by Porter. He differentiates between basic and advanced factors. Basic factors include natural resources, location, unskilled and skilled labor, and debt capital. Advanced factors include communication infrastructure, highly educated workforce, and university research (Porter 1990b: 77). Since competing companies are able to either access basic factors through an international strategy or replace them through technology, basic factors do not create competitive advantage in knowledge-intensive industries. A factor must be particularly specialized in order to foster competitive advantage (Porter 1990a: 79).

While David Ricardo or Eli Heckscher and Bertil Ohlin consider a rich factor endowment as beneficial, Porter emphasizes that quality is more important than quantity because more essential than the possession of factors of production is the usage and combination of them. Moreover, Porter sees occasionally an advantage for a nation in case of initial competitive disadvantages because shortcomings force companies to compensate these. Thereof long-lasting and difficult to imitate competitive advantages can evolve (Kutschker and Schmid 2005: 440-441).

2.2.2 Demand Conditions

Home demand determines national competitive advantages to the effect that it forges the nature such as rate and character of enhancement and innovation of a nation's company. Three characteristics of domestic demand are of importance for estimating international competitiveness: demand composition, demand size and patterns of growth as well as internationalization of domestic demand (Porter 1990b: 86).

The home demand composition will raise the competitiveness of a nation if it pushes domestic companies to innovate in a higher pace and to gain differentiated competitive

advantages. Furthermore, the segment structure of demand is important as in most industries, demand is segmented. A nation's companies probably will achieve "competitive advantages in global segments that represent a large or highly visible share of home demand but account for a less significant share in other nations." (Porter 1990b: 87) Companies will gain more experience and will be able to specialize its operations if having a large share in a segment which is more important in one's nation than in others (Porter 1990b: 87). Consequently, companies could obtain advantages through the segment structure because of experience and specialization.

More important than the segment structure for a nation's competitiveness is the existence of sophisticated and demanding buyers. Customers define the focus and priorities of companies. High requirements of customers in terms of availability, price, and utility of products or services force companies to constantly enhance their competitiveness. Discerning customers generate pressure to innovate which impacts the whole industry. In addition, it will be favorable for an industry if demand anticipates those of other nations. In that case trends in the industry become an indicator for global developments. As a result, the companies are one step ahead of their international competitors (Perlitz 2004: 138).

Demand size and pattern of growth also have an impact on the competitiveness of an industry. The size will be of prior relevance if high requirements regarding research and development, economies-of-scale or high risk exists. In these cases a big market enables companies to reach the breakeven point fast. Moreover, a soaring growth leads to a faster adoption of new technologies as companies do not hesitate to invest in new products and facilities (Perlitz 2004: 138-139).

The composition of home demand forms the basis of a nation's industry advantage, while the size and pattern of growth influence the investment behavior, timing, and motivation, there is a third factor which has an impact on the competitiveness: internationalization of domestic demand. The term describes the mobility or international orientation of the domestic demand. Since, for example, multinational companies prefer to deal with suppliers of products or services based in their home country rather than with suppliers of the host country, mobile or international orientated clients provide a base of customers in foreign markets. Thus, internationalization of domestic demand is advantageous for the internationalization process of companies (Porter 1990b: 97-99).

To sum up, companies will obtain competitive advantages if: first, one segment of demand is significantly larger than the share of this specific segment in other nations, second, there are sophisticated and demanding buyers, third, a huge or growing market exists, or fourth, customers are internationally orientated.

2.2.3 Related and Supporting Industries

Competitive advantages in supplier or related industries often lead to new competitive industries. The supplier industry is important as it enables efficient, early, and quick access to cost-effective inputs. This will only be achieved if the supplier industry is internationally competitive (Porter 1990b: 101). In addition it is easier for companies to meet challenges of international competition by forming alliances with strong suppliers (Perlitz 2004: 139). Industries will weaken themselves if they create captive supplier which are entirely reliant on the domestic industry (Porter 1990a: 83). However, the banking industry has a special characteristic: it produces almost every value added by itself. The value added chains are mostly entirely handled by the banks themselves (Wiedemann 2007: 7). Therefore, the supplier industry is not as important for the banking industry as it is, for example, for the manufacturing industry.

Furthermore, companies benefit from strong domestic competition in related industries. "[These] are those in which firms can coordinate or share activities in the value chain when competing, or those which involve products that are complementary" (Porter 1990b: 105). Competition in general sets companies under pressure to innovate. Due to short communication channels and cultural homogeneity of companies within a nation, an ongoing exchange of ideas evolves between them (Perlitz 2004: 139). Consequently, companies of an industry cannot only benefit from competition in their industry but also from competition in related industries.

Competitive related industries make chances for information flow or technical interchange available which affect the innovation and competitiveness of companies (Porter 1990b: 106). That is why the financial sector needs supportive and related industries with competitive power in order to obtain long-term competitive advantages.

2.2.4 Firm Strategy, Structure, and Rivalry

Firm strategy, structure, and rivalry form the last broad attribute in Porters diamond. The focus is on national circumstances which generate strong propensities on how companies had been formed, are managed, and organized (Porter 1990a: 83). This is important since

these elements determine how companies react on the first three factors of the diamond. With these considerations Porter includes country-specific enterprise and management models. He believes that some models suit some industries particularly well (Kutschker and Schmid 2005: 443). "Competitiveness in a specific industry results from convergence of the management practices and organizational modes favored in the country" (Porter 1990a: 83). Furthermore, nations also differ in the goals that companies or individuals pursue. The objectives of companies, for example, reflect the characteristics of a nation's capital markets and the contribution for managers (Porter 1990a: 83).

In addition, individual motivation to work and to improve skills influences the competitive advantage. Excellent talent is a scarce resource. Which kind of education is chosen by these talents and in which industries they want to work determines the success of industries. Therefore also the prestige of an industry is vital (Porter 1990a: 84).

Rivalry is not only important among related and supporting industries but also within an industry. Domestic rivalry has a great stimulating effect on all other attributes of the diamond. Local rivals force each other to lower prices, better quality, or more service. Furthermore, domestic rivalry creates constant pressure on companies to improve their competitive advantages. As local rivals benefit in the same way from advantages that come from simply being in a particular nation's industry, the companies have to gain more sustainable advantages than their domestic rivals (Porter 1990a: 85). Besides benefiting from the domestic market, companies will profit from these sustainable advantages if they face international competition since sustainable advantages are difficult to copy.

2.2.5 Chance

Chance events also play a role in the competitiveness of a nation or a nation's industry. They cause interruptions that can make for shifts in the competitive position (Perlitz 2004: 140). "Chance events are occurrences that have little to do with circumstances in a nation and are often largely outside the power of firms (and often government) to influence." (Porter 1990b: 124) The following events can have an exceptionally significant impact on the competitive advantage (Porter 1990b: 124):

- Acts of pure invention (for example the invention of the steam engine)
- Major technological discontinuities (for example: biotechnology, microelectronics)

- Discontinuities in input costs (for example: oil shocks)
- Significant changes in world financial markets or exchange rates
- Surges of world or regional demand
- Political decisions by foreign governments
- Wars

These chance events do not have the same impact on every nation. National attributes play a major role since they determine the strategy a nation applies in order to make use of these significant events. In this sense the composition of a nation's diamond is important for the exploitation of chance events (Porter 1990b: 125).

2.2.6 Government

The final variable of Porter's diamond is government. Governments can have a positive as well as a negative impact on the four broad attributes. Factor conditions, for example, are influenced by subsidies, policies towards the capital markets, and education. Regarding local demand conditions, government bodies can set up local product standards or regulations that have impacts on buyer's needs. Control of advertising media or regulations of supporting services impinge on related and supporting industries. Finally, apart from using tax policies, governments are able to shape the attribute firm strategy, structure, and rivalry through antitrust laws (Porter 1990b: 127-128).

However, competitive advantages cannot be created through government policies alone. "Successful policies work in those industries where underlying determinants of national advantage are present and where government reinforces them." (Porter 1990b: 128) The advantages can only be enhanced or limited by governments. Moreover, governments can extend the chances of an industry to gain competitive advantage by favorable measures (Perlitz 2004: 141).

The relations between governments and companies can be problematic because many governments favor politics like subsidies or protection which have short-term benefits. In contrast, supporting policies to create competitive advantages often imply short-term determents. Creating competitive advantage for an industry usually takes around ten years because inter alia human skills have to be developed and investments have to be done. Subsidies and other short-term politics hamper innovation and competitiveness because companies do not have the incentive to improve their performances (Porter 1990a: 87).

Accordingly, short-term orientated politicians hamper the long-term creation of competitive advantages.

2.2.7 Dynamic of Porter's Diamond

Effects of one element of the diamond often depend on the state of the others. For example, sophisticated home buyers will not bring companies to improve products, unless the quality of human resources allows it. The determinants of national advantages create a multifaceted system. "Yet the system is an evolving one, in which one determinant influences others." (Porter 1990b: 131) Competitive advantage is created out of the interplay of the elements which makes it difficult for foreigners to copy (Porter 1990b: 131).

Specific industries of nations will be internationally successful if the nation's diamond holds advantages in comparison to other nations' diamonds (Porter 1990b: 144). However, to stay competitive over a longer period of time the single elements of the diamond have to strengthen one another. In order to gain sustained international competitiveness, industries have to undertake three steps. First, competitive advantages arise out of one single advantage such as factor conditions or demand conditions. Local rivalry forces the companies to strengthen their competitive advantages. These companies develop gradually international competitiveness. Second, in order to be long-term internationally competitive, the industry has to develop from an investment driven one to an innovation driven industry. Third, business clusters were shaped. The world's best companies will settle down in a particular region of the country which will closely intertwine these companies. This again will lead to further competition and innovation (Perlitz 2004: 141).

According to Porter, no country is able to be competitive in every industry at the same time. Because industries or companies have to prevail against dynamic local rivalry to become internationally competitive, there will always be industries, even in the wealthiest nations, which are unable to compete internationally (Perlitz 2004: 141).

2.2.8 Critics of Porter's Diamond

Even though Porter revived the discussion about locational advantages more than anyone else, he is not free from criticism. Chang Moon, Alan Rugman and Alain Verbeke (1998: 136) found fault with his work because of the exclusive focus on domestic conditions of a country. Multinational companies are active in many different countries. Hence, they can

take advantage of different conditions in these countries but Porter does not take conditions of other nations into consideration, although they might be favorable for a company's competitiveness. Other authors condemn that culture is under-represented in the analysis (Kuah and Day 2005: 5). Furthermore, Michael Kutschker and Stefan Schmid (2005: 444-445) criticize Porter for failing to take some location factors into account that have been mentioned in earlier works by other authors. They add that his work is not based on empirical evidence and that it does not meet scientific standards.

Despite this criticism, Porter characterized probably more than anybody else the discussion about location factors. With his approach at the interface of international trade policy, strategic management, and international management he created an internationally widespread model addressing global competitiveness and national advantages (Kutschker and Schmid 2005: 445). This model is used in this paper because Porter's diamond provides a useful framework for the comparison of the competitiveness of industries among nations.

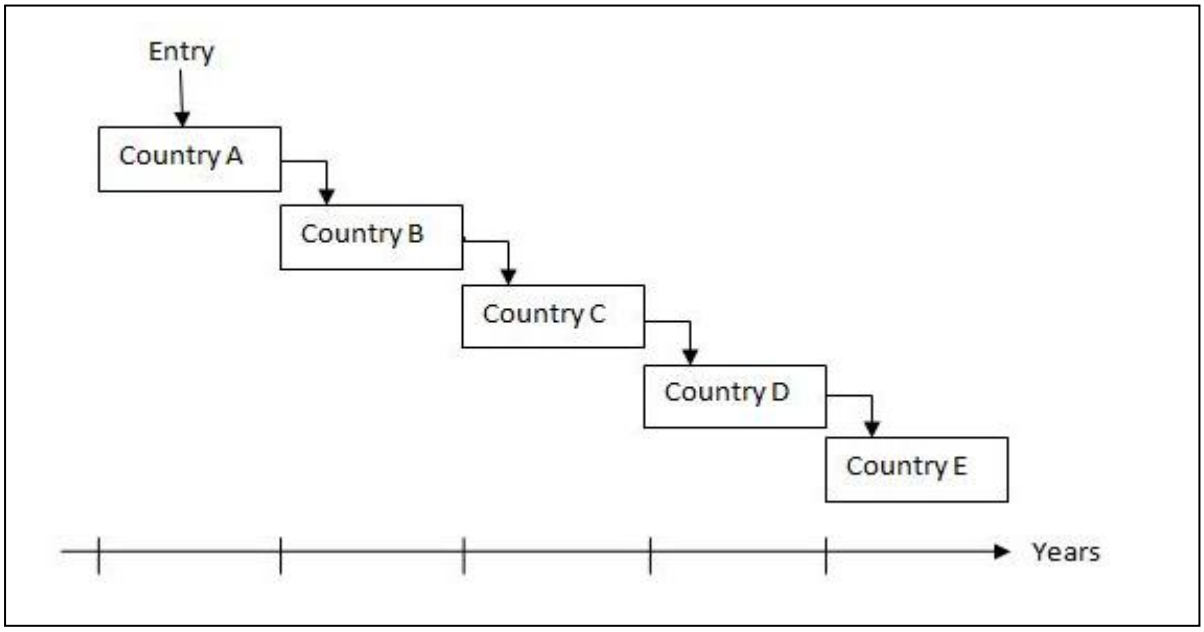
2.3 Timing of Market Entry

Companies which plan to explore new markets are usually entering more than one market over time. Therefore, strategic decisions on timing of market entries are necessary. Three different strategies are available for sequencing market entries: waterfall strategy, sprinkler strategy, and combined waterfall-sprinkler strategy. Even though they are mainly used in the context of launching new products, they also describe the entry of companies in new markets (Kutschker and Schmid 2005: 963).

2.3.1 Waterfall Strategy

The waterfall strategy is characterized by a gradual market entry in selected countries. The company enters the market of one country after the other. This requires usually a long period of time until the company is present on all intended markets. Smaller companies typically utilize the waterfall strategy due to limited resources for a simultaneous entry (Backhaus et al. 2000: 127). The basic pattern of the waterfall strategy is shown in Figure 2-2.

Figure 2-2 Basic Patterns of the Waterfall Strategy



Source: Kutschker and Schmid 2005: 964

The figure illustrates the principles of the strategy, implying that the company enhances its market presence at one country at a time. This is in accordance with the claims of the Psychic Distance Chain (see Chapter 2.4) which outlines that companies are first entering nearby markets and then going successively to more distant markets. However, psychic distance is not the only criteria, political and juridical criteria have impacts on the decision as well (Kutschker and Schmid 2005: 964). After gaining experience on the domestic market, the company enters the most similar market in order to take advantage of the new knowledge. With every new stage heterogeneity of newly entered countries rises, so that more and more markets can be developed (Backhaus et al. 2000: 128).

Two different planning approaches are distinguished. On the one hand, the company can develop new plans after each market entry on how to further tap into new markets. In doing so, new experiences or gathered information can be taken into consideration. On the other hand, it might be advantageous for companies to have a long term plan which means that before the first market entry a plan of all other target countries is available (Backhaus et al. 2000: 128). This is particularly useful for calculating availability and use of resources. In practice a combination of these two strategies is common. Companies establish a rough plan about possible target countries before the first market entry and later they adjust this plan in order to take internal or external developments into consideration (Kutschker and Schmid 2005: 964).

Using the waterfall strategy provides several advantages in comparison to a simultaneous approach:

(1) The need of resources is temporally shifted, which is important for companies with limited capital and management resources (Kutschker and Schmid 2005: 964).
(2) The waterfall strategy is advantageous for coordinating market entries because the company has more time to make decisions and to adopt its plans to changing market conditions. Moreover, the reputation of a company will rise if the company enters an internationally important market successfully (Backhaus et al. 2000: 128). Accordingly, later market entries will be easier for a company if it has a favorable image in the eyes of governments or customer in subsequent target markets. Finally, a market can have the function of a beachhead for the handling of markets nearby (for example: USA for Canada and Mexico or Singapore for Southeast Asia) (Kutschker and Schmid 2005: 965).
(3) The gradual approach of this model allows stopping the process of internationalization at any time or at any stage hence the risk to fail is determined. If it is revealed that the success on the foreign markets is not as favorable as expected, the company will cancel any further market entries in order to save resources (Backhaus et al. 2000: 128).
(4) The company can individually decide when to enter intended markets implying that the optimal time can be adjusted through utilizing differences in consumer demand, innovation, or technology degree (Kutschker and Schmid 2005: 965).

However, the waterfall strategy has also disadvantages. Competitors might be able to estimate which markets will be entered next. In order to gain advantages competitors can use the time until the next market entry to develop the market themselves. Consequently, the company is attracting competitors to the markets they want to enter. Furthermore, new information obtained in new markets can be wrongly interpreted. By this means, misjudgments can occur. For example, a failing market entry in one country does not necessarily mean that entering another market will be unsuccessful as well. (Kutschker and Schmid 2005: 966).

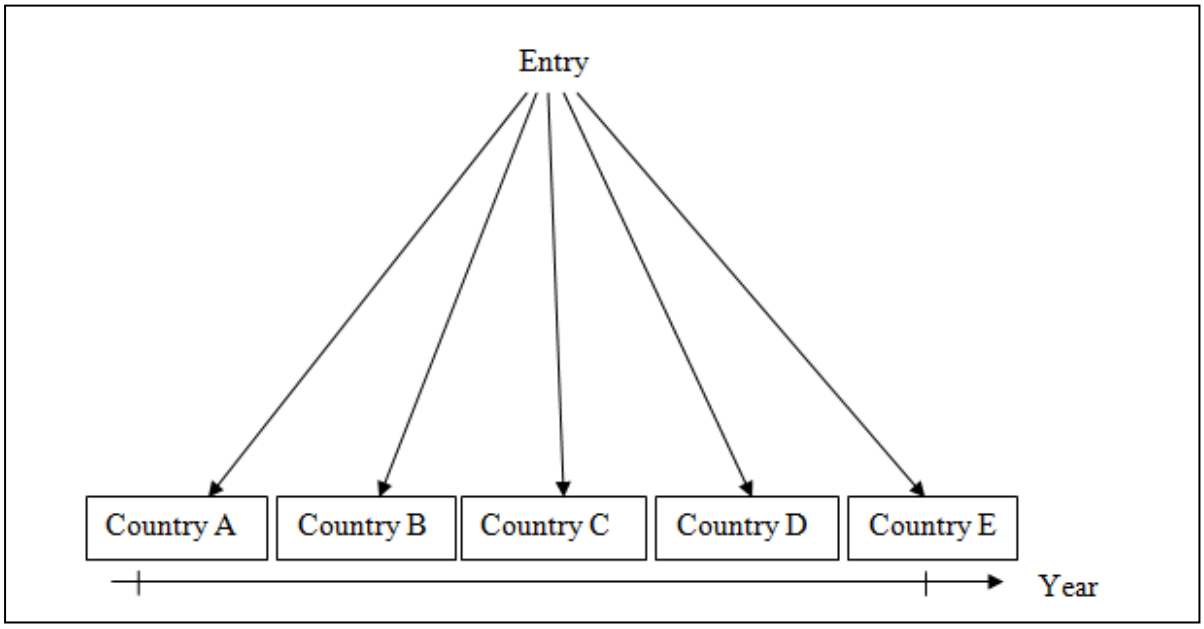
Shlomo Kalish, Vijay Mahajan and Eitan Muller (1995: 113-114) identify some external parameters that make the waterfall strategy more applicable. These parameters are, among others, less favorable conditions in foreign markets and weak competitiveness of

foreign markets. If conditions in a foreign market are suboptimal, the market entry will be delayed with little risk of forfeiting much market share or turnover. Likewise, if there are few, weak, or cooperative competitors, the loss of sales potential resulting from a later market entry will be minor. Accordingly, the resources of the company can be used more efficiently, for example, by investing in markets with more favorable conditions.

2.3.2 Sprinkler Strategy

The sprinkler strategy is characterized by the simultaneous entry in almost every intended market (as illustrated in Figure 2-3). This strategy will be favorable if competitors decrease the company's growth target through a premature entry in intended markets. In comparison to the waterfall strategy, the market entry in additional markets happens much faster. This in turn results in higher needs of resources and no opportunities to use gained experience of former market entries (Kreutzer 2010: 186-187).

Figure 2-3 Basic Patterns of the Sprinkler Strategy



Source: Kutschker and Schmid 2005: 967

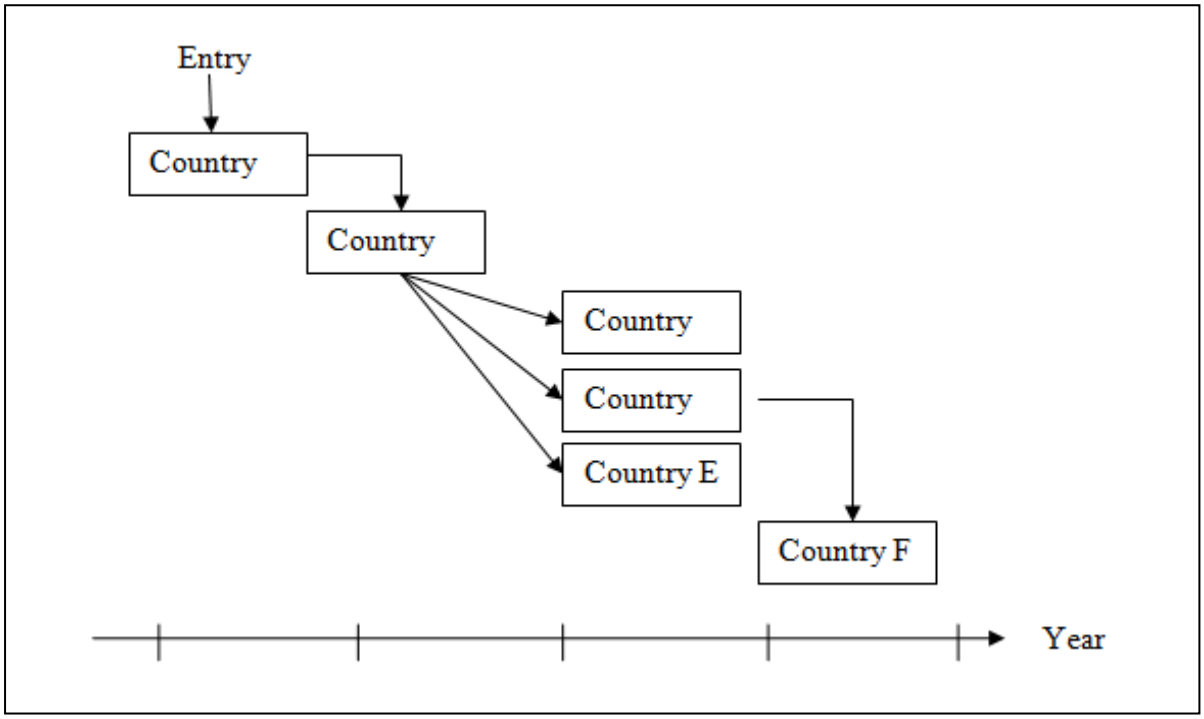
On the one hand, the sprinkler strategy offers several advantages for the timing of market entries. Through the early market entry the company can benefit from first-mover-advantages. Companies which enter a market before their competitors profit from its level of awareness, experience, or relations to suppliers and customers. This builds up barriers against later entering competitors and results in increased prestige because the company shows commitment to the country (Kutschker and Schmid 2005: 966-967).

On the other hand, this strategy also includes disadvantages. First, the sprinkler strategy requires extensive resources because of market entries in several countries within a short period of time. Second, management, organization, and coordination are difficult since a lot of different tasks have to be done at the same time. Third, the strategy contains a high risk of failure. In the worst case the company is not accepted in most or all countries which results in a critical financial situation for the whole company because of former high investments (Kutschker and Schmid 2005: 967-968).

2.3.3 Combined Waterfall-Sprinkler Strategy

Besides pursuing either the waterfall or the sprinkler strategy, combining these two strategies is possible as well in order to make use of advantages of both strategies (Kutschker and Schmid 2005: 968). For example, a company starts with the waterfall strategy to gain initial experience, followed by the use of a sprinkler-like strategy to speed up the internationalization process and then again utilizing the waterfall strategy to invest in additional markets with favorable conditions. An example of how such a combined waterfall-sprinkler strategy could look like is shown in Figure 2-4.

Figure 2-4 Basic Patterns of the Combined Waterfall-Sprinkler Strategy



Source: Kutschker and Schmid 2005: 969

The combined waterfall-sprinkler strategy features the advantages and disadvantages of the sheer waterfall strategy and the sheer sprinkler strategy less marked. If some countries

are seen as a cluster, a simultaneous entry will be preferred (Kutschker and Schmid 2005: 968). This strategy enables companies to establish beachheads with the waterfall strategy and after that the nearby countries could be entered using the sprinkler strategy. Furthermore, the strategy can be pursued to gain initial experience before accelerating the internationalization process followed by entering additional markets where conditions have previously been suboptimal.

2.4 Market Selection

Jan Johanson and Jan-Erik Vahlne (1977: 24) state that companies usually develop their internationalization operation gradually and that the time order of entering foreign markets is related to the psychic distance between home and host country. They define psychic distance "as the sum of factors preventing the flow of information from and to the market. Examples are differences in language, education, business practices, culture, and industrial development." (Johanson and Vahlne 1977: 24) Accordingly, internationalization happens concentric from the home country. Companies first enter psychic close markets before they expand to psychically more distant countries (Kutschker and Schmid 2005: 459).

This concept has a significant effect on the discussion regarding the key indicators that influence market selection operations and hence the direction of international expansion. Psychic distance is, however, not only a major determinant of internationalization patterns but also of business success on multinational scale. Companies will operate in psychically close markets better since they face fewer cultural barriers (Alexander and Rhodes 2007: 425). In other words, the transaction costs are lower because it is easier to monitor and to communicate with the foreign unit (Hsieh et al. 2010: 2355).

While first published in the 1970s, the core concept of the psychic distance chain continues to be valid. Many aspects have changed since but learning and decision making processes of humans have remained almost the same. "Moreover, experiential learning and building trust and commitment, the basic prerequisites for developing business, and hence for internationalization, certainly have not changed." (Johanson and Vahlne 2009: 1421) While Johanson and Vahlne (2009: 1421) published in a newer article that the correlation between the sequence of entering overseas markets and psychic distance attenuated, this does not mean that psychic distance is insignificant.

Since "it is 'culture' that underpins all the facets of psychic distance" (Swift 1999: 184), psychic distance can be seen as cultural distance plus experience and trust that have an impact on the perceptual distance (Alexander and Rhodes 2007: 426). Therefore, Hofstede's cultural dimensions can be used to estimate the psychic distance between home and host countries. Geert Hofstede (1983) identifies differences in people's work-related values among countries. He classifies these values into four dimensions which are largely independent of each other:

(1) Individualism versus Collectivism;
(2) Large or Small Power Distance;
(3) Strong or Weak Uncertainty Avoidance; and
(4) Masculinity versus Femininity.

For each of these dimensions Hofstede created an index value (between 0 and about 100) which enables a comparison of the home and host country's culture. For this study, the values of each dimension of the home and host country of the banks in comparison are aggregated and compared.

2.5 Reasons behind the Banks' Internationalization

In the literature two different reasons for entering foreign markets have been identified for service companies. Either they want to be able to serve existing clients abroad and hence follow them to foreign markets or they seek for new markets in order to grow or optimize profits (Erramilli and Rao 1990; Grönroos 1999; Majkgard and Sharma 1998). Client following and market seeking strategies vary from each other in several aspects. For instance, the strategies differ in the context of relationships with domestic players and in the degree of uncertainty and opportunities in overseas markets (Majkgard and Sharma 1998: 3, 9). Whereas the motive of market seekers is impelled by the large scale or growth of the local economy, client following is driven by greater home country investment or exports into the host country (Hsieh et al. 2010: 2356). These two strategies, however, are not entirely exclusive since a client following company may have also the intention of seeking larger markets (Grönroos 1999: 292).

2.5.1 Client Following

Going abroad is often not a choice of the service company any more. Customers on the domestic market demand international delivery of services more and more (Grönroos

1999: 291) and are, therefore, putting pressure on service companies to enhance their international presence (Terpstra and Yu 1988: 43). For client followers internationalization is a way of maintaining relationships with clients from the home market which are now operating abroad (Hsieh et al. 2010: 2356).

Pursuing the client following strategy implies being exposed to relatively minor risk and less problems while entering overseas markets "[s]ince client followers are part of an international network and possess experiential knowledge[2] of the client firm and its decision-making procedures" (Majkgard and Sharma 1998: 10). In addition, Erramilli and Rao (1990: 142) identify some characteristics of the client following strategy compared to the market seeking strategy: Client followers are willing to commit greater resources, are more likely to engage into cooperation with external players, and are more aggressive when entering new markets. According to Meng-Fen Hsieh et al. (2010: 2358), a client following strategy can be identified if the export amount and the FDI outflow from the home country to the foreign market are relatively high in comparison to other trading partner.

2.5.2 Market Seeking

Market seekers face higher risk and less experience on overseas markets. In contrast to client followers, companies pursuing the market seeking strategy cannot profit from a supporting international network. The success of market seeking companies on foreign markets is dependent on relationship building skills abroad and the ability to establish credibility with customers. Therefore, market seekers are "exposed to more potential problems than client followers." (Majkgard and Sharma 1998: 10-11) Market seekers mostly choose highly integrated or wholly owned foreign market entry modes because cooperation could cause additional problems, not least through differences in organizational culture (Majkgard and Sharma 1998: 11).

Market seekers enter countries with larger market scales, and access to large and wealthy domestic markets (Hsieh et al. 2010: 2356) to optimize economic rents or to exploit local banking opportunities in overseas markets (Nigh et al. 1986: 59). Consequently, GDP

[2] Jan Johanson and Jan-Erik Vahlne (1977: 28) classify knowledge into objective and experiential knowledge. The former can be taught the latter, in contrast, can only be learned through personal experience. In the context of internationalization, experiential knowledge is critical since it cannot be easily gained.

growth rate and GDP per capita of the host country can be used to identify companies pursuing the market seeking strategy (Hsieh et al. 2010: 2358).

2.6 Entry Mode Choice

Banks can choose different modes to enter foreign markets. Besides bank scale or cultural distance (Hsieh et al. 2010: 2357), there are several other factors influencing the entry mode, for example, external environmental factors such as host country trade and investment restrictions or host country market size (Erramilli and Rao 1990: 137). However, type and volume of business a bank wants to carry out are the major factors affecting the choice of the organizational form in overseas markets (Curry et al. 2003: 42). While entering foreign markets, banks mainly choose one of the following organizational forms: correspondent bank, representative office, foreign branch bank, foreign subsidiary bank or offshore bank.

2.6.1 Correspondent Bank

Correspondent banking relations are usually conducted in early stages of internationalization (Kollar 1989: 441) because it is an inexpensive method and well suited for infrequent foreign market activities (Curry et al. 2003: 42). Correspondent banks provide services to foreign banks enabling them to do business in foreign markets where they are physically not present (Casu et al. 2006: 86). Part of the agreement between the banks is that the local correspondent bank accepts drafts and honor letters of credit. In addition, it provides credit information and collects or pays foreign funds from import or export transactions (Kim and Kim 2006: 297). In return, the correspondent bank earns a fee from the foreign bank. This method of conducting business in foreign markets has minimal exposure for the foreign bank to foreign markets (Casu et al. 2006: 86).

This method is not only important at early stages of internationalization since no commercial bank can operate profitable subsidiaries or branches in every country or region of the world. It is especially vital for banks with multinational companies as their customers. A multinational company accomplishes payments from around the world and generally favors to have one bank to manage its worldwide transactions (Neelankavil and Rai 2009: 335). Due to limited financial and human resources, commercial banks are only able to meet the high needs and requirements of international oriented customers regarding quality and quantity of services through corresponding banks (Kollar 1989:

441). Consequently, many banks use correspondent banks to have a stronger international presence and to provide services in more countries (Neelankavil and Rai 2009: 335).

2.6.2 Representative Office

A representative office can be seen as the first direct step of a domestic bank in a foreign market (Kollar 1989: 442). Banks take faintly more exposure to a foreign market by opening a representative office (Casu et al. 2006: 86). Representative offices cannot obtain a banking license. Accordingly, it is not allowed to offer any banking activities such as deposits, loans, or drafts but the staff of the representative office can obtain information, give advice on the nature of the local business, and arrange local contacts for their parent bank's business customers. Furthermore, representative offices supply their parent bank with credit information of local companies and political information about the country (Kim and Kim 2006: 297). They act like a liaison between its clients and their parent bank (Neelankavil and Rai 2009: 335). Yet, as it is not allowed for representative offices to conduct banking activities, it is common for multinational banks to continue correspondent relationships (Curry et al. 2003: 43).

Representative offices are often set up in risky markets as their costs are negligible and in case of unfavorable prospects they can easily be closed (Casu et al. 2006: 86). That is why these offices are often "the first strategic step in establishing a deeper foreign presence while the potential payoff from further commitment is evaluated." (Curry et al. 2003: 42) If the prospects are favorable and the parent bank applies for a banking license, the representative office will easily be expanded to a foreign branch or subsidiary without major efforts or losing any gained know-how or invested resources (Kollar 1989: 443).

2.6.3 Foreign Branch Bank

In contrast to representative offices, foreign branch banks are allowed to perform banking activities (Kollar 1989: 443). Foreign branch banks conduct business under the name of their parent bank. They neither have a corporate charter nor a board of directors (Kim and Kim 2006: 297); they have no independent corporate entity (Neelankavil and Rai 2009: 335).

Foreign branch banks usually offer the full product line of their parent bank (Kim and Kim 2006: 297). The fact that foreign branch banks provide services under the name and guarantee of the parent bank offers them the opportunity to accomplish high volume businesses (Kollar 1989: 443) since legal loan limits hinge on the size of the parent bank

(Kim and Kim 2006: 297). Moreover, the option to raise liquidity on the foreign market at attractive terms is another important advantage for the parent bank (Kollar 1989: 443). In comparison to correspondent banks, foreign branch banks run transfers, payments, and other businesses more efficiently and with less paperwork or bureaucratic expense (Neelankavil and Rai 2009: 335).

Foreign branch banks' relying on rules and laws of the parent bank's home country can be disadvantageous. If the legislation on the foreign market is less restrictive than in the parent bank's home country, for example, due to different legal reserve ratios or credit limits, the foreign branch bank and the parent bank will have costly competitive disadvantages (Kollar 1989: 443-444).

To sum up, foreign branch banks benefit from capital flexibility and access to the worldwide capital of the parent bank. In comparison to foreign subsidiary banks, this method of entry mode choice has advantages in terms of lower cost of funding (Curry et al. 2003: 44). However, it is riskier than representative offices and correspondent banks because of greater investments.

2.6.4 Foreign Subsidiary Bank

Multinational banks take the most exposure to a foreign market by establishing a foreign subsidiary bank (Kollar 1989: 444). Foreign subsidiary banks are independent legal entities. They must meet the laws of the host country and have their own charter, shareholders, as well as managers but are completely owned by a foreign parent bank (Kim and Kim 2006: 297).

Foreign subsidiary banks have the status of local institutions. As a result, they are more likely to attract additional local deposits and have easier access to the local business community (Kim and Kim 2006: 297). Furthermore, MNBs can use foreign subsidiary banks to counterbalance domestic banks by poaching clients (Kollar 1989: 443-444). The foreign subsidiary bank, in addition, can exploit the full market potential using a strategy which is specialized to specific conditions of the host country's market and independent of the MNB's strategy (Büschgen 1998: 621).

Finally, an important distinction between representative offices or foreign branch banks and foreign subsidiary banks concerns their role in the whole company. While building up foreign subsidiary banks is seen as financial investment, representative offices and

foreign branch banks are considered to be a part of a MNB's operations strategy. Foreign subsidiary banks' management is in charge of the bank and can influence its policies in the market. In contrast, activities of representative offices and foreign branch banks are less independent and more like managing the MNB's assets in foreign money and capital markets (Curry et al. 2003: 43).

2.6.5 Offshore Bank

Offshore banks are actually a special form of foreign subsidiary banks. However, they are mentioned separately because the strategy behind establishing an offshore bank differs clearly from building up other foreign subsidiary banks.

Offshore banks are located in low tax jurisdiction (see Table 2-1) where financial and legal regulations are favorable for a bank in comparison to the home country of the MNB. Main function of an offshore bank is holding cash on behalf of the parent bank and only spending it in case the multinational bank demands it (Neelankavil and Rai 2009: 336).

Table 2-1 Offshore Financial Centers

Andorra	Cyprus	Nauru
Anguilla	Gibraltar	Netherlands Antilles
Antigua	Guernsey	Nevis
Aruba	Island of Man	Niue
Bahamas	Jersey	Palau
Bahrain	Lebanon	Panama
Barbados	Liechtenstein	St. Kitts
Belize	Macau	Saint Lucia
Bermuda	Malta	St. Vincent
British Virgin Islands	Marshall Islands	Samoa
Cayman Islands	Mauritius	Seychelles
Cook Islands	Monaco	Turks & Caicos Islands
Costa Rica	Montserrat	Vanuatu

Source: IMF 2002: 8; Financial Stability Forum 2000: 14

The opportunity for banks to temporarily put aside their cash is the most important reason for establishing offshore banks. This has two major advantages. First, multinational banks have to pay fewer taxes. Second, they earn higher interests rates because fewer regulatory

requirements result in fewer overhead costs. Moreover, MNBs can pool their money in a central account at an offshore bank to plan their cash flows globally (Neelankavil and Rai 2009: 336). As a result, establishing an offshore bank can be advantageous for banks since it can save money and can operate more efficiently than foreign subsidiary banks not located in offshore financial centers.

3 Introduction of the Compared Banks

3.1 Chinese Banks

3.1.1 Bank of China – BOC

In February 1912 Bank of China was established and served until 1949 as the country's central bank, international exchange bank, and specialist foreign trade bank. Following the founding of the People's Republic of China, the bank lost its function as central bank and was transformed into the state-designated specialist foreign exchange bank and foreign trade bank. Bank of China was a major force in the development of China's foreign trade until 1994, when another transformation took place, which reconstructed the bank into a state-owned commercial bank. In 2004 Bank of China went public and today the bank is listed on the Hong Kong Stock Exchange as well as the Shanghai Stock Exchange (BOC 2011a).

BOC is present at more than 30 overseas markets and its international operations focus on commercial banking activities. Besides that, BOC owns several subsidiaries covering different financial services. BOC International Holdings Limited is in charge of the bank's investment banking. BOC Group Insurance Co. Ltd runs the insurance business. The fund management business is handled by BOC Investment Management Co. Ltd and BOC Group Investment Ltd operates the investment management business (BOC 2011a).

The strategic goal of BOC is "[t]o be a leading international bank, delivering growth and excellence" (BOC 2011b: 1). In order to reach this goal, BOC wants to position itself as a large multinational banking group focusing on business and commercial banking. A bigger and stronger local presence should be developed of prior importance while business opportunities due to closer economic relations between China and the world economy will be utilized (BOC 2011b).

3.1.2 Industrial and Commercial Bank of China – ICBC

The Industrial and Commercial Bank of China Limited was incorporated in 1984. Since October 2006 the bank's shares are listed on the Shanghai Stock Exchange and the Stock Exchange of Hong Kong (Standard Bank 2007). As of the end of 2010, ICBC had more than 16,000 domestic physical branches, more than four million corporate customers, and almost 260 million personal customers. In terms of total assets, total loans, and customer deposits ICBC is the largest commercial bank of China (ICBC 2010a).

ICBC is in charge of several overseas branches covering North America, Europe, Middle East, Asia, and Australia (ICBC 2009). Moreover, ICBC has different wholly-owned subsidiaries across the globe, for example, ICBC International which provides a full spectrum of investment banking services to enterprises worldwide (ICBC International 2011).

The strategic goal of ICBC is to "[b]uild ICBC into the most profitable, most preeminent, and most respected world-class commercial bank" (ICBC 2007a). In order to reach this goal, ICBC focuses on four key issues. First, the bank wants to optimize its business structure and income mix. Second, ICBC is exploring new areas of the universal banking framework. Third, enhancing its international presence, ICBC will create a global service chain to serve multinational companies (MNCs) and fourth, the bank further improves its corporate governance as well as its risk management (ICBC 2007a).

3.1.3 China Construction Bank – CCB

China Construction Bank was founded in 1954 under the name "People's Construction Bank of China". Back then, it was a wholly state-owned bank with the objective to manage government funds for construction and infrastructure related projects. After the establishment of China Development Bank in 1994, the People's Construction Bank of China became a full service commercial bank and changed its name to China Construction Bank in 1996. In 2004 CCB was transformed into a joint-stock commercial bank. The banks shares were listed on Hong Kong Stock Exchange in 2005 and on Shanghai Stock Exchange in 2007 (CCB 2011).

Today, CCB has a huge network of more than 13.000 branch outlets, including overseas branches such as Frankfurt, Ho Chi Minh City, Johannesburg, New York, Seoul, Singapore, Sydney, and Tokyo. Among CCB's subsidiaries are: China Construction Bank (Asia) Corporation Limited, China Construction Bank (London) Limited, China

Construction Bank International (Holdings) Limited, Sino-German Bausparkasse Co. Ltd, China Construction Bank Principal Asset Management Co. Ltd, and China Construction Bank Financial Leasing Corporation Limited (CCB 2011).

CCB aims at becoming "a world-class bank by providing the best service to our customers, maximizing shareholder value and providing excellent career opportunities to our employees" (CCB 2011). The regional focus is on the Yangtze River Delta, Pearl River Delta, and Bohai Rim regions as well as capital cities of inland provinces in China (CCB 2011).

3.2 Indian Banks

3.2.1 State Bank of India – SBI

The State Bank of India was established in 1955, as a result of the takeover of the Imperial Bank of India which was founded in 1921 through the merger of the Bank of Bombay, the Bank of Madras, and the Bank of Bengal. The prior objective was to serve increasing financial needs of economic development (SBI 2008a). Today, SBI is 60% state-owned, and has more than 200,000 employees widespread across 10,000 branches (Malone 2009). Moreover, it has 82 foreign offices in 32 countries and six subsidiaries located in India: SBI Capital Markets, SBICAP Securities, SBI Discount & Finance House of India (DFHI), SBI Factors, SBI Life, and SBI Cards (SBI 2008b).

Besides focusing on whole sale banking, SBI also expands its rural banking base using state-of-the-art technology. The bank accesses new businesses such as Pension Funds, General Insurance, Private Equity, Mobile Banking, or Advisory Services which all have enormous potential for growth (SBI 2008b).

3.2.2 ICICI Bank

ICICI was established in 1955 under the name Industrial Credit and Investment Corporation of India Limited. The incorporation was initiated by the World Bank, the Government of India, and representatives of the Indian industry with the goal to build a development finance institution (DFI) which should make medium-term and long-term project financing to Indian businesses available. In 1998 the name of the bank was changed to ICICI Ltd (ICICI 2009a). Apart from having a network of more than 2,500 branches and being present in 19 countries (ICICI Bank 2010), the ICICI group owns several subsidiaries such as ICICI Prudential Life Insurance Company, ICICI Securities

Limited, ICICI Securities Primary Dealership Limited, ICICI Lombard General Insurance Company, ICICI Prudential Asset Management Company, or ICICI Venture (ICICI 2009b). Today ICICI is the largest private sector bank in India. Its equity shares are listed on the Bombay Stock Exchange and the National Stock Exchange of India Limited and on the New York Stock Exchange (ICICI Bank 2010).

Regarding international banking, ICICI focuses "on building a retail deposit franchise, meeting the foreign currency needs of our Indian corporate clients, taking select trade finance exposures linked to imports to India and achieving the status of the preferred non-resident Indian (NRI) community bank in key markets." (ICICI 2010: 38) Despite that, ICICI invests in rural banking for future growth and business opportunities. The strategy implies building branches at key agricultural markets and serving different customer segments with several products such as farmer financing, agri-businesses commodity-based financing and micro-credit as well as savings and investment products and insurance (ICICI Bank 2008: 12-13).

3.2.3 Punjab National Bank – PNB

After the annexation of Punjab in 1849 by the British the region developed rapidly and gave rise to a new educated class which had the idea to create an Indian bank with Indian capital and management representing all sections of the Indian community. This idea was implemented in 1895 by the establishment of the Punjab National Bank. In 1969 PNB was nationalized and had to pursue government goals such as catalyzing development or fighting poverty. After liberal reforms in the late 1980s, PNB diversified its strategy and reduced the shareholding of the Indian government to 57.8% by an initial public offering (IPO) in 2002 and a follow-on public offer (FPO) in 2005. Up to now, PNB has over 56 million customers and more than 5,000 offices including five overseas branches (PNB 2010).

The vision of PNB is "[t]o be a Leading Global Bank with Pan India footprints and become a household brand in the Indo-Gangetic Plains providing entire range of financial products and services under one roof" (PNB 2010). Technology is an important factor for PNB realizing this vision because the bank considers technology as a key factor to offer better customer service. As a result, PNB implemented core banking solutions (CBS)[3] in

[3] Core Banking Solutions are software applications used in banking to exploit new opportunities emerging from improvements in information technologies.

all branches "providing 'Anytime Anywhere' banking facility to all customers" (PNB 2010). Moreover CBS improves operations, reduces costs, and increases efficiency. To sum up, PNB focuses on modern technology to improve its customer service and to meet upcoming challenges.

4 Analysis

4.1 Analysis of Home Market Conditions – Porter's Diamond

In this chapter, the home market conditions of China's and India's banking industry are determined in order to name similarities and differences among the two industries and to identify competitive advantages respectively disadvantages of each industry in comparison to the other. Five attributes of Porter's Diamond are taken into consideration for the analysis: Factor Conditions, Demand Conditions, Related and Supporting Industries, Firm Strategy, Structure, and Rivalry, as well as Government. The attribute Chance has not been analyzed since the identification of chance events and estimating their effects is too extensive for this study.[4]

4.1.1 Home Market Conditions of China's Banking Industry

4.1.1.1 Factor Conditions of China's Banking Industry

In order to gain competitive advantages in the banking industry, human and knowledge resources as well as telecommunication infrastructure play a major role. Basic factors such as natural resources are of minor importance since banks are part of the service sector.

Although working time is categorized as basic factor it is still important for the banking industry. MNBs cannot move all their offices to low-income countries since many services have to be provided in situ. According to a study by Xiangquan Zeng, Liang Lu and Sa'ad Umar Idris (2005: 10), one of the few systematic analyses of working time in China, weekly working hours in China were 44.6 hours on average. "This result indicates that the working hours of mainland urban employees basically meet the 44 working hours stipulated under the Labour Law", but surpass the 40 working hours standard specified in

[4] Potential chance events could be the accession to the World Trade Organization (WTO) of China and India, worldwide decreasing transportation and communication costs, or favorable exchange rates for Chinese exporters.

1995 in the Decision of the State Council on Revising the Regulations of the State Council on Employee Working Hours (Zeng et al. 2005: 10).

The overall technological infrastructure in China's banking industry is outdated. Frequently, customers are restricted to use the branch in which they opened their account for any transaction. Corrective actions of Chinese banks focus predominantly on improving services for customers (e-execute 2010). Investments are estimated to reach USD 11.3 billion by 2011 (Celent 2009). However, not the whole industry lacks modern technology. The largest banks, including BOC, ICBC, and CCB have mature IT infrastructure by now (e-execute 2010). That is why there are significant disparities between Chinese banks. Large state-owned commercial banks and joint-stock banks have the most state-of-the-art systems. City commercial banks, policy banks, and postal savings banks have relatively weak IT systems. Last in line are rural banks and credit cooperatives which have underdeveloped systems (Celent 2009). Nevertheless, modern telecommunication infrastructure is available in China to conduct modern banking activities. In addition, this infrastructure is used by more and more people. By the end of 2007 China had 900 million phone users and 210 million internet users of whose 65.6 million accessed the internet through broadband (China Knowledge 2008).

Chinese research performance has experienced the strongest growth over the past 30 years of any country. According to Jonathan Adams, research evaluation director at Thomson Reuters, China conducts the second most research in the world, behind the USA. Although the quality is mixed, it is improving due to incentives promoting the quality of research. Major investments by the government, a fluent exchange between research institutes and commercial applications, and the inclusion of China's huge academic diaspora[5] in North America and Europe are driving Chinese research (Cookson 2010).

China is establishing a large and differentiated higher education system, "providing access to large numbers of students at the bottom of the academic system while at the same time building some research-based universities that are able to compete with the world's best institutions." (Altbach 2005: 244) On the one hand, the Chinese government implemented several market orientated reforms to improve the system and institutions.

[5] The term diasopra originally referred to Jews living outside Israel. Today it is used more generally for the dispersion of any people from their original homeland (Oxford Dictionaries 2011). In this sense the term diaspora is used in this work.

On the other hand, it launched specific funding programs to support some institutions to become world-class universities (Li 2010: 278). Even though China educates only 15% of its young population in higher education, it has the largest higher education sector by student numbers in the world due to its huge population (Altbach 2005: 245). Nevertheless, China's higher education sector has to face three major challenges. First, unequal opportunities between urban and rural areas need to be settled. Second, the unemployment of university graduates needs to be addressed. Third, the quality of higher education needs to be improved (Brandenburg and Zhu 2007: 41).

Concluding, the usage of modern technology and modern telecommunication infrastructure is still expanding and not yet state-of-the-art. In contrast, research and higher education are already at a top level and still improving. Therefore, these latter attributes of China's factor conditions advance the competitiveness of China's banking industry.

4.1.1.2 Demand Conditions of China's Banking Industry

The internationalization of Chinese companies is still at an early stage. Only 300 of the top 500 Chinese enterprises have significant international business activities (Deng 2009: 301-304). However, "the acceleration in China's path to becoming a trade power will create vast opportunities for the internationalization of the Chinese banking industry." (Jiang 2011) As of the end of 2009, 13,000 Chinese enterprises had directly invested abroad. These investments amount to assets of more than USD 1 trillion. Moreover, nearly 1 million people are employed at Chinese companies abroad. The internationalization of non-financial Chinese companies raised the overseas demand for corporate finance, investment banking services, and financial intermediaries. As a result, business opportunities for Chinese banks emerge to meet the offshore demand by providing activities such as clearing, credit financing, investment, M&A, cash management, and daily operations (Jiang 2011). Consequently, demand conditions constitute the fundamental conditions for the internationalization of China's banking sector.

A population of more than 1.3 trillion (CIA 2011a), three decades of steady economic growth (Barboza 2010: 1), and increasing wages form an enormous consumer demand (Martin 2011). China's savings rate of almost 50% of its gross domestic product (GDP) is the world's highest (Feldstein 2011) and resulted in massive bank deposits of USD 3.5

trillion, which represent 160% of China's GDP. As a comparison, Japan stands at 145%, the UK at 107%, the US at 77%, and India at 68% (Tarantino 2008: 55). The overall amount held by high-net-worth individuals (HNWIs)[6] in China is estimated to be RMB 9.3 trillion (USD 1.36 trillion)[7] showing the enormous size of China's consumer banking market (KPMG 2010: 9). However, consumer banking is still in an early stage of development in China. Consumer loans just account for 20% of overall loans in 2007 (Kern 2009: 13). Nevertheless, the market size and the steady growth are favorable requirements to develop competitive advantages based on the home demand.

To sum up, the demand conditions of China's banking industry are favorable for the competitive advantage and internationalization of Chinese banks. Whereas the internationalization of non-financial firms drives the internationalization of banks, the huge home demand and savings deposits supply banks with capital for their international operations.

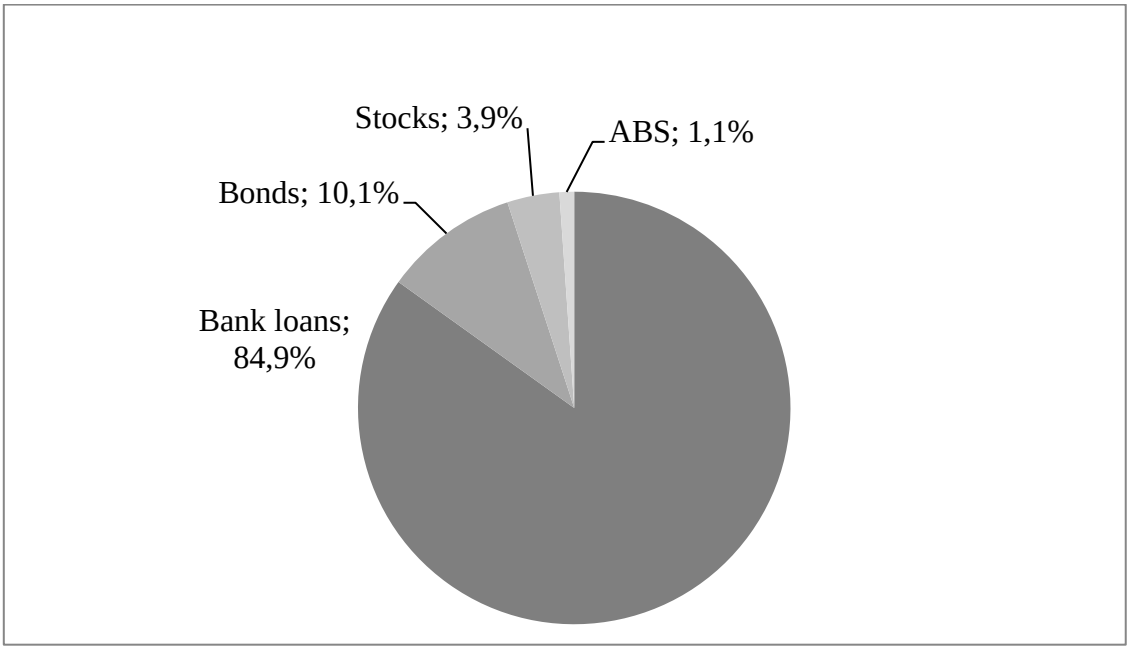
4.1.1.3 Related and Supporting Industries of China's Banking Industry

China's financial market is profoundly dominated by the banking sector. At the end of 2004 the banking sector accounted for 72% of the country's financial stock (Farrell, Lund and Morin 2006: 2). Bank loans account for more than 80% of overall financing of the non-financial sector. Important related industries to the banking sector are the bond market that constitutes up to 10%, the stock market (3.9%), and asset backed securities (ABSs) which finance 1.1% of China's non-financial sector (see Figure 4-1). Kern (2009: 4) interprets this distribution as a signal for the underdevelopment of the capital market with an exception of financial risk concentration in the banking system.

The development of bond markets is usually driven by the government of a country, which issues bonds to finance its budget deficits. That is why China's historically low budget deficit (on average 1.7% of GDP since 1980) obstructed the development of the bond market. Furthermore, complex regulations make financing through bonds less favorable (Fleuriet 2006: 2). In China the bond market is only primarily used by the government to finance its state owned enterprises (SOEs) (Dobson 2007: 4).

[6] HNWIs are defined in China as individuals with RMB 10 million (USD 1.47 million, exchange rate see below) or more worth of investable assets.
[7] Converted according to the exchange rate of the European Commission from September 2010.

Figure 4-1 Finance to China's Non-Financial Sector



Source: Kern 2009: 4

The stock market in China has been dominated by under-subscribed IPOs. The secondary market's liquidity is narrowed and the rigidity of the domestic market has induced Chinese companies to issue on foreign stock markets. In addition, since 2001, the stock market indices decreased almost 50% (Fleuriet 2006: 6-7). This derives from "the fact that most listed shares are those of former SOEs (around 90% of the 1,224 listed companies) which are often not very profitable, while the new, more dynamic private firms hardly make use of equity market financing, mainly relying on their own funds or bank loans." (Fleuriet 2006: 7) The stock market is sparsely dynamic and the banking sector can neither benefit from the stock market nor from other related industries as these are not competitive. Neither possibilities for information exchanges nor technical interchanges are available that could positively affect innovation and competitiveness of the banking sector.

4.1.1.4 Firm Strategy, Structure, and Rivalry of China's Banking Industry

Almost all financial institutions, including all major Chinese banks, are owned by different governmental organizations (Dobson 2007: 3). This has major impacts on the strategy and structure of these companies. The Chinese banks have been initially established to serve different economic sectors and extend loans to reach policy objectives. Since 1994 they have broadened their activities and had come into

competition with each other (Jadhav and Raj 2005: 3). As competition in a country is significant for the competitive advantage, sparse rivalry is a severe disadvantage for China's banking industry. Not even twenty years of competition is a relatively short period of time to develop competitive advantages because the development of competitive advantages is a long term process. Yet, competition has especially intensified in consumer banking as the income is advantageously less cyclical in comparison to corporate banking. For example, mortgage products are seen as a source of solid long-term returns (Kern 2009: 13). Apart from that, foreign banks are participating in the competition even though they are faced with a discriminating regulatory framework (Wei and Wheatley 2010). They are trying to expand their market share, which has kept fee charges low since Chinese banks try to hold their position (Kern 2009: 14). Nevertheless, rivalry is not yet strong enough to have a positive effect on China's competitiveness.

In addition, the structure of banks decreases their competitiveness. Chinese banks are not managed by professional bankers but by government officials who aim not only at economic goals (Zdenek 2007: 5). "As long as Big Four managers perceive themselves as policy makers rather than bankers, they will not make loans according to commercial criteria, but according to political signals emanating from the State Council." (Shih et al. 2007: 30) Many loans are directed to sectors important for the government that objectives are to generate growth and jobs. Therefore, high amounts of non-performing loans (NPLs) had been built up (Shih et al. 2007: 15) which have negative impacts on the banks profitability. Therefore, Chinese banks cannot be competitive until they focus entirely on economic objectives.

4.1.1.5 Government of China's Banking Industry

The Chinese government does not have a favorable impact on its financial industry's diamond. Besides controlled competition, the regulatory framework requires improvements (Sih et al. 2007: 16). Missing reforms, for example, regarding the implementation of international standards, hinder Chinese banks to be able to compete internationally and impaired competition reduces pressure on banks to innovate and improve their products (Zdenek 2007: 36).

In China banks' profitability is limited through regulations by the government. Net interest margins are very low because of regulated interest rates. This is especially disadvantageous for Chinese banks since net interest income remains the major source of

their revenue (Kern 2009: 12). Non-interest income through fee products such as agency fees or card charges accounts only for 20% of total revenue (Wah et al. 2008: 10).

The government intervenes to a high degree in the market, which leads to unequal conditions for Chinese and foreign banks to compete. Not only foreign banks are faced with discrimination, in some cases even Chinese banks have to face unequal regulations. On the one hand, foreign banks face obstacles as they try to build up or expand operations in China. Such obstacles are, for example, regulations of local banking operations regarding the influence of foreign parents (McMahon 2010), as well as new or more restrictive regulations regarding real estate mortgages, loan-to-deposit ratios or quotas (PwC 2010: 6) On the other hand, Chinese banks are required to maintain a maximum loan to deposit ratio of 60% whereas foreign banks are allowed to have a ratio of 75% (Xu and Lin 2007: 884). Consequently, current regulations do not support competition on China's financial market.

In comparison with reforms in other sectors, reforming the financial sector had not been of high priority (Jadhav and Raj 2005: 15). The implementation of international standards started in 2003 (Zdenek 2007: 36) and the reformation of China's state-owned banking system has only recently been initiated (Lee 2011). The establishment of an adequate legal and regulatory environment for China's banking sector to meet the challenges of today's global economy is still in progress (Sih et al. 2007: 16). Therefore, past negligence of financial reforms makes it difficult for Chinese banks to develop international competitiveness.

Furthermore, the Chinese government regularly supports state-owned banks with external financial assistance by bailing out NPLs (Zdenek 2007: 16). These recapitalizations resulted in removing over USD 330 billion in NPLs (Tarantino 2008: 55). Even though these politics improve the banks' balance sheets in the short-term, they hamper innovation and competitiveness in the long-term as these banks are not under pressure to advance their performance.

Due to the global financial crisis the China Banking Regulatory Commission (CBRC) increased supervision of the banking sector "as it seeks to set even tighter regulatory standards for China's banks through increased capital requirements, loan ratios and impairment rules" (KPMG 2010: 2). CBRC is currently establishing a new regulatory framework compliant with that of the WTO. The reforms focus on "(i) the Core

Principles for Effective Banking Supervision, (ii) a combination of Basel I[8] and Basel II[9] capital accords and (iii) international practices in loan loss classification rules" (Zdenek 2007: 6). These measures might have a positive effect on the banking sector as they force banks to improve their performance and to follow international banking practices.

The Antimonopoly Law, China's first comprehensive competition law, was established in August 2008. It deals with monopoly agreements, misuse of dominance and anti-competitive concentrations, for example in case of M&As. Some "provisions, however, fuel concerns that Chinese antitrust may become a complement to Chinese industrial policy; examples include provisions regarding essential facilities and the abuse of intellectual property." (Bush 2010) In addition the regulations do not succeed in elucidating differences between anti-competitive conduct and efficiency-enhancing or pro-competitive behaving. Finally, apart from other concerns, the division of authority raises unease about non-uniform enforcement (Bush 2010). To conclude, improvements in antitrust law in China would boost competition and contribute to the development of Chinese banks to international competitive companies.

4.1.2 Home Market Conditions of India's Banking Industry

4.1.2.1 Factor Conditions of India's Banking Industry

India's economy records high GDP growth over the past years and GDP is still expanding more than 8% per year. Major drivers are the service industry and high technology manufacturing sectors (Page et al. 2007: 3). "Yet, as with any emerging economy, 21st-century corporations and aspirational urban consumers co-exist with an older, under-developed India that cannot be transformed overnight." (Page et al. 2007: 3) India lacks infrastructure such as roads or telecommunications and businesses might be faced with major bureaucracy and complex tax structures (Page et al. 2007: 3). Accordingly, factor conditions can have diverse characteristics.

In India a 48-hour week was set up through the Factories Act 1948. Today only factory workers have on average a six-day week of 43-48 hours. Office employees like professionals of the financial industry have a five-day week of 37-38 hours on average.

[8] The Basel I set concentrates on minimal capital requirements for banks to limit risks and hence losses in case a bank falls into insolvency (Deutsche Bundesbank 2007).
[9] The Basel II framework addresses internationally active banks and is designed to preserve the integrity of capital in MNBs by eliminating double gearing (BIS 2006: 7).

According to the India Pakistan Trade Union (2010) any work beyond nine hours a day is usually counted as overtime and paid double normal wage.

Even though India is one of the world leaders in information technology, its application by the banking sector is restrained. Advantages of the state-of-the-art expertise are not fully exploited. Technological intensity of banking in India is not as high as in developed economies. Despite India's position as world leader in information technology, no competitive advantages have been developed for the Indian banking industry (Singh 2007: 178).

India's research performance is impaired by four major factors. First, red tape ties up the universities. Second, Indian universities lack international outlook. Third, returning NRIs go mainly into business instead of research, because of poor performance of Indian universities in comparison to international standards. Fourth, the connection between research institutes and companies is badly organized (Cookson 2010). Therefore, India's research performance cannot result in competitive advantages.

Finally, India cannot obtain competitive advantages through a highly educated workforce. "[S]ystematic disinvestment in higher education in recent years has yielded neither world-class research nor very many highly trained scholars, scientists, or managers to sustain high-tech development." (Altbach 2005: 244) Major industrialized countries educate more than half of its young people in higher education, India only 10%. Furthermore, politics have begun to affect academic appointments and decisions on various levels. Additionally, the quality of education diminishes because of under-investments in libraries, laboratories, classrooms, and information technology. Despite these weaknesses, India's education sector has four major strengths. First, it is the third largest in the world, after China and the USA. Second, English is used as primary language. Third, India's education sector has a long academic tradition and fourth, the academic freedom is respected. However, these strengths cannot outweigh the weaknesses (Altbach 2005: 244-245).

4.1.2.2 Demand Conditions of India's Banking Industry

Demand conditions are increasingly favorable for the banking industry in India. Due to India's economic growth, the middle class already exceeds 400 million people (Page et al. 2007: 3). From 2005 to 2006, deposits rose by 18% and bank credit grew by 30%. Since only less than half of Indian households have a bank account, there is still more potential

for growth. Retail lending is the fastest growing segment, albeit corporate lending is still the leading sector. Moreover, "opportunities for developing business outside the main urban areas are likely to open up as living standards and consumer demand increase." (Page et al. 2007: 4) As over 90% of Indian banks' branches are located in the rural area, this will allow banks to use their branch network more effectively and raise overall profitability (Page et al. 2007: 4).

Above all, the demographic factors are advantageous to India's consumer market. India's relative young population leads to high spending since young people rather tend to spend their money than to save it. 69% of India's population is under 35 years old. Accordingly, demand for consumer credits is booming. Consumer credit is increasing by more than 40% year-on-year but still accounts for just circa 30% of GDP which is quite low in contrast to other Asian markets. For example in Singapore, Taiwan and Malaysia consumer credit/GDP is more than 100% (Page et al. 2007: 3-4). Nevertheless, India has a high savings rate of over 30% providing huge amounts of capital for investments (Basu 2007).

Finally, the state and central government budget deficit has a negative impact on the demand conditions of India's diamond. As the overall government deficit accounts for 9% of GDP, it binds more than a third of overall banking resources to serve this debt. This again obstructs banks from commercial lending or other business opportunities which are more profitable (Page et al. 2007: 3).

If Indian banks succeed in developing business in the rural area and demand for consumer credits keep rising, demand conditions for the Indian banking industry will lead to competitive advantages. Because of the young population the consumer credit segment could develop to a large or highly visible share of home demand. In this case, Indian banks would gain more experience and would be able to specialize its operations (Porter 1990b: 87). Therefore, demand conditions in India have the potential to create competitive advantages in the future but this still needs time to develop.

4.1.2.3 Related and Supporting Industries of India's Banking Industry

The conditions of related industries in India are ambiguous. Albeit the equity market has developed efficiently, development of the government and corporate bond market lacks behind. The equity market to GDP ratio accounts for 108% (Wells and Schou-Zibell 2008: 3) and as much as 70% of the Bombay Stock Exchange market capitalization

comes up by private firms and joint ventures (Dobson 2007: 4). This makes the equity market a valid alternative to raise capital.

In contrast, the bond market only amount to 40% of GDP. Whereas, in March 2008 36.1% of GDP was accounted for by government bonds and only 3.9% was represented by corporate bonds (Wells and Schou-Zibell 2008: 3). Moreover, the bond market is "far from perfect" (Ghosh 2003: 5). For example, limited infrastructure to obtain detailed information about corporations results in discrimination between financial intermediaries (i.e., banks and DFIs) and individual corporate houses. The latter face limits regarding raising money whereas the former do not (Ghosh 2003: 5). In addition, the Indian bond market remains largely illiquid leaving space for improvements (Wells and Schou-Zibell 2008: 6)

India's financial market is bank-dominated (Wells and Schou-Zibell 2008: 4). Share of banking assets in total financial sector assets is around 75%, implying predominance of the banking sector in India's financial market. As this will at least last in the medium-term, the small choice of financial intermediation has a negative impact on the competition and stability of the financial market (Singh 2007: 175).

Finally, supervision of capital markets is more efficient than of the banking industry. "India's numerous state, urban, and district cooperative banks and nonbank finance companies are subject to multiple overseers including […] RBI [Reserve Bank of India], which […] creates opportunities for regulatory arbitrage[10]." (Dobson 2007: 5) Contrary, India's capital market oversight gets constantly good scores by international surveys not at least because of clear scopes (Dobson 2007: 5).

Despite the major imperfections at the bond market, the banking industry can benefit from a well-developed equity and capital market supervision. Chances for information flow or technical interchange might arise that would affect the innovation and competitiveness of banks positively (Porter 1990b: 106).

4.1.2.4 Firm Strategy, Structure, and Rivalry of India's Banking Industry

The Indian government owns several banks that together hold almost three-quarters of the country's banking assets. Among these banks is the State Bank of India which is by far

[10] Regulatory arbitrage describes a method of companies exploiting loopholes in regulatory systems in order to evade certain types of regulation (Financial Times 2011).

the biggest Indian bank (Page et al. 2007: 4). However, the government "encouraged state-run banks to diversify ownership by inducting private share capital through public offerings" (Jadhav and Raj 2005: 10). This course of action led to several advantages such as increased transparency or improved market discipline (Jadhav and Raj 2005: 10). In addition, the emergence of private players and growing private shareholding has positively affected competition (Chakrabarty 2009: 1492).

The government directs banks to finance priority sectors such as agriculture, small-scale industries or housing (Dobson 2007: 13). Financing priority sectors leads to rising NPLs and prevents banks from conducting more profitable businesses (Shih et al. 2007: 15). Since the government only has to intervene in the financing process because banks would not finance these sectors on their own choice, the priority sectors have to be more risky or less profitable. Low levels of profit efficiency have also been identified by Abhiman Das and Saibal Ghosh (2009: 509). They found out that a major part of outlay costs is caused by inefficient allocation of capital. These interventions by the government have negative impacts on the performance of banks. As long as this is the case, the strategy of banks cannot be an attribute supporting competitive advantages.

Regulations of the RBI form obstacles to foreign bank entry. The RBI determines foreign investments by deciding on the locations where foreign banks are allowed to settle or open new branches (Page et al. 2007: 5). Accordingly, the RBI constraints competition on India's financial market. On the other hand, Indian banks have to face competition with DFIs which are important financial intermediaries in India. They are increasingly getting into competition regarding mobilization and deployment of funds. In this context, the development of the bond market plays a major role. Rising corporate access and direct resources to the bond market trims down dependence of institutional credit and would further strengthen rivalry on India's financial markets (Ghosh 2003: 15).

Finally, unfavorable for the Indian banking industry is the high prestige of the information technology industry. As the best talents of a country are likely to work in the most reputable industry, the banking industry suffers under the highly esteemed IT industry. Young talents in India mostly choose to become engineers, implying that these talents are not available for the banking industry (Kazim 2008). Therefore the popular Indian IT industry has a negative impact on the international competitiveness of the banking industry.

4.1.2.5 Government of India's Banking Industry

After India's balance of payment crisis in 1991 (Dobson 2007: 3), the Indian government has launched significant financial deregulation measures during the 1990s with the objectives to improve efficiency, productivity, and profitability (Das and Ghosh 2009: 510; Tharoor 2011). These financial reforms "have strengthened the health of financial intermediaries, deepened financial markets and enhanced the instruments available in the financial system." (Das and Gosh 2009: 527) According to a study by Narendra Jadhav and Janak Raj (2005: 14), the Indian financial system is today well developed. Financial reforms resulted in major improvements of the banking industry which again made the whole financial system in India relatively stable and efficient. Furthermore, significant changes in the capital market transformed it into an internationally comparable one.

The good condition of India's banking system has also been confirmed by the Committee on Financial Sector Assessment[11]:

> "Commercial banks have shown a healthy growth rate and an improvement in performance as is evident from capital adequacy, asset quality, earnings and efficiency indicators. In spite of some reversals during the financial year 2008-09, the key financial indicators of the banking system do not throw up any major concern or vulnerability and the system remains resilient." (Chakrabarty 2009: 1493)

Even though the government owns several banks and directs them to finance specific sectors, the government is able to maintain a balance between political and economic objectives. However, this does not mean that government has a favorable impact on the banking industry to develop competitive advantages.

In 2009 the enforcement of a new antitrust law established effective instruments to oppose anti-competitive agreements and abuses of dominant positions (Competition Commission of India 2009: 1). This law was inspired by long-standing enforcement records, such as European Union or United States competition law and is a modern law to assert prohibition of anticompetitive agreements, prohibition of abuse of dominance and merger regulation (Söderlind et al. 2009: 1). However, "[t]he provisions relating to anti-competitive agreements do not apply to agreements relating to protection of intellectual

[11] The Committee on Financial Sector Assessment was established by the government of India and the RBI to evaluate the stability of India's financial sector and to guarantee comparability with international standards (Banknet India 2009).

property rights or agreements for export of goods." (Chitale 2010) That is why the competition law in India boosts competition in some sectors but fails in others.

4.2 Analysis of Timing Strategies

In this chapter, entry dates of Chinese and Indian banks into foreign markets are analyzed. These dates of entry are sequenced chronologically to identify either a gradual expansion or simultaneous entries and to classify the strategies of Chinese and Indian banks into the waterfall, sprinkler, or combined waterfall-sprinkler strategy. Furthermore, the time frame of international operations is examined to make out the speed and starting points of the banks internationalization.

4.2.1 Timing Strategy of BOC

Bank of China exerts a clear waterfall strategy. Since 1917 the bank has been gradually expanded its international presence (see Table 4-1). The first foreign markets entered were the markets of Hong Kong and the UK. Since Hong Kong, as a British colony in 1917, facilitated trade, consisting agricultural and manufactured products, between China and the UK, trade relations between China, Hong Kong, and the UK developed (Ping and Chong 2011: 1). Therefore, BOC launched a branch in Hong Kong and London to support businesses with financial facilities (Liu, X. 2010). In the 1930s BOC extended its operation to Singapore. After this period of expansion, the internationalization process stagnated until the late 1970s, when BOC entered Luxembourg, Japan, and the US market. In the late 1990s BOC established its first office on the African continent, in Zambia. At the beginning of the 21st century, BOC stepwise opened further offices in the Middle East and South America. This clearly shows the gradual market presence enhancement.

Today BOC has offices all over the world. Yet in comparison to its international competitors like Citigroup, HSBC or Deutsche Bank, the international presence of BOC is inferior (Kamp 2011). It took the company about 50 years to establish its international presence. It has been more than 80 years since BOC's first overseas office. However, during this period BOC stopped its international expansion for more than three decades, which is possible in case a company pursues the waterfall strategy as elucidated under Chapter 2.3.1. Thus, BOC will still need several years to be as internationally present as the global leaders if the bank maintains its waterfall strategy.

Table 4-1 Internationalization Process of BOC

Year	Country
1917	Hong Kong
1929	UK
1936	Singapore
1979	Luxembourg
1980	Japan
1981	US
1985	Australia
1986	France
1993	Russia
1994	Thailand
1995	Vietnam
1997	Zambia
1998	Italy
2000	South Africa
2001	Malaysia
2002	Philippines
2003	Indonesia, Hungary
2004	Bahrain
2009	Brazil
2011	Cambodia

Source: Author's compilation; based on China Briefing 2008; BOC (UK) Ltd. n.d.; BOC 2007a, 2007b, 2008a, 2008b, 2009; BOC (Paris) 2008; BOC (Malaysia) Berhad 2011; BOC (Russia) 2011; BOC (Johannesburg) 2010; People's Daily Online 2002; AfDevInfo 2008; MOFCOM 2007; Macauhub 2009; Shanghai Stock Information Service Corp. 2010; BOC n.d. a, n.d. b, n.d. c, n.d. e; Ebeling 2011

4.2.2 Timing Strategy of ICBC

ICBC makes use of the combined waterfall-sprinkler strategy, consisting of an initial waterfall strategy and a shift towards the sprinkler strategy. In the first years of ICBC's internationalization process, the bank pursued the waterfall strategy to gain first experiences in foreign markets. After that ICBC accelerated its internationalization process and entered several markets within a short time.

As illustrated in Table 4-2, ICBC opened its first overseas branches in Singapore and Kazakhstan in 1993 before opening a representative office in the UK two years later. Five years later, ICBC entered the Japanese, Korean, and US market, followed by Germany and Luxembourg in 1999, Hong Kong in 2001, and Russia in 2003. This gradual expansion of international presence shows the application of the waterfall strategy. After

entering ten foreign markets from 1993 to 2003, ICBC speeded up its internationalization efforts and enhanced its international presence to 13 new countries in the following four years. Since the market entries are not perfectly simultaneous and further market entries, for example in Brazil, are being planned (Marceliano and Cao 2011), this is no clear sprinkler strategy. Nevertheless, a shift in strategy is obvious because of the simultaneous entry of up to five countries a year and the short time frame within which the expansions have taken place.

Table 4-2 Internationalization Process of ICBC

Year	Country
1993	Singapore, Kazakhstan
1995	UK
1997	Japan, Korea, US
1999	Germany, Luxembourg
2001	Hong Kong
2003	Russia
2008	Australia, Qatar, UAE
2009	Vietnam
2010	Canada, Thailand, Malaysia
2011	Italy, Belgium, Netherlands, France, Spain, Pakistan

Source: Author's compilation; based on ICBC 2005, 2007b, 2008a, 2008b, 2010b, 2010c, 2011c; ICBC n.d. a, n.d. b, n.d. c, n.d. d, n.d. e, n.d. f, n.d. g, n.d. h, n.d. i, n.d. j, n.d. k

As Chairman Jiang Jiangqing aspires to triple the share of profits generated abroad to 10%, a change in the market entry strategy had been necessary (Marceliano and Cao 2011). The incremental expansion of the waterfall strategy is not suitable for such ambitious aims. In addition, using the combined waterfall-sprinkler strategy gives ICBC the opportunity to catch up with BOC, which started its internationalization process much earlier and is therefore by far the most internationalized Chinese bank (Kamp 2011).

4.2.3 Timing Strategy of CCB

CCB is in an early stage of internationalization. It opened its first overseas office in the UK in 1991. After that the bank gradually enhanced its international presence by entering new foreign markets. In 1995 CCB entered its second foreign market, Hong Kong. In 1997 CCB entered the market of the US, in 1998 the market of Singapore, and in 1999 the German market followed by entering the South African market in 2000. Next, CCB widened its presence in Asia by entering Japan in 2003, Korea in 2004, and Australia in 2007. Two years later CCB established its first office in Vietnam. Just recently, CCB

opened two new representative offices; one in Moscow in 2010 and one in Taipei in 2011 (see Table 4-3).

Table 4-3 Internationalization Process of CCB

Year	Country
1991	UK
1995	Hong Kong
1997	US
1998	Singapore
1999	Germany
2000	South Africa
2003	Japan
2004	Korea
2007	Australia
2009	Vietnam
2010	Russia
2011	Taiwan

Source: Author's compilation; based on CCB (Johannesburg) 2003; CCB (Frankfurt) n.d.; CCB n.d. a, n.d. b, n.d. c, n.d. d, n.d. e, n.d. f, n.d. g, n.d. h, n.d. i, n.d. j

This stepwise expansion reflects the waterfall strategy. With this strategy, CCB has a temporal shifted need of resources and the coordination of market entries is simplified since the bank has more time to make decisions and is able to adjust its plans to changing market conditions. Furthermore, the acceptance of governments and customer in other markets should have risen after the successful market entry of CCB in the markets of the UK, Hong Kong, US, and Singapore, as these markets are counted among the biggest and most important markets in the world (Bespoke Investment Group 2011).

However, the speed of the internationalization process is much slower in comparison to the sprinkler or the combined waterfall-sprinkler strategy. For example, ICBC started its internationalization process two years later than CCB, yet ICBC is today present in almost twice as many foreign markets than CCB. The opportunity to learn from gained experience due to a gradual expansion comes along with the drawback that market share and profits cannot be realized in not yet entered foreign markets.

4.2.4 Timing Strategy of SBI

SBI pursues a combined waterfall-sprinkler strategy. As illustrated in Table 4-4 SBI started its internationalization in 1955 by entering the market of Sri Lanka. This initial

step of internationalization, however, was the first and last one for the next years. Therefore, the proper starting point of SBI's internationalization process can be set in 1974 when SBI entered the Maldivian and German market. Since then SBI continues to expand its international presence. Even though, there is sometimes a period of several years until the next market entry, no further major interruption of the internationalization process has been identified.

Table 4-4 Internationalization Process of SBI[12]

Year	Country
1955	Sri Lanka
1974	Maldives, Germany
1975	Bangladesh
1977	Bahrain, Singapore
1978	Japan, Hong Kong
1982	Canada, US
1983	Belgium
1990	Mauritius
1992	Nepal
1993	Uzbekistan
1997	China, South Africa
1998	Australia
2004	Oman
2005	Angola
2006	Indonesia, Turkey
2007	Israel, UAE
2008	Saudi Arabia

Source: Author's compilation; based on SBI (Canada) 2011; SBI (Bahrain) n.d.; Bank SBI Indonesia 2009; Nepal SBI Bank 2011; SBI 2010a, 2010b; SBI (Hong Kong) n.d.; SBI (California) n.d.; SBI (Sydney) n.d.; SBI (Japan) 2011; SBI (Singapore) 2011; The Times of India 2007; SBI (Colombo) 2003; The Peninsula News Paper 2004; SBI (DIFC) 2008; SBI (Frankfurt) n.d.; SBI (Antwerp) 2010; Embassy of India, Luanda – Angola 2009; SBI (Shanghai) 2006; The Financial Express 2003; SBI n.d.; moneycontrol.com n.d.; Global Investment House KSCC 2007; The Financial Express 2008

After entering the Maldivian and German market, SBI expanded to Bangladesh in 1975. Two years later SBI widened its international presence to Bahrain and Singapore, followed by entering the Japanese market and the market of Hong Kong. In 1982 SBI entered the North American market establishing offices in the US and Canada. In that

[12] The table does not contain data of every single foreign market entry of SBI since some data was not freely accessible. Nevertheless, the present data is adequate to identify the timing strategy of SBI.

time SBI refrains from the gradual expansion postulated by the waterfall strategy and entered mainly two instead of one foreign market at a time. Nevertheless, this is no clear sprinkler strategy; it is rather a combined waterfall-sprinkler strategy.

After this relatively fast expansion, SBI slowed down its internationalization process focusing on entering one country at a time. Belgium was entered in 1983, Mauritius in 1990, and Nepal in 1992. The first office on the African continent was established in South Africa in 1997. In the same year SBI opened its first representative office in China. Australia's market was entered in 1998 followed by Oman's market in 2004 and Angola's market in 2005. This period reflects the waterfall strategy.

Finally, SBI entered the overseas markets of Indonesia and Turkey in 2006 and the markets of Israel and UAE in 2007. In these two years, an acceleration of SBI's internationalization strategy is identified like in the 1970s and early 1980s implying a shift in the timing strategy from the waterfall strategy to the combined waterfall-sprinkler strategy.

Consequently, SBI utilized the advantages of the combined waterfall-sprinkler strategy. After an initial attempt to start the internationalization process in 1955, the bank stopped the international expansion for almost 20 years and then started it again. In the first following 10 years, the process was relatively fast, while slowing down after 1982 until 2006 when the internationalization process of SBI sped up again. Pursuing this strategy has enabled SBI to establish a far reaching international presence. Nevertheless, SBI is planning to further expand its scope of operations, for example, to Latin America (Khanna 2010).

4.2.5 Timing Strategy of ICICI

ICICI is a new and relatively inexperienced player at the international banking market in comparison to SBI. ICICI started its internationalization process in 2002 by establishing an office in Russia. After that, the bank conducted a major expansion into the economically most significant regions of the world in 2003. ICICI entered the Southeast Asian market, the European market, the North American market, the Northeast Asian market as well as the market of the Middle East. Bangladesh, Hong Kong, South Africa, and Sri Lanka have been entered in the following three years, before a second major expansion took place in 2007. ICICI enhanced its presence in Southeast Asia and the Middle East by entering the markets of Thailand, Indonesia, Malaysia, Bahrain, and

Qatar. The bank continued its internationalization process by entering Germany and the US in 2008 (as shown in Table 4-5).

Table 4-5 Internationalization Process of ICICI

Year	Country
2002	Russia
2003	Singapore, UK, Canada, China, UAE
2004	Bangladesh
2005	Hong Kong, South Africa
2006	Sri Lanka
2007	Bahrain, Qatar, Thailand, Indonesia, Malaysia
2008	US, Germany

Source: Author's compilation; based on ICICI Bank 2004; ICICI Bank (Singapore) 2011; ICICI Bank (Bahrain) 2011; ICICI Bank (Hong Kong) 2011; ICICI Bank (Canada) 2011; ICICI Bank UK PLC 2011; ICICI Bank n.d.; moneycontrol.com 2007; The Economic Times 2005; ICICI Bank (Sri Lanka) 2010

This internationalization process reveals a combined waterfall-sprinkler strategy. ICICI performed its internationalization with the waterfall strategy, despite 2003 and 2007 when the bank entered several countries simultaneously. Adopting this strategy, ICICI was able to build up an international presence within a short time. It entered 17 countries in just seven years.

4.2.6 Timing Strategy of PNB

Like ICICI, PNB is a new player in the international banking business. PNB's first overseas office was established in Kazakhstan in 1998. Six years later, PNB enhanced its international presence to China and Afghanistan. In 2005 the market of UAE was entered, followed by the UK and Hong Kong in 2007. The last widening of PNB's international presence was conducted in 2009 by entering the Norwegian market (see Table 4-6).

The data shows that PNB utilizes the waterfall strategy. As this strategy allows only a slow internationalization, PNB is only present in seven countries after an internationalization process of more than ten years. Even though the entry in some countries overleaps with the entry of others, this cannot be seen as a shift towards the sprinkler strategy since there is no significant acceleration of the internationalization process.

Table 4-6 Internationalization Process of PNB

Year	Country
1998	Kazakhstan
2004	China, Afghanistan
2005	UAE
2007	UK, Hong Kong
2009	Norway

Source: Author's compilation; based on Kumar 2004; PNB (Dubai) 2008; PNB (Hong Kong) 2008; PNB (International) n.d.; The Indian Express 2010; The Economic Times 2004; Ministry of External Affairs, Government of India 2011

When comparing the internationalization process of PNB and ICICI the differences between the waterfall strategy and the combined waterfall-sprinkler strategy become clear. PNB started its internationalization in 1998 and entered seven countries until 2009. ICICI in contrast began in 2002 to establish an international presence and entered 17 countries until 2008. To highlight the difference, ICICI was able to enter more than twice as many countries as PNB in almost half the time. As a result, after more than ten years of internationalization, PNB built up only a mediocre international presence.

4.3 Analysis of Market Selection

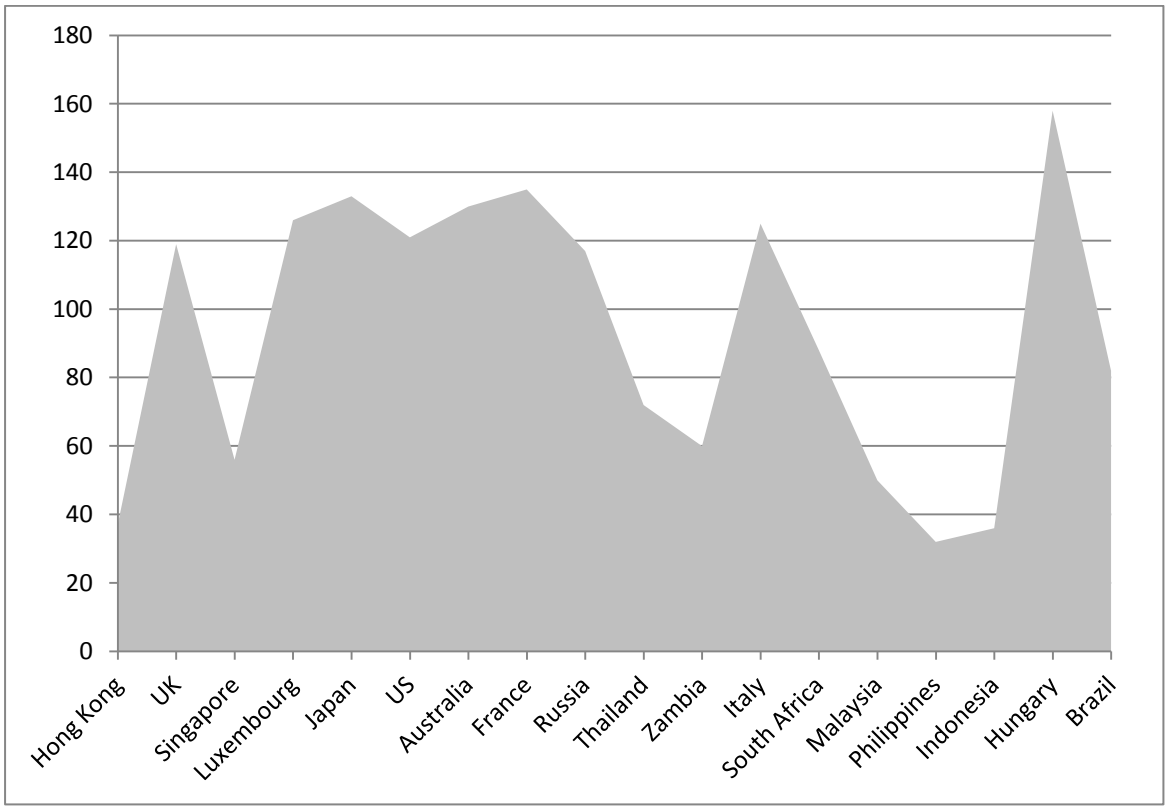
In order to determine the market selection strategies, the psychic distance of countries entered by Chinese or Indian banks has been analyzed. The value of each cultural dimension has been compared to the corresponding value of China's or India's cultural dimension. Then the differences of each cultural dimension between the entered country and the MNB's home country have been aggregated. The resulting values represent the psychic distances between the entered countries and the banks' home countries. These psychic distance values of entered countries have been analyzed whether they are in accordance with the psychic distance chain model. Specific psychic distance values describing whether countries are close or distant have not been defined since the focus of this analysis is to identify whether the banks enter psychically closer countries before they enter psychically more distant ones[13]. The values are always in relation to other entered countries by the analyzed bank.

[13] As it is stated in chapter 2.1, the comparative method is not a method of measurement (Lijphart 1971: 683). Similarly, Giovanni Sartori thinks about measurement when he explains the conscious thinker as "the man who realizes the limitations of not having a thermometer and still manages to say a great deal simply by saying hot and cold, warmer and cooler." (Sartori 1970: 1033)

4.3.1 Market Selection Strategy of BOC

The Bank of China started its internationalization process with entering the market of Hong Kong in 1917, which was a British colony at that time (CIA 2011e). The psychic distance between China and Hong Kong is very low (see Figure 4-2). This expansion is in accordance with the psychic distance chain concept of Johanson and Vahlne, who claim that companies develop their internationalization gradually and start in psychically close markets.

Figure 4-2 Psychic Distance of Countries Entered by BOC



Source: Author's design; based on Hofstede 2009

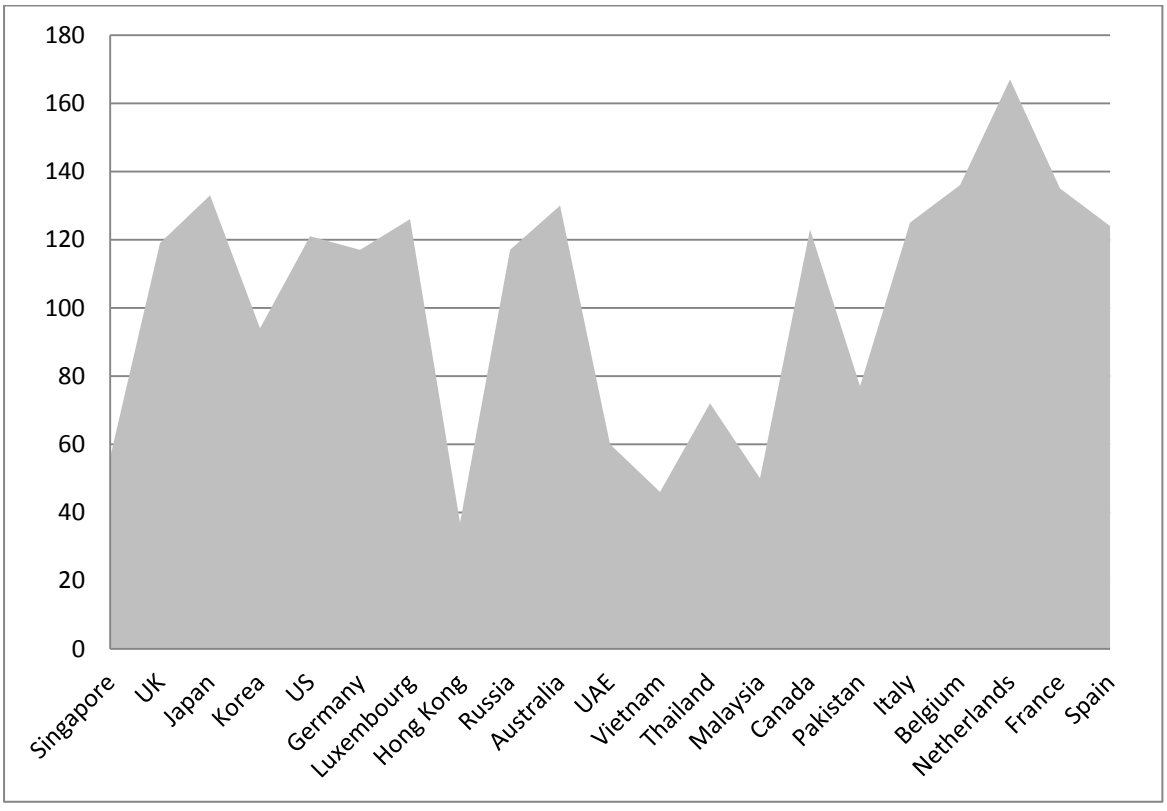
However, the concept cannot be verified since the following market entered by BOC, the UK, was psychically relative distant. It has an aggregated difference of the four cultural dimensions of almost 120 points. Thereafter, BOC entered Singapore, which is again a psychically close market. Further market entries have been accomplished in psychically distant and close markets (see Figure 4-2). For Example, BOC enters the Italian market with a psychic distance of 125 before entering psychically closer countries like Malaysia (50), the Philippines (32), or Indonesia (36).

To sum up, BOC first penetrated a psychically close market as the theory suggested. During further internationalization close as well as distant markets have been entered. The data does not support that BOC first enters psychically close overseas markets before it expands to psychically more distant countries.

4.3.2 Market Selection Strategy of ICBC

Similarly to the internationalization process of BOC, ICBC first went into a psychically close market, namely Singapore, and penetrated subsequently psychically near as well as remote markets (as shown in Figure 4-3). After entering Singapore, ICBC expanded to the UK in 1995 and to Japan in 1997, which both have high psychic distances of 119 points and 133 points respectively, although Japan is a neighboring country. Further examples of an irregular psychic distant chain are the entry of Luxembourg in 1999, which has a psychic distance value of 126 and the penetration of Hong Kong's market with a psychic distance value of only 37 two years later. Moreover, the expansion in 2008 when ICBC went into the Australian market (psychic distance 130) and the market of the UAE (psychic distance 60) shows that there is clearly no gradual progress from psychically close towards psychically remote markets.

Figure 4-3 Psychic Distance of Countries Entered by ICBC



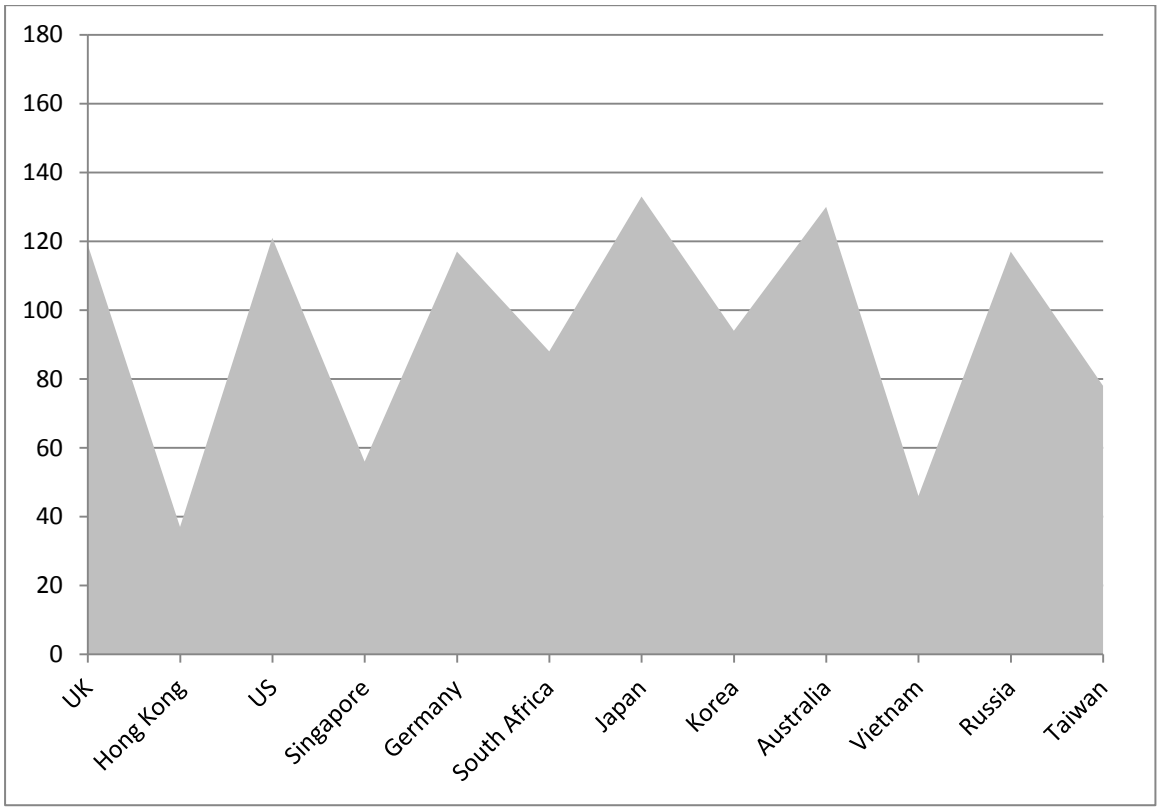
Source: Author's design; based on Hofstede 2009

However, ICBC enhanced its international presence lately to more psychically distant markets than in the early years of its internationalization process. With penetrating five European markets in 2011, ICBC entered psychically relative distant countries. More precisely, none of the five European countries has a psychic distance value under 120.

4.3.3 Market Selection Strategy of CCB

While BOC and ICBC first went into a psychically close country to start their internationalization, CCB entered the market of the UK, which is in comparison relatively distant (psychic distance value: 119). Despite this difference, CCB shows similar internationalization patterns in terms of psychic distance to penetrated markets (as illustrated in Figure 4-4).

Figure 4-4 Psychic Distance of Countries Entered by CCB



Source: Author's design; based on Hofstede 2009

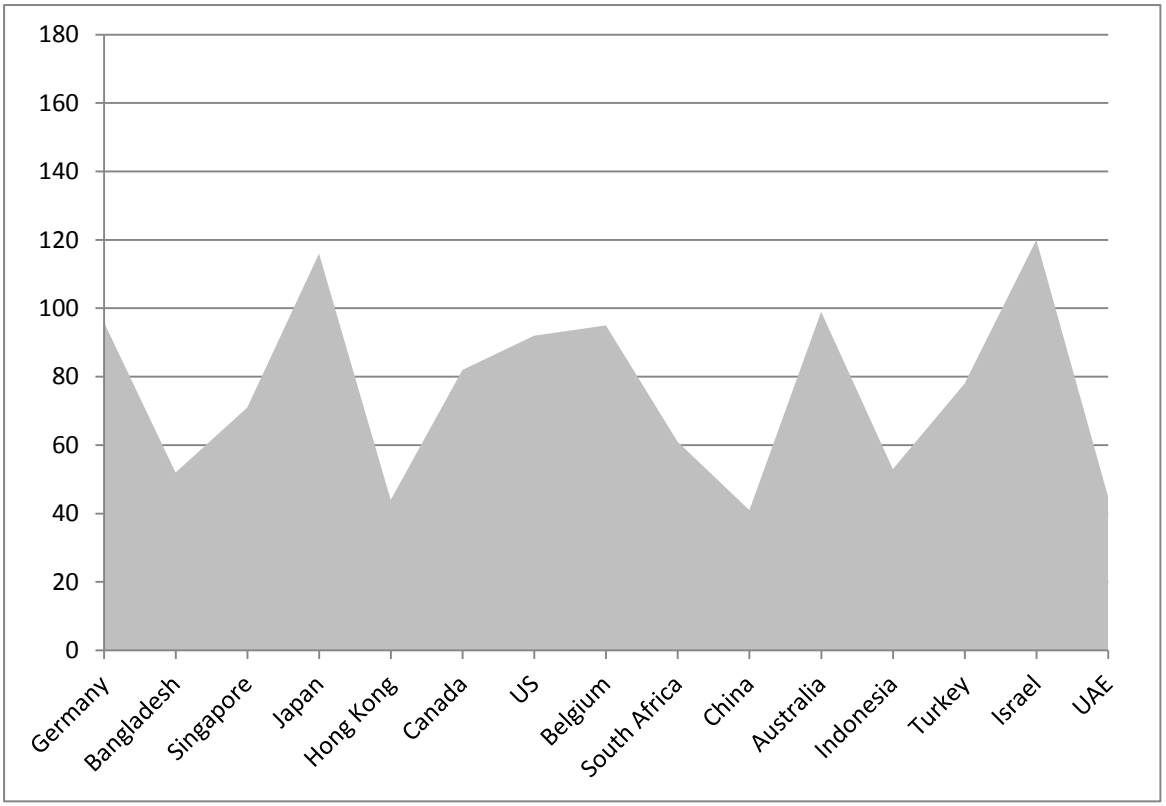
After entering the UK as a psychically relative remote market, CCB expanded to Hong Kong, a psychically near market (psychic distance value: 37). The psychic distance of other penetrated countries reach from 56 to 133. This reveals a wide range of different cultures in the countries and no accordance with the psychic distance chain concept.

4.3.4 Market Selection Strategy of SBI

Analyzing the psychic distance chain of SBI's internationalization revealed some problems because the bank entered several countries of which no data regarding Hofstede's cultural dimensions was available. These countries were Sri Lanka, Maldives, Bahrain, Mauritius, Nepal, Uzbekistan, Oman, and Angola. Nevertheless, existing data revealed some interesting findings.

Most countries penetrated by SBI have a relatively low psychic distance to India. There are only two countries with a psychic distant value above 100, namely Japan and Israel. This can be based on two reasons. Firstly, SBI might not be experienced enough to enter more distant markets. Since SBI can exhibit a long history of internationalization and a broad international presence, this reason seems to be unlikely. Secondly and more probable, SBI might utilize the cultural proximity because lower cultural barriers and easier communication decrease transaction costs. SBI can therefore perform more efficiently in these countries than in more remote markets.

Figure 4-5 Psychic Distance of Countries Entered by SBI



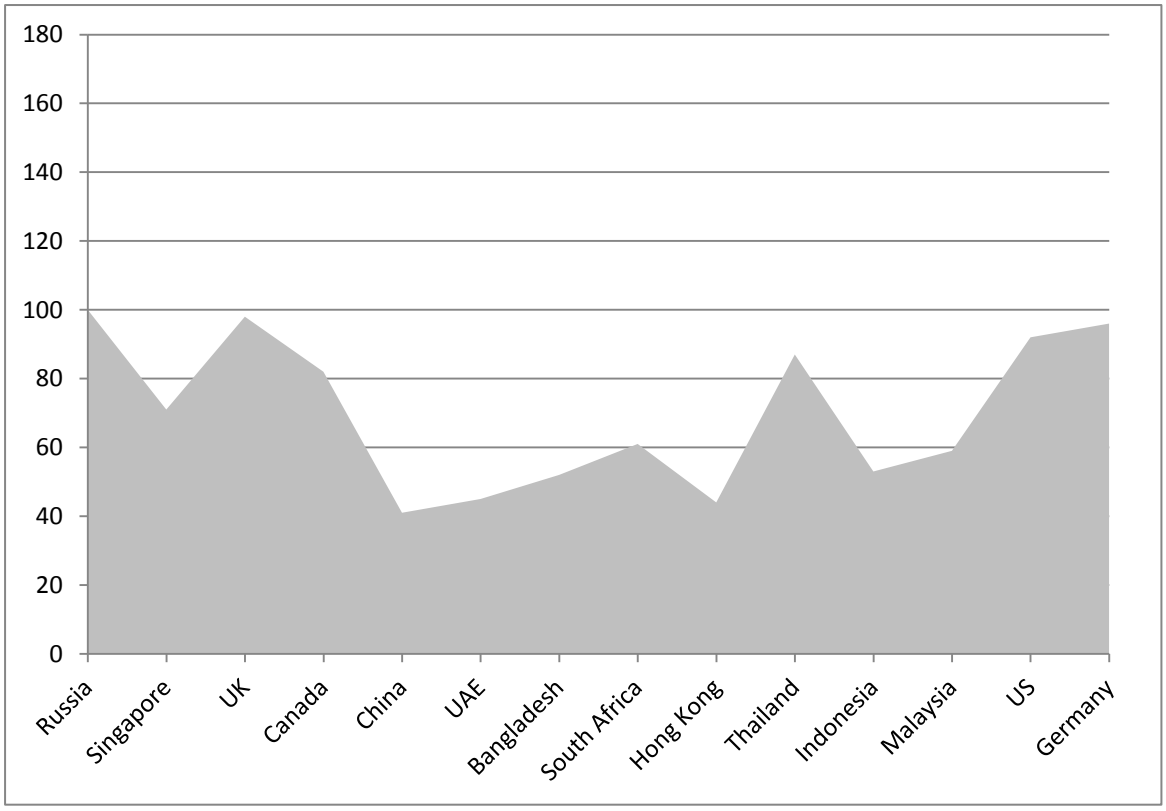
Source: Author's design; based on Hofstede 2009

Furthermore, as illustrated in Figure 4-5, no gradual enhancement of the psychic distance of entered countries can be identified. SBI enters, for example, the markets of Canada, the US, and Belgium before entering South Africa and China even though their psychic distance is lower. Hence the findings by Johanson and Vahlne, who claim that market selection is related to the psychic distance between home and host country, cannot be confirmed by the internationalization process of SBI.

4.3.5 Market Selection Strategy of ICICI

ICICI's internationalization strategy is characterized by entries into psychically relative near countries. Figure 4-6 shows that ICICI is not present in any country with a higher psychic distance than 100. The data reveals that the average psychic distance of the penetrated countries is 70. Interesting is, however, that the most remote country ICICI entered was its first one. The Russian market with a psychic distance of 100 was ICICI's initial overseas market and the bank never entered a country with a higher psychic distance than that.

Figure 4-6 Psychic Distance of Countries Entered by ICICI



Source: Author's design; based on Hofstede 2009

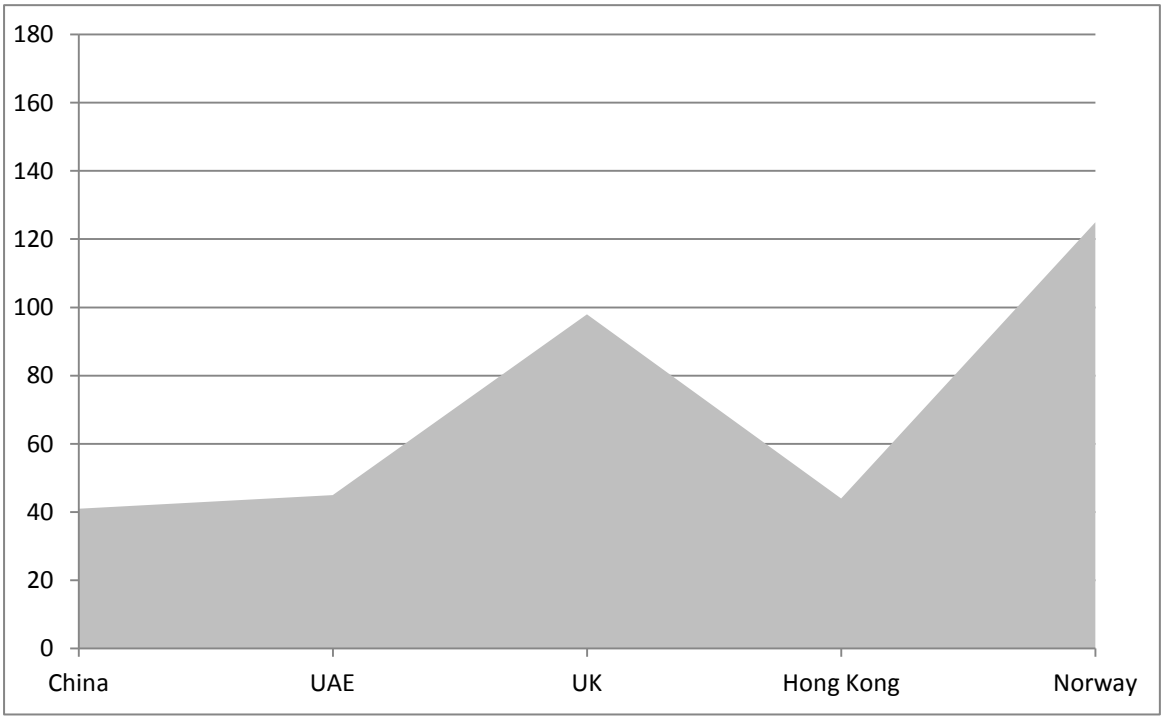
In comparison to other entered countries by ICICI, the bank went into relatively distant ones at the beginning of its internationalization process, for example Russia (100), UK (98), or Canada (82). After this period some quite close countries have been entered. Among them were, for example, China (41), UAE (45), Bangladesh (52) and Indonesia (53). Lately, ICICI went again in more distant markets. In 2008 the bank entered the US (92) and Germany (96), which are almost as distant as the first countries penetrated.

This internationalization pattern again does not confirm the psychic distant chain model. However, the internationalization process of ICICI is guided by the idea that they operate in psychically close markets better since ICICI predominantly entered psychically near markets. The bank takes advantage of relatively low cultural barriers and similar business practices by going into psychically close countries.

4.3.6 Market Selection Strategy of PNB

Making clear statements regarding the psychic distance chain of PNB's internationalization process is difficult since data has been available for only five of the seven entered countries. Nevertheless, the data (see Figure 4-7) has revealed the following results.

Figure 4-7 Psychic Distance of Countries Entered by PNB



Source: Author's design; based on Hofstede 2009

PNB went into relative close markets at the beginning of its internationalization. China and the UAE both have a psychic distance of under 50. In addition, Hong Kong has a psychic distance of under 50 as well. Therefore, three of five penetrated markets are quite close to the Indian culture.

Despite entering just countries with a low psychic distance, PNB also went into more distant markets. Although the UK with a psychic distance of under 100 is still relatively near, Norway with a psychic distance of 125 has clearly different cultural dimension than India. On average, however, PNB entered markets with a psychic distance of 70 which is relatively close. As a result, PNB, similarly to SBI and ICICI, takes advantage of the benefits occurring when entering countries with a low psychic distance.

4.4 Analysis of Reasons behind the Banks' Internationalization

In order to figure out the reasons for the internationalization of Chinese and Indian banks, the entered countries have been analyzed whether they pursue the client following or the market seeking strategy. While GDP per capita and the GDP growth rate of the entered countries serve as indicators for the market seeking strategy, exports and FDIs from China and India to the host countries are used to identify the client following strategy. Because of unavailable data, only countries entered after 1997 have been analyzed. Moreover, FDI outflows from China have not been available before 2003. Therefore, the FDI data of 2003 has been used for the analysis of countries that have been entered by Chinese banks before 2003. Finally, no specific values have been determined for the identification of a strategy. All indicators for the two different strategies are seen in relation to each other, which was necessary to classify the dominating strategy since these two strategies are not entirely exclusive; a client following company, for example, may also have the intention of seeking larger markets (Grönroos 1999: 292).

4.4.1 Reasons behind BOC's Internationalization

Bank of China pursued almost a clear client following strategy in the last ten years. From 2000 to 2009 BOC went into South Africa, Malaysia, Philippines, Indonesia, Bahrain, and Brazil (as illustrated in Table 4-7). The data showed that BOC's reasons to enter these markets were dominated by the client following strategy. With the exception of Bahrain, all these countries were among the 25 major export partners of China in 2009.

Table 4-7 Market Data of Countries entered by BOC

Year		2000	2001	2002	2003	2004	2009
Country		South Africa	Malaysia	Philippines	Indonesia	Bahrain	Brazil
GDP per capita (USD)		3,019	3,903	9,50	1,098	15,787	8,230
GDP Growth Rate (%)	Entry -3 years	2.65	-7.36	3.4	4.92	4.6	3.96
	Entry -2 years	0.52	6.14	5.97	3.64	5.26	6.09
	Entry -1 year	2.36	8.86	1.76	4.5	7.2	5.16
	Entry	4.15	0.52	4.45	4.78	5.6	-0.64
Export from China to host Country (Millions of USD)	Entry -3 years	786	1,594	1,379	3,062	52	7,380
	Entry -2 years	867	1,674	1,464	2,847	58	11,377
	Entry -1 year	861	2,565	1,662	3,427	83	-
	Entry	1,014	3,223	2,042	4,481	121	-
FDI from China to host Country (Millions of USD)	Entry -3 years	-	-	-	-	-	10.09
	Entry -2 years	-	-	-	-	-	51.13
	Entry -1 year	-	-	-	-	0.05	22.38
	Entry	8.86*	1.97*	0.95*	26.8	-	116.3
Major Export Partners		23	9	19	14	>50	15

*: data from 2003

Source: Author's compilation; based on IMF 1990, 1997, 2003, 2008; The World Bank 2011c; MOFCOM et al. 2010; EC 2011a

Bahrain is an outlier among the entered countries. There are no major exports or FDI flows from China to Bahrain. Even though, Bahrain is a relatively small country with a population of just 1,214,705 (CIA 2011c), imports from China (USD 121 million) constitute less than 1.5% of Bahrain's total imports (USD 8,170 million (The World Bank 2011a)) in the year of entry. As Bahrain's GDP per capita at the time of BOC's entry was about USD 16,000 and the country had growth rates between 4.6% and 7.2% over the past three years before entry, Bahrain is a relative wealthy country with a positive economic outlook yet it does not provide larger market scales and access to large

domestic markets. Therefore entering the market of Bahrain is neither in accordance with the client following nor the market seeking strategy.

The other countries do not have high GDP per capita. Brazil's GDP per capita was only half of that of Bahrain. The GDP per capita of the Philippines was in fact under USD 1,000 which was only one fifth of the world average GDP per capita in 2002 (The World Bank 2011b). GDP growth rates in South Africa were on average about 2% in the years before entry, which is relatively low and therefore too weak to support the market seeking strategy. Malaysia had a highly negative rate (-7.36%) three years before BOC entered the market, followed by strong growth (6.14% in 1999 and 8.86% in 2000) and almost no growth (0.52%) at the time BOC entered. Even though the Philippines, Indonesia and Russia had growing markets before BOC entered, low GDP per capita oppose the market seeking strategy.

China had major trade relations with these countries. Even though, no data about FDI flows was available before 2003, high exports from China into these countries support the client following strategy. At the time of entry, exports to South Africa constitute more than USD 1,000 million, to the Philippines over USD 2,000 million, to Malaysia more than USD 3,000 million and to Indonesia almost USD 4,500 million. Moreover, the exports to Brazil were higher than USD 11,000 million in 2007.

To sum up, in the last ten years BOC only penetrated countries with which China has major export relations. This reveals that BOC utilizes the client following strategy, using its international network to minimize risk.

4.4.2 Reasons behind ICBC's Internationalization

ICBC penetrates markets which have high GDP per capita and strong trade relations with China (see Table 4-8 and 4-9). Since all entered countries were among China's major 20 export partners in 2009, the client following strategy might dominate although the data does not clearly support a ruling position of one strategy.

On the one hand, the GDP per capita values of Hong Kong, UK, Australia, UAE, US, Canada, Italy, Belgium, Netherlands, France, and Spain reach from USD 24.000 to USD 58.000 at the time of entry and are all at the top end of the world's highest GDP per capita rates. Even though some of these countries grow meager or even stagnate, their wealth is vast enough to make these countries attractive. Despite a GDP per capita of less than

USD 10,000 in 2007, Russia can be counted to these countries as well since its GDP growth rates ranged from 6.38% to 8.15% in the years before ICBC entered the market.

Table 4-8 Market Data of Countries entered by ICBC (Part 1 of 2)

Year		2001	2003	2007	2008				2009
Country		Hong Kong	UK	Russia	Austra-lia	Qatar	UAE	US	Viet-nam
GDP per capita (USD)		24,811	31,238	9,146	48,498	86,435	58,272	47,208	1,113
GDP Growth Rate (%)	Entry -3 years	-6.03	3.92	7.18	2.84	7.6	8.2	3.06	8.23
	Entry -2 years	2.56	2.46	6.38	3.07	18.6	8.7	2.67	8.46
	Entry -1 year	7.95	2.1	8.15	3.77	26.75	6.1	1.95	6.31
	Entry	0.5	2.81	8.54	3.73	25.48	5.1	0	5.32
Export from China to host Country (Millions of USD)	Entry -3 years	38,782	6,310	9,102	11,065	203	8,733	16,3348	7,468
	Entry -2 years	36,891	6,786	13,211	13,626	437	11,411	203,898	11,906
	Entry -1 year	44,520	8,059	15,829	17,998	622	17,036	233,181	-
	Entry	46,503	10,824	28,484	-	-	-	-	-
FDI from China to host Country (Millions of USD)	Entry -3 years	-	-	77.31	193.07	3.52	28.12	231.82	43.52
	Entry -2 years	-	-	203.3	87.6	9.81	49.15	198.34	110.88
	Entry -1 year	-	-	452.1	531.59	10	127.4	195.73	119.84
	Entry	1148.9*	2.11	477.6	1892.2	-3.74	88.9	462.03	112.39
Major Export Partners		3	-	12	8	>50	10	2	13

*: data from 2003

Source: Author's compilation; based on IMF 1990, 1997, 2003, 2008; The World Bank 2011c; MOFCOM et al. 2010; EC 2011a

Table 4-9 Market Data of Countries entered by ICBC (Part 2 of 2)

Year		2010		2011				
Country		Canada	Thailand	Italy	Belgium	Netherlands	France	Spain
GDP per capita (USD)		39,599*	3,892*	35,083*	43,671*	47,916*	41,050 *	31,773 *
GDP Growth Rate (%)	Entry -3 years	2.2	4.93	-1.32	1	2	0.22	0.86
	Entry -2 years	0.52	2.46	-5.04	-2.75	-3.99	-2.63	-3.64
	Entry -1 year	-2.46	-2.25	-	-	-	-	-
Export from China to host Country (Millions of USD)	Entry -3 years	19,363	11,979	21,179 **	12,681**	41,411**	20,460 **	16,600 **
FDI from China to host Country (Millions of USD)	Entry -3 years	34.77	76.41	5	-	91.97	31.05	1.16
	Entry -2 years	1,032.6	45.47	46.05	23.62	101.45	45.16	59.86
	Entry -1 year	7.03	49.77	-	-	-	-	-
Major Export Partners		11	16	-	-	-	-	-

*: data from 2009, **: data from 2007

Source: Author's compilation; based on IMF 1990, 1997, 2003, 2008; The World Bank 2011c; MOFCOM et al. 2010; EC 2011a

On the other hand, all these countries have significant trade relations with China. The exports from China to all these countries exceed USD 10,000 million at the time of entry[14]. In addition, FDI flows have been high as well. Among these countries Belgium received the lowest amount (USD 23.62 million in 2009) and Hong Kong and Australia the highest (more than USD 1.000 million at the time of entry). Consequently, the data about Hong Kong, UK, Russia, Australia, UAE, US, Canada, Italy, Belgium,

[14] For countries that have been entered after 2007, available data from 2007 has been used.

Netherlands, France, and Spain does not clearly support one strategy; rather it supports the market seeking as well as the client following strategy. Even though the data reflects more support for the client following strategy, as trade relations are very tight, one cannot certainly state whether ICBC penetrates markets because it seeks new business opportunities or because it follows its clients abroad as these demand more international delivery of ICBC's services.

Furthermore, Qatar can be classified into this group. Its GDP per capita was USD 86,435 and GDP growth rates were up to 26.75% one year before ICBC entered the market. The exports (USD 622 million in 2007) and FDIs (USD 10 million in 2007) from China to Qatar on the contrary were not that high, however, this can be explained by Qatar's small population of just 848,016 people (Central Intelligence Agency 2011d). Furthermore, China is among Qatar's top 10 import partners underlining the importance of Chinese companies for Qatar's market. As a result, this data again supports the client following as well as the market seeking strategy.

Thailand and Vietnam do not fit in this group of countries. Despite ordinary growth, low GDP per capita makes market conditions for banks unfavorable. Therefore, it seems reasonable that ICBC entered these markets to stay in connection with its clients. Exports to Vietnam and Thailand were both almost USD 12,000 million in 2007. Moreover, FDI flows to Thailand range from USD 45.47 million to USD 76.41 million in the three years before entry. In Vietnam FDIs actually exceed the USD 100 million. That is why the penetration of these countries supports the client following strategy.

4.4.3 Reasons behind CCB's Internationalization

Similarly to the strategy of BOC, CCB also exhibits the client following strategy. All entered markets are major export partners of China (as shown in Table 4-10), which supports the theory that domestic customers demand more and more international delivery of services (Grönroos 1999: 291) and are putting, therefore, pressure on service companies to enhance their international presence (Terpstra and Yu 1988: 43).

While high GDP per capita, for example in Japan or Australia, could lead to the assumption that CCB wants to exploit new business opportunities, a look at the export and FDI data clearly shows that CCB pursues the client following strategy. China's exports to Japan had a value of USD 59,423 million in the year CCB entered. Exports to Korea accounted for USD 27,818 million. Australia and Vietnam received exports as high

as USD 17,998 million and USD 11,906 million respectively. In 2006 Japan was number four of China's major export partner, Korea number five, Australia ranked 8th and Vietnam 13th. These close trade relations support the client following strategy.

Table 4-10 Market Data of Countries entered by CCB

Year		2000	2003	2004	2009	2010
Country		South Africa	Japan	Korea	Vietnam	Australia
GDP per capita (USD)		3019	33112	15028	1113	42278
GDP Growth Rate (%)	Entry -3 years	2.65	2.86	3.97	8.23	3.7
	Entry -2 years	0.52	0.18	7.15	8.46	3.77
	Entry -1 year	2.36	0.26	2.8	6.31	3.73
	Entry	4.15	1.41	4.62	5.32	1.29
Export from China to host Country (Millions of USD)	Entry -3 years	786	41,654	12,544	7,468	17,998
	Entry -2 years	867	45,078	15,508	11,906	-
	Entry -1 year	861	48,483	20,096	-	-
	Entry	1,014	59,423	27,818	-	-
FDI from China to host Country (Millions of USD)	Entry -3 years	-	-	-	43.52	531.59
	Entry -2 years	-	-	-	110.88	1892.2
	Entry -1 year	-	-	153.9	119.84	2,436.4
	Entry	8.86*	7.37	40.23	112.39	-
Major Export Partners		23	4	5	13	8

*: data from 2003

Source: Author's compilation; based on IMF 1990, 1997, 2003, 2008; The World Bank 2011c; MOFCOM et al. 2010; EC 2011a

Trade relations with South Africa (exports: USD 1,014 million in 1998, FDI: USD 8.86 million in 2003) have not been as strong as with Japan, Korea, Australia, and Vietnam. But as GDP per capita is quite low (USD 3,019) and growth rates ranging from 0.5% to 2.65%, the characteristics for a market seeking strategy are even weaker. Trade relations outweigh GDP per capita. Therefore, the client following strategy dominated when CCB entered South Africa.

4.4.4 Reasons behind SBI's Internationalization

Whether SBI enhances its international presence in order to seek new markets or because the bank is under pressure from their domestic clients, cannot be clearly identified. SBI

entered a variety of different markets in the last decade supporting the market seeking as well as the client following strategy. Most entered countries have in common a relative high GDP per capita, moderate growth rates and trade relations with India to some degree (see Table 4-11).

Table 4-11 Market Data of Countries entered by SBI

Year		1998	2004	2005	2006		2007	
Country		Australia	Oman	Angola	Indonesia	Turkey	Israel	UAE
GDP per capita (USD)		21,442	9,600	1,843	1,642	7,364	23,257	47,565
GDP Growth Rate (%)	Entry -3 years	4.08	7.48	14.49	4.78	5.27	5	9.7
	Entry -2 years	4.18	2.57	3.31	5.03	9.36	5.1	8.2
	Entry -1 year	3.9	0.3	11.18	5.69	8.4	5.7	8.7
	Entry	4.43	3.4	20.61	5.5	6.89	5.31	6.1
Export from India to host Country (Millions of USD)	Entry -3 years	351	206	34	1,053	515	923	6605
	Entry -2 years	381	186	62	1,251	657	1,162	8,282
	Entry -1 year	425	244	68	1,362	931	1,303	10,224
	Entry	400	257	131	1,279	1,435	1,536	13,244
FDI from China to host Country (Millions of USD)	2000	2.6*	64.9	-	-	-	-	11.3
	2001	-	0.2	-	12.4	-	-	11.8
	2002	-	0.4	-	0.1	-	-	12.6
	2003	-	1.5	-	19.3	-	-	29.5
Major Export Partners		24	28	36	11	26	18	3

*: aggregated data from 1996-1999

Source: Author's compilation; based on IMF 1990, 1997, 2003, 2008; The World Bank 2011c; UNCDAT 2004, 3; EC 2011b

In 1998 SBI entered the Australian market. At that time Australia had a GDP per capita of USD 21,442 and an average growth rate of about 4%. Exports from India account for USD 400 million at the time of entry. Another example is Israel whose imports from India accounted to USD 1,536 million and that had a GDP per capita of USD 23,257 as well as an average growth rate above 5% when SBI entered. Other penetrated countries vary slightly from this classification. The GDP per capita in Oman and Turkey is less than USD 10,000, they are growing economies and among the top 30 major export partners of India. Finally, despite high GDP per capita and steady growth, the UAE are also one of

the top export partners of India. Data from 2009, two years after India entered the market, showed that the UAE are the third most important export partner behind the EU 27 and China.

Two exceptions of this strategy are Angola and Indonesia. Since both countries have a low GDP per capita, it is unlikely that SBI went into these countries to optimize profits. Angola grew very fast (from 2002 to 2005 on average 12%) hence SBI has opened a representative office in the country to obtain information about the market and to examine if local banking opportunities can be exploited. Indonesia, in contrast, has major trade relations with India. Consequently the penetration of the Indonesian market is identified as applying the client following strategy.

To sum up, the data revealed no clear answer whether SBI's internationalization is driven by market seeking or client following. On the one hand, most entered markets have access to large and wealthy domestic markets. On the other hand, the fact that all countries are among India's top 40 export partners shows a connection to the client following strategy. Therefore, taking all entered countries by SBI from 1998 to 2007 into consideration, SBI pursued a combination of the two strategies. With such a strategy, SBI could profit from an international network and possess experiential knowledge of their client's companies and their decision-making procedures (Majkgard and Sharma 1998: 10) and optimize economic rents or exploit local banking opportunities in overseas markets (Nigh et al. 1986: 59).

4.4.5 Reasons behind ICICI's Internationalization

ICICI mainly follows their clients into overseas markets. Even though some penetrated markets are large and wealthy and provide many local banking opportunities, tight trade relations as well as FDI inflows from India characterize the entered countries (as shown in Table 4-12 and 4-13).

Countries, ICICI entered, can be classified into two groups: first, countries which have high GDP per capita and second, countries with relative low GDP per capita. The first group consists of Singapore, UK, Canada, UAE, Hong Kong, Bahrain, Qatar, US, and Germany. All these countries have a wealthy domestic market but India's export relations to these countries are more important. Furthermore, there are also major FDI flows from India to these countries. Export intensity to Bahrain and Qatar is lower in comparison to other countries due to the small size of their local markets. The fact that ICICI entered

these markets in order to seek new banking opportunities cannot be excluded. Yet, major trade relations between these countries and India support the client following strategy.

Table 4-12 Market Data of Countries entered by ICICI (Part 1 of 2)

Year		2003					2004	2005	
Country		Singa-pore	UK	Canada	China	UAE	Bangla-desh	South Africa	Hong Kong
GDP per capita (USD)		22,651	31,238	27,335	1,273	23,523	375	5,234	26,092
GDP Growth Rate (%)	Entry -3 years	10.06	3.92	5.23	8.4	4.98	5.27	3.67	1.84
	Entry -2 years	-2.4	2.46	1.78	8.3	1.7	4.42	2.95	3.01
	Entry -1 year	4.16	2.1	2.92	9.1	2.6	5.26	4.55	8.47
	Entry	3.48	2.81	1.88	10	11.9	6.27	5.28	7.08
Export from India to host Country (Millions of USD)	Entry -3 years	826	2,233	637	758	2,469	1,087	451	2,552
	Entry -2 years	1,017	2,467	745	1,545	1,679	1,133	526	3,100
	Entry -1 year	1,309	2,413	670	1,720	3,119	1,600	854	3,554
	Entry	1,949	2,892	747	2,710	4,676	1,625	1,410	4,266
FDI from China to host Country (Millions of USD)	2000	39.4	55.3		7.9	11.3	-	-	37.6
	2001	25	85.5	29	13.3	11.8	-	-	16.1
	2002	46.8	34.5	33	29.6	12.6	-	-	14.8
	2003	13.5	98.1		19.8	29.5	-	-	13.1
Major Export Partners		6	-	27	4	2	12	14	5

Source: Author's compilation; based on IMF 1990, 1997, 2003, 2008; The World Bank 2011c; UNCDAT 2004, 3; EC 2011b

Table 4-13 Market Data of Countries entered by ICICI (Part 2 of 2)

Year		2006				2007		2008	
Country		Sri Lanka	Thai-land	Indo-nesia	Malay-sia	Bahrain	Qatar	US	Germa-ny
GDP per capita (USD)		1,421	3,115	1,642	5,998	24,320	70,986	47,208	44,264
GDP Growth Rate (%)	Entry - 3 years	5.94	7.14	4.78	5.79	5.6	20.84	3.06	0.075
	Entry - 2 years	5.45	6.34	5.03	6.78	7.8	7.6	2.67	3.37
	Entry - 1 year	6.24	4.6	5.69	5.33	6.7	18.6	1.95	2.66
	Entry	7.76	5.15	5.5	5.85	8.34	26.75	0	0.99
Export from India to host Country (Millions of USD)	Entry - 3 years	1,220	802	1,053	857	134	135	16,362	3,344
	Entry - 2 years	1,345	850	1,251	970	181	241	20,902	4,265
	Entry - 1 year	1,867	1,022	1,362	1,135	224	410	22,831	5,401
	Entry	1,975	1,491	1,279	1,212	278	531	-	-
FDI from China to host Country (Millions of USD)	2000	8.4	0.4	-	4.8	-	-	7	-15
	2001	1.4	2.6	12.4	1.4	-	-	162	11
	2002	6.6	7.7	0.1	0.8	-	-	23	50
	2003	6	7.3	19.3	1.4	-	-	48	-24
Major Export Partners		16	19	11	9	>50	37	3	-

Source: Author's compilation; based on IMF 1990, 1997, 2003, 2008; The World Bank 2011c; UNCDAT 2004, 3; EC 2011b; UNCDAT 2005a: 12, 2005b:9, 2005c: 12

The second group consists of China, Bangladesh, South Africa, Sri Lanka, Thailand, Indonesia, and Malaysia. These countries have a lower GDP per capita but like the first group they also have major trade relations with India. In 2009 all of these countries were among India's top 20 export partners. Albeit these countries have GDP growth rates above 5%, market seeking cannot be identified as the dominating strategy since major trade relations outweigh a relative low GDP per capita and GDP growth.

All in all, ICICI pursues the client following strategy. All entered countries conduct major trade relations with India. In addition, Indian investors do significant business there as the available data showed. Consequently, the internationalization process of ICICI is not driven by a market seeking strategy although some penetrated countries have wealthy markets.

4.4.6 Reasons behind PNB's Internationalization

PNB applies two different policies, which are both in accordance with the client following strategy, in order to enhance its international presence. On the one hand, PNB enters the markets of India's most important export partners. On the other hand, PNB goes into countries that have inferior trade relations with India but are strategically important and have much potential (see Table 4-14) (Kumar 2004; The Indian Express 2010: 1).

India's six major export partners are the US, the UAE, China, Singapore, the UK, and Hong Kong (DGCI&S 2011). Except the United States and Singapore, PNB went into all these markets indicating the application of the client following strategy. Besides significant export rates, high FDIs flew into these countries. In 2003, the UK attracted USD 98.1 million of FDIs, the UAE USD 29.5 million, China USD 19.8 million, and Hong Kong USD 13.1 million.

On the other hand, PNB also entered the markets of Kazakhstan, Afghanistan, and Norway. These countries have minor trade relations with India. Kazakhstan received exports of USD 32 million at the time PNB went into the market and FDIs of USD 3.2 million within the period between 1996 and 1999. As Kazakhstan has a GDP per capita of USD 1,468 and no economic growth at the time PNB entered, the data does neither support the client following nor the market seeking strategy. However, PNB stated that Kazakhstan, which is the largest economy in Central Asia, is strategically important for India because of growing economic cooperation between the two countries (The Indian Express 2010: 1).

Likewise, PNB entered the market of Afghanistan. Despite high growth rates, an extremely low GDP per capita ratio (USD 218 in 2004) and exports of USD 154 million support that PNB entered the market because of its clients. This was also confirmed by PNB Chairman S.S. Kohli in an interview with The Indian Express. He stated that a high

proportion of reconstruction work would be done by Indian companies, which could provide interesting opportunities for the bank (Kumar 2004).

Table 4-14 Market Data of Countries entered by PNB

Year		1998	2004		2005	2007		2009
Country		Kazakhs-tan	China	Afgha-nistan	UAE	UK	Hong Kong	Nor-way
GDP per capita (USD)		1,468	1,490	218	32,526	45,900	29,898	79,089
GDP Growth Rate (%)	Entry -3 years	-8.2	8.3	-	2.6	2.95	8.47	2.28
	Entry -2 years	0.5	9.1	-	11.9	2.17	7.08	2.73
	Entry -1 year	1.7	10	14.32	9.7	2.85	7.02	1.82
	Entry	-1.9	10	9.44	8.2	2.56	6.38	-1.64
Export from India to host Country (Millions of USD)	Entry -3 years	8	1,545	31	3,119	3,415	3,554	212
	Entry -2 years	6	1,720	52	4,676	4,780	4,266	264
	Entry -1 year	12	2,710	124	6,605	5,325	4,311	-
	Entry	32	4,178	154	8,282	6,655	5,574	-
FDI from China to host Country (Millions of USD)	2000	3.2*	7.9	-	11.3	55.3	37.6	-
	2001	-	13.3	-	11.8	85.5	16.1	-
	2002	-	29.6	-	12.6	34.5	14.8	-
	2003	-	19.8	-	29.5	98.1	13.1	-
Major Export Partners		>50	4	41	2	-	5	>50

*: aggregated data from 1996-1999

Source: Author's compilation; based on IMF 1990, 1997, 2003, 2008; The World Bank 2011c; UNCDAT 2004, 3; EC 2011b

Norway has a wealthy yet small market. Exports from India to Norway were USD 264 million in 2007. Since no data about FDI flows is available, it is not possible to clearly classify the entry of the Norwegian market into one of the two categories. However, the overall data about PNB's market entries revealed that the bank does not only enter the markets of India's major export partners but also some niche markets.

4.5 Analysis of Entry Mode Choice

This chapter contains the identification of the entry mode and organizational forms that have been established by Chinese and Indian banks to identify which type and volume of business a bank wants to carry out. The number of correspondent banks serves as indicator for the scope of international operations. The establishment of representative offices shows that banks gradually increase their exposure to foreign markets. Choosing foreign branch banks as entry mode instead of foreign subsidiary banks points toward the management of the MNB's assets in foreign money and capital markets rather than the exploitation of local banking opportunities. Finally, offshore banks enable MNBs to avoid high taxation and to earn higher interests rates.

4.5.1 Entry Mode Choice of BOC

Bank of China predominantly enters foreign markets by establishing foreign branch banks followed by foreign subsidiary banks. In addition, BOC has a broad worldwide network of more than 1,200 correspondent banks. Representative offices and offshore banks are used rarely (see Table 4-15).

This division of market entry strategies shows that BOC acts in a confidential way once they entered a market. As it is stated in the theory, opening a representative office in a foreign market is often the first step since banks take minor exposure to the foreign market (Kollar 1989: 442). Yet, BOC does not pursue this strategy. The bank mostly skips this first step and enters overseas markets directly through opening foreign branches or establishing foreign subsidiaries. As these methods expose BOC faster to foreign markets, this indicates that the bank is experienced in entering foreign market and is able to estimate the risk of failure.

Nevertheless, BOC opened representative offices in Russia and Brazil before founding subsidiaries. BOC made an exception of its usual strategy since it considers these markets especially risky to access or BOC had too few information about the markets to elaborate a suitable strategy.

More than 1,200 correspondent banks reflect BOC's wide operational field. Since correspondent banks are used to provide services in countries and areas in which a bank is not present with own offices (Neelankavil and Rai 2009: 335), this implies that BOC can serve worldwide spread clients. As leaders of global banking such as Bank of America

Merrill Lynch or Wells Fargo have more than twice as many correspondent banking relations (BoAML 2011; Wells Fargo 2011), this shows that BOC is not as internationally active as these big American banks. However, it verifies that BOC is also active in various regions of the world.

Table 4-15 Entry Mode Choice of BOC

Correspondent Banks	Representative Offices	Foreign Branch Banks	Foreign Subsidiary Banks	Offshore Banks
more than 1,200	Bahrain Russia Brazil	Hong Kong Singapore Australia Japan Kazakhstan Korea Thailand Vietnam Philippines Indonesia UK Luxembourg France Germany Italy US Panama South Africa Cambodia	Hong Kong Singapore Malaysia Australia UK Luxembourg Russia Hungary Canada Brazil Zambia	Cayman Islands

Source: China Briefing 2008; BOC (UK) Ltd. n.d.; BOC 2007a, 2007b, 2008a, 2008b, 2009; BOC (Paris) 2008; BOC (Malaysia) Berhad 2011; BOC (Russia) 2011; BOC (Johannesburg) 2010; People's Daily Online 2002; AfDevInfo 2008; MOFCOM 2007; Macauhub 2009; Shanghai Stock Information Service Corp. 2010; BOC n.d. a, n.d. b, n.d. c, n.d. d; BOCI 2009

Finally, BOC has an offshore bank on the Cayman Islands. Offshore banks are used to store cash in order to avoid taxation and to gain higher interests (Neelankavil and Rai 2009: 336). BOC might predominantly use the offshore bank for gaining higher interests since it is state owned and paying taxes to other governments instead of its owners might not be the purpose of the Chinese government. How this is exactly handled could not be figured out.

4.5.2 Entry Mode Choice of ICBC

ICBC's entry mode choice is almost coincident with that of BOC. ICBC most frequently establishes branches in foreign markets followed by subsidiaries. Regarding correspondent banks and offshore banks, the strategy is congruent with that of BOC (as shown in Table 4-16).

Table 4-16 Entry Mode Choice of ICBC

Correspondent Banks	Representative Offices	Foreign Branch Banks	Foreign Subsidiary Banks	Offshore Banks
more than 1,400	-	Singapore Japan Korea Vietnam Australia Qatar UAE Germany Luxembourg Italy Belgium Netherlands France Spain US	Hong Kong Kazakhstan Indonesia UAE Thailand Malaysia Luxembourg Russia UK Canada	Macau

Source: ICBC 2005, 2007b, 2008a, 2008b, 2010b, 2010c, 2011c; ICBC n.d. a, n.d. b, n.d. c, n.d. d, n.d. e, n.d. f, n.d. g, n.d. h, n.d. i, n.d. j, n.d. k; ICBC (London) plc. 2009

Although ICBC has today no operating representative offices, the bank used to have some in the past. The markets of the UK, the US, and Russia have first been entered through representative offices. These offices have recently been upgraded to branches or subsidiaries. Nowadays, ICBC penetrates markets directly by establishing branches or subsidiaries. Equally to BOC, ICBC has a broad network of correspondent banks. 1,400 correspondent banks indicate that ICBC is able to conduct business worldwide. To which extend the offshore facility in Macau is used could not be figured out.

4.5.3 Entry Mode Choice of CCB

CCB's market entry mode is in accordance with that of BOC and ICBC. CCB has a worldwide network of correspondent banks, penetrates overseas markets mainly with foreign branches, has few representative offices, and an offshore facility in Macau (see

Table 4-17). Slightly different from BOC and ICBC is the less developed foreign subsidiary network.

Table 4-17 Entry Mode Choice of CCB

Correspondent Banks	Representative Offices	Foreign Branch Banks	Foreign Subsidiary Banks	Offshore Banks
more than 1,400	Russia Taiwan	Hong Kong Singapore Japan Korea Vietnam Australia Germany US South Africa	Hong Kong UK	Macau

Source: CCB (Johannesburg) 2003; CCB (Frankfurt) n.d.; CCB n.d. a, n.d. b, n.d. c, n.d. d, n.d. e, n.d. f, n.d. g, n.d. h, n.d. i, n.d. j, n.d. k; CCB (Asia) 2010; CCB International n.d.; Liu, C. 2010.

CCB has correspondent relations to 1,400 banks worldwide revealing that the bank is able to serve customers needs in different regions of the world even though its foreign branch and subsidiary network are less extensive than that of BOC or ICBC. According to representative offices, CCB established one in London, New York, and Sydney before exposing itself to a greater extent to the foreign markets by upgrading these to branches in New York and Sydney and by founding a subsidiary in the UK. Today CCB operates representative offices in Moscow and Taipei.

While foreign markets are entered in most cases through foreign branches, CCB has established only two foreign subsidiaries. This might be motivated by lesser international experience. Since CCB is not yet active in as many countries as BOC or ICBC, it has not gained as much experience and knowledge about foreign markets as the other compared Chinese banks. Therefore, CCB is more cautious when entering new markets. As CCB is also a state owned bank, it is assumed that the offshore facility in Macau is primarily used to serve clients in the special administrative region and not for tax avoidance.

4.5.4 Entry Mode Choice of SBI

SBI's entry mode choice consists predominantly of entering overseas markets through foreign branch banks or representative offices. Foreign subsidiary banks play an inferior

role. Besides having an offshore bank in Mauritius and on the Bahamas, SBI conducts correspondent relations with 522 banks (see Table 4-18).

Table 4-18 Entry Mode Choice of SBI

Correspondent Banks	Representative Offices	Foreign Branch Banks	Foreign Subsidiary Banks	Offshore Banks
522	Philippines	Hong Kong	Indonesia	Mauritius
	China	Singapore	Nepal	Bahamas
	Iran	China	Canada	
	Australia	Australia	US	
	Indonesia	Japan	Nigeria	
	Vietnam	Bangladesh		
	Turkey	Maldives		
	Italy	Bahrain		
	Russia	Israel		
	Uzbekistan	Sri Lanka		
	US	Oman		
	Brazil	UAE		
	Egypt	Germany		
	Angola	Belgium		
	South Africa	France		
	Zimbabwe	UK		
		US		
		South Africa		

Source: SBI (Canada) 2011; SBI (Bahrain) n.d.; Bank SBI Indonesia 2009; Nepal SBI Bank 2011; SBI 2010a, 2010b; SBI (Hong Kong) n.d.; SBI (California) n.d.; SBI (Sydney) n.d.; SBI (Japan) 2011; SBI (Singapore) 2011; The Times of India 2007; SBI (Colombo) 2003; The Peninsula News Paper 2004; SBI (DIFC) 2008; SBI (Frankfurt) n.d.; SBI (Antwerp) 2010; Embassy of India, Luanda – Angola 2009; SBI (Shanghai) 2006; The Financial Express 2003; SBI n.d.; moneycontrol.com n.d.; Global Investment House KSCC 2007

In comparison to major American or Chinese banks, has SBI a relative small corresponding banking network. Other internationally active banks have usually a broader network of correspondent banks. For example, Wells Fargo has more than 3,000 correspondent banks, Bank of America Merrill Lynch more than 2,500, and ICBC as well as CCB have a correspondent banking network consisting of more than 1,400 banks. Therefore, SBI is only able to cover a smaller region to conduct business than its international competitors.

SBI operates a large number of representative offices. Since representative offices are mostly the first step into foreign markets (Kollar 1989: 442), the establishment of more foreign branch banks or the foundation of subsidiaries can be expected. Furthermore, this shows that SBI carefully observes overseas markets before conducting major investments.

Focusing on representative offices and foreign branch banks allows SBI to manage its assets in foreign money and capital markets. Consequently, SBI mainly enters foreign markets as a part of its operation strategy and not for exploiting the local market potential because for such a strategy foreign subsidiaries would be the best entry mode (Büschgen 1998: 621).

Finally, SBI owns one offshore bank in Mauritius and one on the Bahamas. As SBI is state owned like the compared Chinese banks, the question arises to which extent the benefits of offshore banks like storing money or saving taxes are exploited.

4.5.5 Entry Mode Choice of ICICI

ICICI's entry mode choice is similar to that of SBI. Dominating entry modes are representative offices and foreign branch banks. The correspondent banking network is much larger than that of SBI. Furthermore, foreign subsidiary banks are more important in ICICI's entry mode choice and ICICI operates no bank in an offshore financial center (see Table 4-19).

Table 4-19 Entry Mode Choice of ICICI

Correspondent Banks	Representative Offices	Foreign Branch Banks	Foreign Subsidiary Banks	Offshore Banks
950	Bangladesh China UAE Thailand Malaysia Indonesia South Africa	Bahrain Qatar Hong Kong Singapore Sri Lanka US	UK Russia Canada	-

Source: ICICI Bank 2004; ICICI Bank (Singapore) 2011; ICICI Bank (Bahrain) 2011; ICICI Bank (Hong Kong) 2011; ICICI Bank (Canada) 2011; ICICI Bank UK PLC 2011; ICICI Bank n.d. a, n.d. b; moneycontrol.com 2007; The Economic Times 2005; ICICI Bank (Sri Lanka) 2010

Relations with 950 correspondent banks help ICICI to strengthen its international presence. These connections will be vital for ICICI if it has multinational companies as

their customers (Neelankavil and Rai 2009: 335). The operation of several representative offices shows that ICICI is able to easily enhance its international presence by upgrading these offices. Using foreign branches and subsidiaries underlines the fact that ICICI, on the one hand, tries to manage its assets in foreign money and capital markets and, on the other hand, that ICICI tries to attract additional local deposits and corporate clients.

4.5.6 Entry Mode Choice of PNB

PNB's international operations are less extended than that of the other compared banks. Nevertheless, it is possible to see a trend in PNB's entry mode choice. A network of 217 correspondent banks, four representative offices, three foreign branch banks and one foreign subsidiary bank (as illustrated in Table 4-20) lead in the same direction as SBI's and ICICI's entry mode choice, which entered foreign markets predominantly with representative offices and foreign branch banks.

Table 4-20 Entry Mode Choice of PNB

Correspondent Banks	Representative Offices	Foreign Branch Banks	Foreign Subsidiary Banks	Offshore Banks
217	China Kazakhstan UAE Norway	Hong Kong UAE Afghanistan	UK	-

Source: Kumar 2004; PNB (Dubai) 2008; PNB (Hong Kong) 2008; PNB (International) n.d.; The Indian Express 2010; The Economic Times 2004; Ministry of External Affairs, Government of India 2011; PNB 2006

The relatively small number of 217 correspondent banks indicates that PNB is only active in specific regions of the world and not globally. The established representative offices, however, point towards further enhancements in the future.

5 Comparison and Interpretation

In this chapter, the results of analyzing the home market conditions and the timing, local dimension, causality, and modality of the international operations of Chinese and Indian banks are compared and interpreted. First of all, the individual attributes of the home market conditions of China's and India's banking industry are compared and interpreted.

After that the timing, local dimension, causality, and modality of the internationalization of Chinese banks are contrasted with those of Indian banks. Furthermore, impacts of the home market conditions on internationalization patterns and strategies are determined.

5.1 Comparison of Home Market Conditions

5.1.1 Comparison of Factor Conditions

China's factor conditions are more favorable to the international competitiveness of the banking industry than India's. Even though India has a quality advantage in information technology, it is not able to exploit this advantage. Higher education and research, which is more efficient in China, make the difference.

In China as well as in India usage of IT infrastructure differentiates between urban and rural regions. In contrast to rural areas, modern technological infrastructure is available in urban areas of both countries and major banks are making use of it. (Page et al. 2007: 3; Celent 2009). Accordingly, there are no significant differences between China and India regarding technological infrastructure.

While India's higher education sector is characterized by systematic disinvestments, China has established a large and differentiated higher education system. The strengths of India's higher education, such as using English as a primary language, long academic tradition, or respected academic freedom, are offset by red tape and under-investments. China's higher education sector, in contrast, provides access of companies to many students while at the same time having some of the world's best research institutions (Altbach 2005: 244-245).

China has not only a better higher education sector, but also a more efficient research performance. Major investments, a fluent exchange between research institutes and commercial applications, and the inclusion of China's huge academic diaspora in North America and Europe are driving Chinese research. In India, however, NRIs go mainly into business, the connection between research institutes and companies is deficiently organized, and universities lack international outlook (Cookson 2010). Therefore, China's highly educated workforce and research performance result in more favorable factor conditions for China's banking industry.

5.1.2 Comparison of Demand Conditions

Demand conditions in China and India are primarily similar except the internationalization of domestic demand. China's and India's banking industries are both characterized by huge home demand and savings deposits that supply banks with capital for their international operations (Kern 2009: 13; Basu 2007). Even though India's savings rate is lower than China's because of the young population, it is still one of the world highest (Basu 2007). Further similarities occur regarding consumer banking, which is in both countries in an early stage of development hence containing huge growth potential (Kern 2009: 13; Page et al. 2007: 3-4). However, China's domestic demand is internationally more active.

The internationalization of non-financial firms drives the internationalization of Chinese banks. International operations of China's non-financial sector raise overseas demand for corporate finance, investment banking services and financial intermediaries (Jiang 2011). For example, exports as high as USD 1,423.84 billion make China the world's top exporter (MOFCOM 2010). This international orientation of China's non-financial sector constitutes a competitive advantage of China's demand conditions.

India has advantages towards China in consumer credit demand. India's relatively young population leads to a lower savings ratio and high spending since young people rather tend to spend their money than to save it (Page et al. 2007: 3-4). Therefore India's consumer credit segment has more potential to develop to a large or highly visible share of the home demand and is accordingly more likely to develop competitive advantages. However, as this is just an outlook, today only China has competitive advantages because of demand conditions.

5.1.3 Comparison of Related and Supporting Industries

China and India both have a bank dominated market (Kern 2009: 4; Wells and Schou-Zibell 2008: 4) and underdeveloped bond markets (Fleuriet 2006: 2; Ghosh 2003: 5). Though, India has a more efficient stock market and capital market supervision.

The bond market in China is static. Since China's budget deficit was on average only 1.7% since 1980, the government did not have to issue many bonds to finance its deficit (Fleuriet 2006: 2). In India the regulatory framework and limited infrastructure to obtain detailed information about corporations are the main reasons preventing a broader use of the bond market (Ghosh 2003: 5).

Whereas the stock market in China is dominated by under-subscribed IPOs and exhibits a secondary market with narrowed liquidity (Fleuriet 2006: 6), India's stock market is an efficient alternative to raise capital. The market is broadly used (Wells and Schou-Zibell 2008: 3) and as much as 70% of the Bombay Stock Exchange market capitalization comes up by private firms and joint ventures (Dobson 2007: 4). Furthermore, India has an efficient capital market oversight (Dobson 2007: 5). Information flows or technical interchange between the competitive stock market and the banking sector in India could affect the innovation and competitiveness of Indian banks (Porter 1990b: 106). Therefore, India has advantages towards China in related and supporting industries.

5.1.4 Comparison of Firm Strategy, Structure, and Rivalry

Several similarities between the firm strategy, structure, and rivalry in China and India exist. In both countries the majority of banks is state owned (Dobson 2007: 3; Page et al. 2007: 4) and the governments intervene in the operations of these banks (Shih et al. 2007: 15; Dobson 2007: 13). Moreover, foreign banks have to face a discriminating regulatory framework in both countries, which decreases competition (Wei and Wheatley 2010; Xu and Lin 2007: 884; Kern 2009: 14). However, interventions by the government in India are not as severe as in China making this attribute of Porter's diamond more advantageous for India.

The state ownership of most banks in both countries mainly prevents competition and discriminatory regulations for foreign banks further narrows competition (Wei and Wheatley 2010; Xu and Lin 2007: 884; Kern 2009: 14). All major Chinese banks are owned by different governmental organizations (Dobson 2007: 3) and came just lately into competition as they broadened their activities into areas where other banks operate (Jadhav and Raj 2005: 3). The Indian government owns several banks that together hold almost three-quarters of the country's banking assets (Page et al. 2007: 4). Yet, the Indian government supports state-run banks to diversify their ownership (Jadhav and Raj 2005: 10) and increasing emergence of private players positively affects competition (Chakrabarty 2009: 1492).

Furthermore, the competitiveness of banks is lessened by interventions of the governments in the operations of banks. Loans directed to priority sectors resulted in rising NPLs which have negative impacts on the banks profitability (Shih et al. 2007: 15; Dobson 2007: 13). Even though, privatization and liberalization is advanced in India

(Jadhav and Raj 2005: 10), the firm strategy, structure, and rivalry attribute is neither in India nor in China favorable for the international competitiveness of the respective banking industry.

5.1.5 Comparison of Government

The Indian government has launched significant financial deregulation measures during the 1990s improving efficiency, productivity, and profitability (Das and Ghosh 2009: 510; Tharoor 2011). In China, the regulatory framework still requires advancements (Sih et al. 2007: 16) because the reformation of China's state-owned banking system has only recently being initiated (Lee 2011).

Financial reforms resulted in major improvements of the banking industry in India (Das and Gosh 2009: 527). In particular, the establishment of a new antitrust law (in 2009) opposes anti-competitive agreements. However, this law does not include the protection of intellectual property rights (Chitale 2010). The implementation of international standards and an adequate legal and regulatory environment for China's banking sector to meet the challenges of today's global economy is still in progress (Zdenek 2007: 36; Sih et al. 2007: 16). In addition, competition law in China causes several concerns, for example, the division of authority raises unease about non-uniform enforcement (Bush 2010).

All in all, the Indian government has a positive effect on the competitiveness of India's banking sector even though there are unexploited opportunities to further advance competition. The Chinese government, in contrast, neglected the need to reform the financial sector in the past hence the implementation of international standards and financial reforms is still in process.

5.2 Comparison of Timing Strategies

Timing strategies of Chinese and Indian banks are very similar. However, it cannot be spoken of a Chinese or an Indian timing strategy for international operations since the timing strategies are not coherent among Chinese banks or Indian banks. There are three different timing patterns. First, in China as well as in India, one of the biggest banks has a relative long record of internationalization. Therefore, these banks are in possession of a relative broad international network of branches and subsidiaries. Second, in both countries one bank has a relatively short internationalization process combined with a

very fast expansion. Third, in China and India one bank is also a relatively new player at international markets but its internationalization strategy is less aggressive and of a slower pace.

Bank of China and State Bank of India are the two banks which have a long internationalization history. Even though the two banks do not make use of the same timing strategy, these two banks exhibit several similarities in the timing of their international expansion. BOC started its internationalization in 1917, SBI in 1955 which both constitute a long internationalization process compared to the other banks analyzed in this study, whose internationalization started not earlier than 1991. While BOC exerts a clear waterfall strategy to gradually expand its international presence, SBI pursued the combined waterfall-sprinkler strategy. From 1974 to 1982 SBI accelerated its international expansion entering more than one country per year. From then on SBI also utilized the waterfall strategy until 2006, when the bank again revised its gradual expansion to simultaneous entries at a time. That is why SBI could expand its international presence faster than BOC and could catch up in scope of international presence. Today both banks are present in around 30 countries worldwide (BOC 2011c; SBI 2008b) even though SBI started its internationalization later.

ICBC and ICICI are classified as applying the second type of similar timing strategies. ICBC entered 22 different countries since it started its international expansion in 1993. ICICI shows an even faster expansion penetrating 17 countries in seven years. This clearly demonstrates the fast pace of ICBC's and ICICI's internationalization strategy. In order to process this rapid growth of international presence, both banks used the combined waterfall-sprinkler strategy.

The third identified type, characterized by an early stage of internationalization and a gradual expansion, includes the timing strategies of CCB and PNB. Both banks are present in less than a dozen countries. Moreover, CCB and PNB both utilized the waterfall-strategy. As speed of internationalization is much slower in comparison to the sprinkler or the combined waterfall-sprinkler strategy, their international presence is less intensive than the international presence of ICBC or ICICI even though the time frame of being internationally active is comparable.

The vast differences in the beginning of international operations between the different banks are caused by their earlier specialization. All compared banks have been SOE in

the past and still are, except of ICICI. The banks have been incorporated, for example, to provide services for industries, for financing construction and infrastructure, or for financing foreign trade. BOC was the state-designated specialist foreign exchange bank and foreign trade bank (BOC 2011a). Even though SBI was not specialized in financing foreign trade, the bank offered merchant banking services (FundingUniverse 2006). Therefore, BOC and SBI had conducted international operations earlier than the other banks. The different functions of the banks in the past led to diverse starting points of internationalization and show the influence of the attribute firm strategy, structure, and rivalry on the internationalization. Today, all compared banks have diversified their product ranges and offer all sorts of banking services, ranging from consumer banking to investment banking to insurance (Deloitte Touche Tohmatsu 2007: 4; McKinsey & Company 2010: 4).

Besides these three timing patterns, the identification of each individual timing strategy of the compared banks is an important result for estimating changes in the international banking landscape. Since the banks pursue different timing strategies, the impacts of their international expansions do not hit markets simultaneous. ICBC, SBI, and ICICI apply the combined waterfall-sprinkler strategy enabling them to conduct huge enhancements of their international operations at a time that can result in major changes on markets such as increased competition and in the loss of important clients for other banks. BOC, CCB, and PNB in contrast pursue the waterfall strategy implying a slower development of international operations, whose impacts are less intense.

5.3 Comparison of Market Selection

Neither the market selection of Chinese banks nor the market selection of Indian banks is in line with the theory of the psychic distance chain model. The analyzed banks from both countries do not enter psychic close markets before going to more distant markets. The psychically distance of foreign markets appears to be unimportant for the decision of which markets should be entered.

On average, however, the psychic distance of countries entered by Indian banks (72) is lower than the psychic distance of countries penetrated by Chinese banks (97). According to the theory, this would mean that Indian banks are operating better since they face fewer cultural barriers (Alexander and Rhodes 2007: 425). However, as the psychic distance

chain of none of the banks is in accordance with the theory, the significance of this interpretation is questionable.

According to Hofstede, China's psychic distance to other countries is mostly relatively high because China is seen as having a quite unique culture (Hofstede 2009). For example, Canada, Germany, Hong Kong, Singapore, the UK, and the US have been entered by most of the banks. Only the psychic distance between China and Hong Kong and Singapore is lower in comparison to India's psychic distance to these countries. Therefore, China's unique culture is problematic for the comparison and for identifying meaningful results.

As neither the internationalization of Chinese nor Indian banks is guided by the psychic distance of countries, the value of comparison is not significant. Although the psychic distance chain model is able to explain the internationalization of western companies (Johanson and Vahlne 1977: 24), it fails to elucidate the internationalization process of Chinese and Indian banks. Nevertheless, this constitutes another similarity of the internationalization process between Chinese and Indian banks.

5.4 Comparison of Reasons behind the Banks' Internationalization

Behind the internationalization of Chinese and Indian banks are similar intentions: all banks are following their clients. Even though the results of analyzing Chinese banks are more significant, Indian banks pursue the client following strategy as well. However, it cannot be excluded that other factors might have a vital impact on the reasons for the internationalization of Indian banks.

Since the Chinese as well as the Indian banking market both contain high potential for further growth, seeking new markets is not the key reason for the internationalization of Chinese and Indian banks. In China, for example, consumer banking is still in an early stage of development (Kern 2009: 13). In India only less than half of households have a bank account. In addition, opportunities for enhancing business in rural areas are on the rise due to increasing living standards (Page et al. 2007: 4). As a result, international operations of Chinese and Indian banks are not primarily focused on seeking new markets. The compared banks are expanding their operations to overseas markets in order to serve their international active clients.

Also differences in the reasons behind the banks' internationalization have been identified. The nexus between entered countries by Indian banks and trade relations of these countries with India is not as distinct as the connection between entered countries by Chinese banks and trade relations of these countries with China. This indicates that other vital factors apart from export relations and FDI flows influence the reasons for foreign market entries by Indian banks.

A strong NRI population, for example, is an additional important factor for Indian banks to enter foreign markets. SBI, ICICI, and PNB are all present in the UAE, whose population consists of 32% NRIs (High Level Committee On Indian Diaspora 2001: 21), and the UK, which has a NRI population of more than 1.2 million (ib.: 124). Moreover, SBI and ICICI entered the market of Canada (Indian community of about 851,000 (ib.: 185)) and the US (more than 1.6 million NRIs (ib.: 169)). India's remittance economy is vast and amplifies the attractiveness of overseas markets (India Incorporated 2011a). However, no internationalization model exists that takes a strong diaspora into consideration.

All in all, Chinese and Indian banks go abroad to meet the demand of their clients that claim international delivery of services. Internationalization of Chinese and Indian banks can be seen as a way of maintaining relationships with clients from the home market which are now operating abroad. The client following strategy of Chinese banks is also supported by the analysis of demand conditions of China's banking industry that revealed that the internationalization is driven by the internationalization of non-financial firms and that raising capital in foreign markets is not necessary due to huge savings deposits. Even though India's savings rate is not as high as China's, it is still one of the world's highest (Basu 2007). Consequently, demand conditions of India's banking industry also support that banks do not have to enter foreign market to raise capital. Furthermore, China's and India's markets both contain high potential for further growth militating against the market seeking strategy. Chinese and Indian banks do not have to primarily enter foreign markets to seek opportunities to increase their sales.

5.5 Comparison of Entry Mode Choice

Entry mode choices of Chinese and Indian banks exhibit three major differences. First, Chinese banks are generally able to operate in a broader area since they have bigger correspondent banking networks than their Indian counterparts. Second, Chinese banks

expose themselves in a speedier manner to foreign markets. They seldom make use of representative offices and mostly enter foreign markets immediately with branches or subsidiaries, which involve higher investments and hence higher risks. Third, Chinese banks establish more subsidiaries than Indian banks. Similarities exist regarding branches as most commonly used entry mode and rarely used offshore banks.

Chinese banks are able to operate in more countries or regions of the world as they have larger correspondent banking networks, which allow them to conduct business in foreign markets where they are physically not present (Casu et al. 2006: 86). BOC has correspondent banking relations to more than 1,200 banks. ICBC and CCB in fact have more than 1,400 correspondent banking relations. In contrast, ICICI operates a network of around 950 correspondent banks. SBI and PNB are connected to an even smaller network, having relations to 522 and 217 correspondent banks, respectively. This implies that Chinese banks have a stronger international presence and are able to provide services in more countries than Indian banks. Since broad networks of correspondent banks are required to meet the needs of international oriented customers regarding quality and quantity of services (Kollar 1989: 441), Chinese banks are better prepared to serve their international orientated customers.

While Indian banks mostly gradually build up their presence in foreign countries, starting with representative offices as a first step and then gradually expanding their exposure to the new markets, Chinese banks generally expose themselves stronger to overseas markets from the beginning. They seldom make use of representative offices and enter new markets by setting up branches or subsidiaries, implying higher investments and risks. However, the vast internationalization of non-financial Chinese companies raised the overseas demand for corporate finance, investment banking services and financial intermediaries (Jiang 2011), which ensures demand in foreign markets and hence decreasing the risks. The abandonment of representative offices enables Chinese banks to faster establish a strong presence in new markets than Indian banks. Since representative offices are not allowed to offer banking activities (Kim and Kim 2006: 297), Indian banks are limited in the scale of their operations until they upgrade their representative offices to branches or subsidiaries. This shows in addition the influence of different demand conditions on the entry mode choice.

Indian banks make less use of foreign subsidiary banks than Chinese banks. This indicates that Indian banks mainly use their offices in foreign markets to manage the MNB's assets in foreign money and capital markets. Chinese banks utilize the advantages of foreign subsidiary banks more often. Foreign subsidiary banks are generally used to exploit local banking opportunities. Since these banks are regarded as local institutions, they get more recognition by local customers than foreign branch banks. In addition, the management of a subsidiary can exploit the market potential more effective since it is more independent of the MNB and apply a strategy specialized to unique conditions of the host country's market (Büschgen 1998: 621). Consequently, Chinese banks are using their international foreign branch and subsidiary banks to manage the MNB's assets as well as to exploit local business opportunities in overseas markets, while the foreign locations of Indian banks are mainly part of the MNB's operations strategy to manage its assets in foreign money and capital markets or to raise liquidity and only partly to tap local business opportunities. Another explanation for the increased use of foreign subsidiary banks by Chinese banks is related to laws and regulations. As the Chinese regulatory framework still requires improvements (Sih et al. 2007: 16), the establishment of foreign subsidiary banks, which are subjected to the host country's law, could be advantageous. This also proofs the influence of government on the entry mode choice.

Finally, Chinese and Indian banks both have just few, if any, offshore banks. BOC has an office on the Cayman Islands, SBI in Mauritius and ICICI has plans to open a branch there (The Economic Times 2010). In addition, all analyzed Chinese banks are present in Macau yet it could not be clarified if the banks use the location for offshore banking or to exploit local business opportunities. Thus, offshore banking is not broadly operated by Chinese or Indian banks.

6 Conclusion

The purpose of this study was to compare the internationalization of Chinese and Indian banks and to ascertain whether they are pursuing similar internationalization patterns and strategies. In order to accomplish the designated target, first, the home market conditions of China's and India's banking industry have been compared since these shape the prerequisites for any internationalization strategy. Second, the internationalization patterns and strategies of the three biggest Chinese and Indian banks have been compared. These comparisons revealed that China's and India's home market conditions and

internationalization patterns and strategies of Chinese and Indian banks are chiefly similar.

Porter's Diamond Model was applied to analyze the home market conditions, covering factor conditions, demand conditions, related and supporting industries, firm strategy, structure, and rivalry as well as government. Besides minor differences in factor conditions, demand conditions, and government, the examination disclosed three findings: First, similarities in demand conditions led to similar reasons behind the banks' internationalization but at the same time, differences in demand conditions resulted in different entry mode choices of Chinese and Indian banks. Second, the firm strategy caused similarities in the starting points of international operations of Chinese and Indian banks. Third, differences in legal provisions also influenced the entry mode choice.

China's banking industry profits from advantageous factor conditions. Especially China's higher education and research turned the balance. While India's higher education sector can be characterized by systematic disinvestments, China has established a large and differentiated higher education system that provides access of companies to many students while having some of the world's best research institutions at the same time (Altbach 2005: 244-245). Similarities exist regarding availability and use of information technology. Modern technological infrastructure is available in urban areas of both countries and utilized by the major banks.

China's and India's banking sector both have favorable demand conditions. The demand for banking services is huge in both countries and will most likely further increase (Deloitte Touche Tohmatsu 2007: 6; McKinsey & Company 2010: 4). China's and India's banking industry are characterized by massive savings deposits that supply the banks with capital for their international operations (Kern 2009: 13; Basu 2007). Even though India's savings rate is lower than China's because of the young population, it is still one of the world highest (Basu 2007). Further similarities occur regarding consumer banking, which is in both countries in an early stage of development hence containing huge growth potential (Kern 2009: 13; Page et al. 2007: 3-4). However, China's domestic demand is internationally more active and drives the internationalization of Chinese banks (Jiang 2011). Demand conditions of the home market have major impacts on the internationalization strategy of banks. Particularly the reasons behind Chinese and Indian

banks' internationalization and the entry mode choice are characterized by demand conditions.

Related and supporting industries of the banking sectors in China and India are quite similar. Both markets are bank dominated (Kern 2009: 4; Wells and Schou-Zibell 2008: 4) and bond markets are underdeveloped (Fleuriet 2006: 2; Ghosh 2003: 5). Although India's stock market and capital market supervision are more efficient, no significant impact on the internationalization of Indian banks had been identified.

The analysis of the fourth attribute of Porter's Diamond, firm strategy, structure, and rivalry, revealed several similarities. In both countries the majority of banks is state owned, (Dobson 2007: 3; Page et al. 2007: 4) and the governments intervene in banking operations (Shih et al. 2007: 15; Dobson 2007: 13). Consequently, the firm strategy of these banks is not only aligned to economic goals but also to political ones. Moreover, foreign banks are confronted with a discriminating regulatory framework in both countries, which decreases rivalry (Wei and Wheatley 2010; Xu and Lin 2007: 884; Kern 2009: 14).

The impacts of China's and India's government on the banking industry are different in the two countries. The Indian government has launched significant financial deregulation measures during the 1990s improving efficiency, productivity, and profitability (Das and Ghosh 2009: 510; Tharoor 2011). In China, the regulatory framework still requires improvements (Sih et al. 2007: 16) because the reformation of China's state-owned banking system has only recently been initiated (Lee 2011). Deregulation measures of India's government affected the banking industry positively and improved the competitiveness of Indian banks. In China, the establishment of international standards and an adequate legal and regulatory environment for the banking sector to meet the challenges of today's global economy is still in progress (Zdenek 2007: 36; Sih et al. 2007: 16).

The timing strategies of Chinese and Indian banks' internationalization show similarities as well as differences. Neither Chinese nor Indian banks display similar timing strategies among themselves hence there is no Chinese or Indian timing strategy but similarities have been identified between the biggest Chinese and Indian banks. More precisely, three different timing patterns have been ascertained that attributed to the influence of the governments on the banks' strategies. First, in China as well as in India, one of the

biggest banks (BOC and SBI) has a comparatively long record of internationalization. Therefore these banks are in possession of a relative broad international network of branches and subsidiaries. Even though BOC and SBI do not pursue the same timing strategy, they show similar timing patterns since SBI made rarely use of the sprinkler strategy and utilized mainly the waterfall strategy. Second, in both countries one bank (ICBC and ICICI) could be identified whose internationalization process is relatively short but the pace of expansion is fast. In order to process this rapid growth of their international presence, both banks used the combined waterfall-sprinkler strategy. Third, the remaining two of the biggest banks in China and India (CCB and PNB) are also relatively new players in international markets but their internationalization strategy is less aggressive and of a slower pace since they apply the waterfall strategy. Besides these three timing patterns, the identification of each individual timing strategy of the compared banks is an important result regarding changes in the international banking landscape. Since the banks pursue different timing strategies, the impacts of their international expansions do not hit markets simultaneous.

The analysis of the psychic distance of countries entered by Chinese and Indian banks reveals that neither the market selections of Chinese banks nor the market selections of Indian banks are in accordance with the theory of the psychic distance chain model. The analyzed banks from both countries do not first enter psychic close markets before going to more distant markets. The psychic distance of foreign markets is not taken into account at the market selection. Nevertheless, it will be noted that although the psychic distance chain model is able to explain the internationalization of western companies (Johanson and Vahlne 1977: 24), it fails to elucidate the market selection of Chinese and Indian banks. However, as it was the objective of this study to determine similarities and differences between the internationalization process of Chinese and Indian banks, the fact that neither Chinese nor Indian banks enter foreign markets in sequence of their psychic distance is another similarity.

The intentions of Chinese and Indian banks behind their international operations are identical: they want to follow their clients. Chinese and Indian banks go abroad to meet the demand of their clients that claim international delivery of services. Hence the internationalization of Chinese and Indian banks is a way of maintaining relationships with clients from the home market which are now operating abroad. International operations of Chinese and Indian banks are not primarily focused on seeking new markets

since their home markets contain high potential for further growth (Kern 2009: 13; Page et al. 2007: 4). However, also slight differences in the reasons behind the banks' internationalization have been identified. The link between entered countries by Indian banks and the trade relations of these countries with India are not as distinct as in the Chinese case. This led to the assumption that foreign market entries of Indian banks are also influenced by other attributes that have not been taken into consideration, for example, a strong NRI population. Nevertheless, similar home market conditions led to similar reasons for foreign market entries. High potential for growth in the domestic market and international orientated clients induced Chinese and Indian banks to pursue the client following strategy.

Despite similarities regarding foreign branch banks that are the most commonly entry mode of Chinese and Indian banks, the banks exhibit three major differences. First, Chinese banks are generally able to operate in a broader area since they have bigger correspondent banking networks than the compared Indian banks. Second, Chinese banks take faster more exposure to foreign markets. They seldom make use of representative offices and mostly enter foreign markets immediately with branches or subsidiaries, which involve higher investments and hence higher risks but enables Chinese banks to establish a strong presence in new markets faster than Indian banks. Chinese banks are able to take higher exposure to foreign markets because the vast internationalization of non-financial Chinese companies raised overseas demand for corporate finance, investment banking services and financial intermediaries (Jiang 2011), which ensure demand in foreign markets and hence decrease the risks. Third, Chinese banks establish more subsidiaries than Indian banks. This indicates that Indian banks mainly use their offices in foreign markets to manage the MNB's assets in foreign money and capital markets. Chinese banks in contrast use foreign subsidiary banks to exploit local banking opportunities. They utilize their international foreign branch and subsidiary banks to manage the MNB's assets as well as to exploit local business opportunities in foreign markets, while the foreign locations of Indian banks are mainly part of the MNB's operations strategy to manage its assets in foreign money and capital markets or to raise liquidity and only partly to tap local business opportunities.

The research question of this paper *"Which similarities/differences exist between the internationalization of Chinese and Indian banks?"* can thus be answered as follows: While similarities exist regarding timing, local dimension, and causality, differences exist

regarding modality of Chinese and Indian banks' internationalization. The developed hypothesis *"Chinese and Indian banks pursue similar internationalization patterns and strategies. A potential, decisive factor for these similar internationalization patterns and strategies are similar home market conditions of China's and India's banking industry."* was not refuted and found support by the analysis. First, internationalization patterns and strategies of Chinese and Indian banks are similar regarding timing strategies, non-conformity with the psychic distance chain, and reasons behind the banks' internationalization. Second, similar home market conditions of China's and India's banking industry are a potential, decisive factor for similar internationalization patterns and strategies. Similarities in demand conditions led to similar reasons behind the banks' internationalization but at the same time differences in demand conditions resulted in different entry mode choices of Chinese and Indian banks. Moreover, differences in government also influenced the entry mode choice. Finally, the firm strategy caused similarities in the starting points of Chinese and Indian banks' international operations.

Besides the mentioned results four interesting topics have been identified that require further research:

(1) The analysis of the timing strategies revealed that none of the compared banks make use of the sprinkler strategy. That some banks utilized the combined waterfall-sprinkler strategy yet proofs that the banks tried to exploit the advantages of the sprinkler strategy but no bank pursued a clear sprinkler strategy. This might be caused by the huge need of resources that the strategy requires. As ICBC, CCB, and BOC, which are today three of the world's four largest banks by market value (Lagerkranser 2009), the question arises if simultaneous entries into all intended foreign markets is possible at all.

(2) Since three different timing patterns have been identified, to which each a Chinese and an Indian bank could be matched, the question arises if these three types are unique for China's and India's banking industry or if other banking industries of similar emerging countries exhibit these timing patterns as well.

(3) Neither the internationalization of Chinese banks nor the internationalization of Indian banks is in accordance with the theory of the psychic distance chain model. The psychic distance of foreign markets is not taken into account at the market selection. Further research is required to figure out why the psychic

distance chain model fails to elucidate the internationalization process of Chinese and Indian banks.

(4) Even though Chinese and Indian banks pursue the client following strategy, the results for Chinese banks are more distinct. This indicates that other vital factors apart from export relations and FDI flows influence the reasons for foreign market entries by Indian banks. As discussed in chapter 5.4, a strong NRI population is, for example, an additional important factor for Indian banks to enter foreign markets. However, no internationalization model exists that takes a strong diaspora into consideration. Therefore, further research is necessary to prove the scale of influence of a strong diaspora and to identify other factors that affect internationalization reasons of Indian banks.

Abbreviations

ABS – asset backed securities

BIS – Bank for International Settlements

BoAML – Bank of America Merrill Lynch

BOC – Bank of China

BOCI – Bank of China International

BoP – balance of payment

CBRC – China Banking Regulatory Commission

CBS – core banking solutions

CCB – China Construction Bank

CIA – Central Intelligence Agency

DFHI – Discount & Finance House of India

DFI – development finance institution

DGCI&S – Directorate General of Commercial Intelligence and Statistics

DIFC – Dubai International Financial Center

EC – European Commission

FPO – follow-on public offer

GDF – Global Development Finance

GDP – gross domestic product

HNWI – high-net-worth individual

ICBC – Industrial and Commercial Bank of China

ICICI – Industrial Credit and Investment Corporation of India

IDV – Individualism Index

IPO – initial public offering

M&A – merger & acquisition

MAS – Masculinity Index

MNB – multinational bank

MNC – multinational company

MOFCOM – Ministry of Commerce People's Republic of China

NPL – non-performing loan

NRI – non-resident Indian

PDI – Power Distance Index

PNB – Punjab National Bank

PwC – PricewaterhouseCoopers

RBI – Reserve Bank of India

RMB – Renminbi (Chinese currency)

SBI – State Bank of India

SOE – state owned enterprise

UAE – United Arab Emirates

UAI – Uncertainty Avoidance Index

UNCDAT – United Nations Conference on Trade and Development

UK – United Kingdom

US – United States

USA – United States of America

USD – United States Dollar

WDI – World Development Indicators

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Appendix

Appendix 1

Table A- 1 Psychic Distance of countries entered by BOC

Year of entry	Country	PDI	IDV	MAS	UAI	Psychic Distance
1917	Hong Kong	68	25	57	29	37
1929	UK	35	89	66	35	119
1936	Singapore	74	20	48	8	56
1979	Luxembourg	40	60	50	70	126
1980	Japan	54	46	95	92	133
1981	US	40	91	62	46	121
1985	Australia	36	90	61	51	130
1986	France	68	71	5	29	135
1993	Russia	93	39	36	95	117
1994	Thailand	64	20	34	64	72
1997	Zambia	64	27	41	52	60
1998	Italy	50	76	70	75	125
2000	South Africa	49	65	63	49	88
2001	Malaysia	104	26	50	36	50
2002	Philippines	94	32	64	44	32
2003	Indonesia	78	14	46	48	36
	Hungary	46	80	88	82	158
2009	Brazil	69	38	49	76	82

Source: Author’s compilation; based on Hofstede 2009

Table A- 2 Psychic Distance of countries entered by ICBC

Year of entry	Country	PDI	IDV	MAS	UAI	Psychic Distance
1993	Singapore	74	20	48	8	56
1995	UK	35	89	66	35	119
1997	Japan	54	46	95	92	133
	Korea	60	18	39	85	94
	US	40	91	62	46	121
1999	Germany	35	67	66	65	117
	Luxembourg	40	60	50	70	126
2001	Hong Kong	68	25	57	29	37
2003	Russia	93	39	36	95	117
2008	Australia	36	90	61	51	130
	UAE	80	38	52	68	60
2009	Vietnam	70	20	40	30	46
2010	Thailand	64	20	34	64	72
	Malaysia	104	26	50	36	50
	Canada	39	80	52	48	123
2011	Pakistan	55	14	50	70	77
	Italy	50	76	70	75	125
	Belgium	65	75	54	94	136
	Netherlands	38	80	14	53	167
	France	68	71	5	29	135
	Spain	57	51	42	86	124

Source: Author's compilation; based on Hofstede 2009

Table A- 3 Psychic Distance of countries entered by CCB

Year of entry	Country	PDI	IDV	MAS	UAI	Psychic Distance
1991	UK	35	89	66	35	119
1995	Hong Kong	68	25	57	29	37
1997	US	40	91	62	46	121
1998	Singapore	74	20	48	8	56
1999	Germany	35	67	66	65	117
2000	South Africa	49	65	63	49	88
2003	Japan	54	46	95	92	133
2004	Korea	60	18	39	85	94
2007	Australia	36	90	61	51	130
2009	Vietnam	70	20	40	30	46
2010	Russia	93	39	36	95	117
2011	Taiwan	58	14	45	69	78

Source: Author's compilation; based on Hofstede 2009

Table A- 4 Psychic Distance of countries entered by SBI

Year of entry	Country	PDI	IDV	MAS	UAI	Psychic Distance
1974	Germany	35	67	66	65	96
1975	Bangladesh	80	20	55	60	52
1977	Singapore	74	20	48	8	71
1978	Japan	54	46	95	92	116
	Hong Kong	68	25	57	29	44
1982	Canada	39	80	52	48	82
	US	40	91	62	46	92
1983	Belgium	65	75	54	94	95
1997	South Africa	49	65	63	49	61
	China	80	20	66	40	41
1998	Australia	36	90	61	51	99
	Indonesia	78	14	46	48	53
2006	Turkey	66	37	45	85	78
	Israel	13	54	47	81	120
2007	UAE	80	38	52	68	45

Source: Author's compilation; based on Hofstede 2009

Table A- 5 Psychic Distance of countries entered by ICICI

Year of entry	Country	PDI	IDV	MAS	UAI	Psychic Distance
2002	Russia	93	39	36	95	100
2003	Singapore	74	20	48	8	71
	UK	35	89	66	35	98
	Canada	39	80	52	48	82
	China	80	20	66	40	41
	UAE	80	38	52	68	45
2004	Bangladesh	80	20	55	60	52
2005	South Africa	49	65	63	49	61
	Hong Kong	68	25	57	29	44
2007	Thailand	64	20	34	64	87
	Indonesia	78	14	46	48	53
	Malaysia	104	26	50	36	59
2008	US	40	91	62	46	92
	Germany	35	67	66	65	96

Source: Author's compilation; based on Hofstede 2009

Table A- 6 Psychic Distance of countries entered by PNB

Year of entry	Country	PDI	IDV	MAS	UAI	Psychic Distance
2004	China	80	20	66	40	41
2005	UAE	80	38	52	68	45
2007	UK	35	89	66	35	98
	Hong Kong	68	25	57	29	44
2009	Norway	31	69	8	50	125

Source: Author's compilation; based on Hofstede 2009

Appendix 2

Abstract

Despite vast research on the internationalization of banks, little is known about the internationalization of banks from emerging countries. While American and European banks are consolidating their businesses after the Global Financial Crisis, banks from emerging countries are looking to expand; particularly Chinese and Indian banks are increasingly becoming global in their outlook. Competition will increase significantly in the fields where these banks are active if they pursue similar patterns and strategies, which would not only affect Chinese and Indian banks but the whole international banking landscape. This study examines, therefore, the internationalization patterns and strategies of Chinese and Indian banks. First of all, home market conditions of China's and India's banking industry are analyzed in order to identify which competitive advantages are at the banks' disposal for an internationalization strategy. Furthermore, the investigation delves into the internationalization process of the three biggest Chinese and Indian banks. These six banks are examined regarding their timing strategies, market selection, reasons behind their internationalization, and entry modes. The results revealed that the patterns and strategies of Chinese and Indian banks' internationalization are chiefly characterized by similarities. All compared banks follow their clients to foreign markets implying increased competition in trade finance, corporate finance, and investment banking. However, most banks pursue rather structured than aggressive strategies indicating assessable changes in the international banking landscape.

Appendix 3

Kurzzusammenfassung

Obwohl es umfangreiche Literatur zum Thema Internationalisierung von Banken gibt, ist nur wenig über die Internationalisierung von Banken aus Schwellenländern bekannt. Während amerikanische und europäische Banken ihre Produktlinien straffen und ihren Focus wieder aufs Kerngeschäft legen, expandieren Banken aus Schwellenländern und erweitern ihre internationalen Geschäftsaktivitäten; insbesondere chinesische und indische Banken richten ihre Geschäftsstrategien auf Expansionen ins Ausland aus. Wenn diese Banken ähnliche Strategien verfolgen, würde sich der Wettbewerb in den betroffenen Geschäftsfeldern enorm erhöhen und somit nicht nur Auswirkungen auf die betroffenen Ländermärkte haben, sondern auf die gesamte internationale Bankenlandschaft. Daher werden die Internationalisierungsstrategien chinesischer und indischer Banken in dieser Studie untersucht. Anfangs werden die Bedingungen auf den Heimatmärkten von Chinas und Indiens Bankensektoren analysiert, um die Wettbewerbsvorteile der Banken zu identifizieren, welche die Internationalisierungsstrategien maßgeblich beeinflussen. Folgend werden die Internationalisierungsprozesse der drei größten chinesischen und indischen Banken erforscht. Die internationalen Geschäftstätigkeiten dieser sechs Banken werden hinsichtlich ihrer zeitlichen, lokalen, kausalen und modalen Dimension überprüft. Die Untersuchung ergab, dass die Internationalisierungsstrategien von chinesischen und indischen Banken überwiegend als ähnlich charakterisiert werden können. Alle analysierten Banken folgen ihren Kunden in ausländische Märkte, was zu vermehrtem Wettbewerb im Bereich Außenhandelsfinanzierung, Unternehmensfinanzierung und Investmentbanking führt. Da die meisten Banken jedoch eher strukturierte als aggressive Strategien verfolgen, sind die Veränderungen im internationalen Bankgeschäft berechenbar.

Appendix 4

Lebenslauf

Angaben zur Person

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Geburtsort	Lüneburg/Deutschland
Staatsangehörigkeit	Deutsch

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Seit 2010	**Universität Wien** Studium des Studienganges „*East Asien Economy and Society*" Studienabschluss *Master of Arts (MA)*
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2003 bis 2005	**Berufsbildenden Schulen I Lüneburg Fachgymnasium Wirtschaft** Erwerb der Allgemeinen Hochschulreife (Abitur)

Berufliche Erfahrung

11. – 12. 2009/10	**Norddeutscher Weihnachtsmann GmbH** Dienstleistungsunternehmen Aufgabenbereich: Buchhaltung, Logistik
07. 2008 – 10. 2008	**Datacenter Dynamics Ltd., London** Eventmanagement Aufgabenbereich: Kundenakquisition / -betreuung, Assistenz bei Messeorganisation, Betreuung der Datenbank

Sprachen

Deutsch	Muttersprache
Englisch	verhandlungssicher
Chinesisch	Grundkenntnisse

Interessen

Sport	Fußball, Beachvolleyball, Laufen, Fitness
Reisen	Ostasien, Ostafrika, Nordamerika, Europa
Ehrenamtliches Engagement	Freiwillige Feuerwehr, Unterstützung einer Flüchtlingsfamilie