Foreign Entry and Banking Efficiency in Asia

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Abstract

Using data from 33 Asian countries from 1996 to 2011, we investigate the effects of foreign ownership, mode of entry, and operation type on bank efficiency. In the first-stage regression, we compute bank's profit and cost efficiency using stochastic frontier analysis (SFA) controlling directly both country and time effects. In the second stage regression, we investigate the effects of ownership, mode of entry, and operation type on the bank efficiency. We find that foreign banks are more cost efficient than domestic banks, but not more profit efficient than domestic private banks, while state-owned banks are the least profit and cost efficient. Regarding mode of entry by a foreign bank, we find that Greenfield banks are the least profit and cost efficient. Local bank acquirers are the most cost efficient and joint ventures are more profit efficient. We do not find the evidence on the profit efficiency difference between foreign bank's branch and subsidiary, but foreign bank's branch is more cost efficient than foreign bank's subsidiary.

***JEL Classification*:** G21; G28; G34; F23
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