Abstract

China's banking system has experienced significant changes during the last decade, such as the joint-stock reform of the state-owned banks, the WTO commitment to open up the banking industry to the foreign competitors, and the minority foreign ownership of domestic banks and the IPOs of domestic banks. It offers a unique chance to investigate the effect of such changes on the competitive conditions of banks in China. This thesis uses a non-structural estimation technique, the Panzar-Rosse models to assess empirically competitive conditions in China banking system over the period 1997-2006. The panel data approach is employed to cope up with dynamic structure of the sample banks. The empirical results indicate that bank revenues were earned as if under conditions of monopolistic competition. The finding implies that commercial banks in China still compete for core business (deposit and lending) intensively. Larger banks are not more profitable than smaller banks. Banking reform has been focused on ownership and investment on equipment and new technology has no significantly positive effect on bank revenues.