Abstract

As one of the four key industries in both Hong Kong and Macau, the banking industry has undergone tremendous changes during the past two decades due to economic globalization as well as the increasing political and economic integration in the Greater China Region. Using the non-parametric data envelopment analysis (DEA) approach, this thesis estimates the technical efficiency and the Malmquist Total Factor Productivity (TFP) change index of 31 major banks in the two regions over the period 1995-2006. The Malmquist TFP change index is further decomposed into three components: technological change, pure efficiency change and scale efficiency change. The results show that banks in Hong Kong are more technical efficient than their counterparts in Macau on average. In addition, large Hong Kong banks are more technical efficient than large banks in Macau, whereas small Hong banks are less technical efficient than small Macau banks. However, both small and large Macau banks enjoy a higher TFP growth rate than Hong Kong banks. The results also suggest that bank TFP growth is mainly driven by technical progress in both regions. Furthermore, both Hong Kong and Macau banks record decreasing technical efficiency in general. Finally, banks in Macau report substantial TFP growth after the handover in 1999, whereas Hong Kong banks witness a big drop in TFP change rate after the 1997 handover which might be caused by the Asian financial crisis.