



Chapter XX

The Foreign Banks' Influence in Information Technology Adoption in the Chinese Banking System

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EXECUTIVE SUMMARY

Foreign direct investment has been a common conduit of technology transfer for the locally funded enterprises in the host country to adopt foreign technology. In addition, it could be a powerful agent in affecting technology adoption within a technologically backward host country. By contrast, foreign direct investment has not been a significant source of information technology transfer into the Chinese banking system. Neither has it been an effective agent in affecting technology adoption in this system. The priority and concern of the Chinese government in protecting, and retaining control of, its domestic banks and financial market have kept foreign direct investment in the banking industry at a relatively modest level. The controlled industry, the long wait for full market competition, and the inadequate infrastructure and operating framework have inhibited the foreign banks from adopting highly sophisticated information technology for their restricted business operations and from being an effective conduit in technology transfer.

BACKGROUND

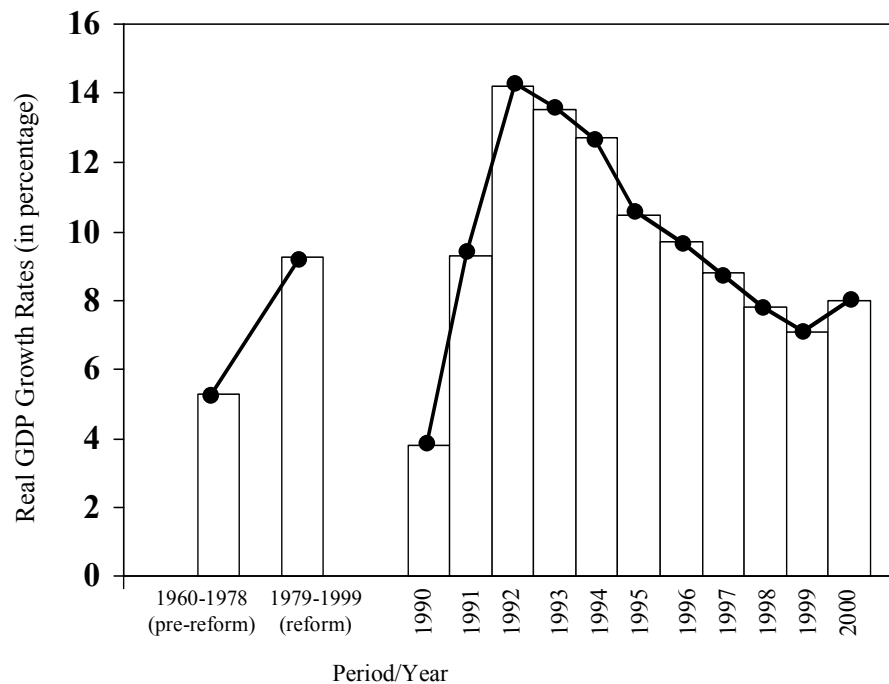
The Chinese Economy

The Chinese economy's GDP (gross domestic product) has been riding on a positive growth phenomenon, since the initiation of its economic reform program and its transition from a command to a market-based economy in 1979. The new direction undertaken by the Chinese government has definitely propelled the growth of the economy between the pre-reform and reform periods, as shown in Graph 1. The real GDP growth between 1979 and 2000 (in the reform period) was at an average annual rate of 9.25%, superseding the average annual growth of 5.3% experienced between 1960 and 1978 (in the pre-reform period). Although the growth had lost its vigor between 1992 and 1999, many economists and observers remained optimistic in the potential of this emerging market economy.

The Chinese Banking System

Prior to 1979, the financial flows in the Chinese socialist economy were largely governed by the predetermined central plan. Under this system, the state-owned banks were the most active and important financial agents in the economy. They provided the amount of money required to produce the predetermined amount of output and super-

Graph 1. China's real GDP growth rates: Pre-reform and reform periods and annual



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