The Bank of China: From a Turbulent Past to a Strategic Future – What Does Its Presence in Malaysia Show?

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Abstract: Historically, the Bank of China (BOC) has shouldered responsibilities for the various governments of China. And recently, since Bank of China is in the strategic sector of China, it has assumed the policy responsibilities of the Chinese state such as "Going Out" strategy and Belt and Road Initiative. Most of BOC's Malaysian business only deal with the home (China) country's international business rather than the host (Malaysia) country's local business. Albeit, the BOC has ventured into more local businesses than before, the BOC's Malaysia's China-related business is not only far more extensive but also more competitive than its local business activities. Although some efforts have been taken to strengthen its local business and to localise, the internationalisation of the BOC has focused most on the internationalisation of renminbi rather than the internationalisation of the bank/company. Hence, if localisation is viewed as one major method of internationalisation, then the BOC has yet to participate strongly in that activity. Consequently, the focus on home country's favourable support is likely to make the BOC less competitive internationally. Hence, we take the position that the BOC should focus strongly on localisation to gradually join the ranks of localised mainstream foreign banks to become more competitive.

Keywords: Bank of China, multinationals, Malaysia, internationalisation, localisation
JEL classification: F23, F33, O53

1. Introduction

The internationalisation of Chinese enterprises is a topic receiving much attention these days, given the high-profile mergers and acquisitions in advanced countries that speak to these enterprises' deep pockets (see, for instance, Ding et al., 2009). The motives for these acquisitions have also come under scrutiny. But these high-profile cases represent only the tip of the iceberg. Less publicised are Chinese enterprises' expansion into emerging or developing country markets. This expansion often comes with financial

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support from Chinese banks, of which the top five are now listed as among the top 10 largest banks in the world by assets, thanks to the damage done by the global financial crisis to western mega-banks.

This paper deals with one of China's big five banks – the Bank of China (henceforth BOC) – the oldest among these and the most experienced in terms of international exposure. Its longevity is associated with a corporate history that saw regime changes and shifting roles with each change. Key among these roles is support as an institution of the state, including central banking and as issuer of currency notes. The relevance of this history lies in ts explaining at least in part the present Chinese government's determination to consider banking a strategic sector that justifies full state control and in banking reform that lags behind the broader state enterprise reform (Li & Cheong, 2018).

To this strategic control has been added the state objective of "Going Out" strategy ("走出去"战略) and Belt and Road Initiative ("一带一路"倡议), with banks providing financial support to internationalising Chinese enterprises (Li & Cheong, 2021). BOC's operations in a country hosting these enterprises provide a good illustration of how it combines these roles in the context of the China-host country bilateral relationship. These roles prompt an important question: to what extent does the Bank prioritise its strategic objectives over its commercial objectives? A second question relates to its mode of internationalisation – whether and to what extent localisation to adapt to local market conditions is attempted. Finally, a related third question is how international has the bank become in comparison with global Western banks? An attempt to answer these questions is made in reviewing the Bank's operations in Malaysia. Malaysia[1] has been chosen because of the country's (Malaya and Singapore before that) historical though intermittent ties with the BOC. In contextualising these questions, it is not claimed that the answers found for Malaysia are applicable elsewhere. Still, some implications can be drawn from the Malaysian case that speaks to wider issues facing the Bank as it internationalises.

In the next section, the turbulent history of the BOC is briefly sketched to aid understanding of the Chinese state's view of its banks today, particularly of the BOC, as well as how this history affects its operations overseas. The section that follows deals with the Bank's internationalisation in the years subsequent to the state's call to its enterprises to "go out". The fourth section deals with the Bank in Malaysia. The final section closes with some observations on the role of the Bank as an international bank.

2. A Turbulent History

The BOC, the oldest bank in China, was founded in February 1912. Born of the desire of the new government of Sun Yat-Sen to have a central bank that can control the monetary affairs of the country, it was actually a restructure of the Daqing (大清)

1 Malaysia was formed in 1963. Prior to its formation, the territories of focus were Malaya and Singapore, collectively referred to as "British Malaya" before each of these territories gained their independence from British rule.

Bank established by the Qing Dynasty to function as a central bank. This restructure consisted of eliminating the shares belonging to the Qing Government, converting private shareholders' shares from Daqing Bank to the BOC at par value, and attracting additional investments (Caijing Online, 2012).

The period almost immediately after the 1911 revolution saw the rise of warlords that took control of different parts of China. In the north was the Beiyang Government, in the centre the Wuhan Government, and in the south the Guangzhou Government. Chiang Kai-shek[2] was the head of the Guangzhou Government. BOC was controlled by the Beiyang Government, consisting of the group that successfully overthrew the Qing Dynasty. In 1923, private sector capital purchased the government's share capital, and the BOC was no longer controlled by the Beiyang Government but by the private sector (Qu & Luo, 2011).

The establishment of the Nanjing Nationalist Government in 1928 to replace the Beiyang Government, consequent upon Chiang's Northern Expedition, came with the need to have an independent Central Bank. Early efforts to restructure the BOC to play a more effective role were resisted by BOC itself (Bank of China, 2018a) since the largest shareholder of the BOC was the Xi family, which was also the agent for the British empire-backed Hong Kong and Shanghai Banking Corporation (HSBC). However, the Nanjing Nationalist Government was eventually able to force the BOC to restructure and raise the proportion of government shares to become the majority shareholder. In 1928, the BOC was transformed into an international exchange bank leaving control of the BOC in the government through both share ownership and management control. By then the government raised its share of capital in the BOC to 60%.

These machinations notwithstanding, the BOC's role as a central bank, or more broadly, its central banking role, was completely ineffective, unable to prevent adverse if not disastrous economic consequences from hitting China. This ineffectiveness has multiple causes, the most obvious of which is political turmoil and disintegration. The lack of a unified administration meant that government edicts could be challenged. Ma (2012, p. 11) described an incident in 1916 during the warlord era when the government under Yuan Shikai ordered the suspension of bank note convertibility among the two large governmental banks, the BOC and the Bank of Communications, both headquartered in Beijing. However, the Shanghai branch of the BOC took advantage of the status of Shanghai as a treaty port to collaborate with foreign banks and was able to defy the Chinese government and maintained convertibility. Even with the end of the warlord era, the rise of the Communists put paid to any semblance of a unified government under the Nationalists.

The lack of control over domestic monetary policy meant that external factors could impact China fully with the government having no instrument for policy mitigation. A good example is China's abandonment of the silver standard, which was alleged to have shielded it from the worse consequences of the Great Depression (Cheong et al., 2014). Without debating the merits of this hypothesis, the fact that silver prices slumped during the Great Depression meant the *de facto* devaluation

[2] Instead of the *pinyin* spelling Jiang Jieshi, we have retained the name that has been used by Western media.

of the Yuan, giving China's exports a boost. When the US went off the Gold Standard during the first year of President Roosevelt's term, China's comparative advantage began to erode. China's currency appreciated against that of the US and of other countries that left the Gold Standard. The result was a deterioration in China's balance of payments (Mihm, 2015). Worse, Roosevelt, overriding Treasury objections, was persuaded to pass the Silver Purchase Act, 1934, that mandated the Treasury Department to purchase silver "until the metal constituted a full quarter of the U.S. monetary supply or when the price hit $1.29" (Mihm, 2015). The resulting rise in the price of silver brought a rush of silver from China to the US, leading Friedman and Schwartz (1965) to conclude that the Chinese economy stalled. The resulting deflation in China and the loss of its silver reserves forced the Chinese government to eventually abandon the silver standard altogether in 1935. Without its currency backed by precious metal, the Chinese central bank turned to the printing press, especially with war with Japan looming. The result was accelerating inflation and rising hardship for an already suffering population.[3]

Finally, the sheer size of the country with different areas experiencing different economic situations and possessing different economic heft rendered it difficult to apply monetary policy uniformly. Ma (2012, p. 12) referred to "a complex but relatively transparent national system of multiple currency standards (or currencies) which themselves proliferated to over one hundred nationwide."

In 1942, the role of the BOC changed again. The Nationalist Government assigned new functions to the BOC, limiting its commercial banking functions to mobilising domestic savings and giving loans, supporting foreign trade and related investments and loans, and managing the government's foreign funds. Thus, the BOC became a specialised international trade bank. Most of its original businesses were gone and it no longer functioned as a central bank (Bank of China, 2018b). BOC's website summarised the Bank's role thus: "Between 1912 to 1949, the function of BOC changed three times: central bank of the government from 1912 to 1928, government authorised international exchange bank in 1928 and specialised international trade bank in 1942 (Bank of China, 2018c)."

However, a series of policies by the Nationalist Government, such as quantitative easing in 1945, foreign currency liberalisation in 1946, and "Gold Yuan Note" (金圆券) reform in 1948 led to inflation, currency system collapse, and the loss of loan resources, all of which brought financial paralysis and contributed to the eventual collapse and defeat of the Kuomintang regime. When the Communist Party took over China, the People's Bank of China (PBC), established in 1948 to be the central bank, began to issue a new currency "renminbi" (人民币), which was not based on foreign currencies until December 1948. The currencies were unified in 1950.

The BOC was taken over by the newly-founded government of the People's Republic of China (PRC) in 1949 and in December of the same year, the Bank of China General Management Department was moved from Shanghai to Beijing (Bank of China,

[3] Some authors (e.g. Ma, 2012, p. 15) argued that the migration from silver to paper currency represented "powerful testimonial to the remarkable progress achieved in the Chinese monetary and banking system during the 1920s and 1930s."

2018c). The BOC's foreign currency business was entrusted to PBC to enable the latter to control foreign currencies. In 1950, the BOC General Management Department was under the leadership of the People's Bank of China head office. On October 27, 1953, BOC was authorised as a specialised foreign exchange bank under the *Articles of Association of Bank of China* issued by the Government Administration Council of the Central People's Government.

Before China's opening-up in 1978, BOC and two other major banks set up, the Agricultural Bank of China (ABC) established in 1951 and the People's Construction Bank of China (PCBC), established in 1954, were not independent entities but subordinate to the state. They were specialised banks instead of commercial banks.

Major changes occurred with China's liberalisation. In line with broader state enterprise reform, the state initiated financial reform by the dissociation of the big-4 banks from the state. On March 13, 1979, BOC was separated from PBC and exercised the functions of the State Administration of Foreign Exchange under direct leadership of the State Council (Bank of China, 2018c). Its primary responsibilities were unified operation and centralised management of the national foreign exchange business. In September 1983, BOC's functions were separated from those of the State Administration of Foreign Exchange, with BOC still having the responsibility of operating the national foreign exchange business. Thus, BOC (again) became a specialised foreign exchange and trade bank under the supervision of PBC. In early 1994, it was transformed from a specialised foreign exchange and trade bank to a state-owned commercial bank in accordance with the reform of the national financial system.

The history of BOC can thus be divided into two periods. The first period up to after the Second World War and the ouster of the Kuomintang from China saw political turbulence and instability leading to shifting roles for BOC, the most important of which was as a central bank. For a variety of reasons already described, BOC was completely ineffective in this role, a mere bystander to economic disasters like hyperinflation, the loss of foreign reserves and currency collapse. These shifting roles notwithstanding, the state had a strong presence in shaping BOC policy and strategy, although this presence counted for little in terms of policy effectiveness. The second period that began with the founding of the PRC itself can be divided into two sub-periods, the first being a period of isolation until 1978, when liberalisation and state enterprise reform brought both reform and liberalisation to the banking sector. The Bank's strengthening and growth can be traced to this second sub-period. As during the first period, BOC's role was dictated by the state. Determined not to repeat history, however, China's leaders were determined never to lose control of BOC and through it the monetary system again. That China was a closed economy during the first sub-period, which was helpful for the Chinese leadership to retain tight control of banks during the second sub-period, drawing criticisms of the slow pace of banking reform.

3. Internationalisation, the "Going Out" Strategy, and the Belt and Road Initiative

In 1999, the Chinese government announced its "Going Out" strategy to encourage its enterprises to invest and do business abroad, which represented to an extent a reversal of policies to attract inward foreign direct investment (FDI). The reasons for

Table 1. China's outward FDI (flow)

	Total (billion $)[1]	State enterprises outward FDI (stock, %)[2]	No. of state enterprises (%)	Malaysia (million $)[3]	Singapore (million $)[3]
2022	163.12	52.4	5.6	1610.00	8300.00
2021	178.82	51.6	5.7	1336.25	8405.04
2020	153.71	46.3	5.3	1374.41	5923.35
2019	136.91	50.1	5.0	1109.54	4825.67
2018	143.04	48.0	4.9	1662.70	6411.26
2017	158.29	49.1	5.6	1722.14	6319.90
2016	196.15	54.3	5.2	1829.96	3171.86
2015	145.67	50.4	5.8	488.91	10452.48
2014	123.12	53.6	6.7	521.34	2813.63
2013	107.84	55.2		616.38	2032.67
2012	87.80	59.8		199.04	1518.75
2011	74.65	62.7		95.13	3268.96
2010	68.81	66.2		163.54	1118.50
2009	56.53	69.2		53.78	1414.25
2008	55.91	69.6		34.43	1550.95
2007	26.51	71.0	19.7	-32.82	397.73
2006	21.16	81.0	26.0	7.51	132.15
2005	12.26			56.72	20.33
2004	5.50		35.0	8.12	47.98
2003	2.85		43.0	1.97	-3.21
2002	2.70				

Notes: [1] 2002–2005 is non-financial data.
[2] Non-financial data.
[3] 2003–2006 is non-financial data.

Source: Ministry of Commerce of the People's Republic of China, National Bureau of Statistics and State Administration of Foreign Exchange (2023).

this shift in strategy are numerous; they include the accumulation of massive foreign exchange reserves invested overwhelmingly in low-yield US government debt, the need for Chinese enterprises to be internationally competitive, as well as domestic political economy factors (Wang, 2016). Led initially by state enterprises, other Chinese enterprises have responded to this call, resulting in a sharp rise in outward Chinese FDI (Table 1).

In light of the above trend, it is inevitable that China's state-owned banks, the BOC included, also go global. After all, China's banks provide financial and network support for Chinese enterprises that venture into markets like the Africa, Middle East and Latin America, whether in pursuit of commercial objectives or in compliance with strategic ones. Calkins (2013) noted that the internationalisation of Chinese banks confers two benefits to Beijing. The first is the greater reach of PBC. As more countries use the renminbi to settle transactions, the hand of the Chinese government is strengthened in dealing with multilateral organisations like the World Trade Organization (WTO) and International Monetary Fund (IMF). The second is that "the expansion of Chinese businesses has reached critical mass". Echoing these sentiments, Calkins (2013) reported Xiao Gang, Chairman of the BOC Board, as saying:

> … the Chinese economy has reached a point where its status as the biggest country will lead it to become the biggest in outbound direct investment. This new model not only requires Chinese enterprises to expand their global businesses but also China's banking sector to accelerate its internationalization.

In reality, the BOC's venturing overseas long predated the Chinese government's promulgation of the "Going Out" strategy. As described in the next section, the BOC had established branches in Southeast Asia in the 1930s to capture its thriving remittance business. BOC Singapore started its operations on June 15, 1936 while the first branch in Malaya began operations in 1939 (Bank of China Singapore, n.d.). But that period was brief; within a matter of months, Malaya and Singapore fell to Japanese forces. And again, as detailed later, BOC's return to Malaya after the Second World War was also ended by political differences between the two countries.

The current phase of internationalisation faced by BOC is unprecedented both in the variety of activities and in scale. Backing up the "going out" and "belt and road" rhetoric, by the end of 2022, BOC had 531 overseas branches covering 62 countries and regions around the world, including 42 countries jointly built under the Belt and Road Initiative. By the end of 2022, BOC had participated in more than 900 major projects of the Belt and Road Initiative, and provided more than 269 billion US dollars of credit support to countries along the route (Bank of China, 2023). Recently, the bank issued the world's first batch of "Belt and Road" themed green bonds, with a total amount of 800 million US dollars equivalent, and the funds raised are to be used for qualified green projects in the "Belt and Road" countries (Huanqiu.com, 2023).

The BOC's overseas assets had reached 6.28 trillion yuan by the end of 2019, which accounted for about 43.09% of the total overseas assets of Chinese banks (BOC Research Institute, 2020). However, BOC's overseas assets were mainly concentrated in Hong Kong and Macao (67.91%), and its business scale in other regions was still small. Moreover, in 2022, the total overseas profit of BOC reached 53.86 billion yuan, of which the profit from Hong Kong and Macao reached 39.16 billion yuan. Profits from outside Hong Kong and Macao were only 14.70 billion yuan. In numerical terms, the former is nearly three times larger than the latter (Bank of China, 2023).

In addition to these factors, the slowdown of domestic business in China, the consequence of economic restructuring, is giving impetus to BOC, just as it motivated other Chinese enterprises, to internationalise. Jiang (2016) reported Chen Siqing, President of BOC, as saying: "The rapid development of our overseas business and diversified platforms has effectively counterbalanced the pressure of the domestic economic downturn".

Beyond outward FDI is China's progressive internationalisation of the renminbi. This internationalisation clearly makes sense given the fact that China is the world's top trader. The yuan as an international currency is expected to lower costs to China's exporters. In fact, the BRIC (Brazil, Russia, India, China and South Africa) countries have been promoting the yuan as an international currency following the banning of the use of ruble by the North Atlantic Treaty Organization (NATO) countries and their allies, in international transactions (Sullivan, 2023). But it also reflects China's unease that the US was technically able to print money while other countries had no alternative but to accept it. This strategy is clearly bearing fruit. By 2015, the renminbi had become the second most used currency in international trade and the fourth in global payments (Wang, 2016, p. 2). And in late 2015, the IMF agreed to add the renminbi to its basket of currencies that determine the value of the Special Drawing Right.

BOC is at the heart of the renminbi internationalisation process, having an edge over other major banks because of its long familiarisation with foreign exchange. As the most internalised bank in China, it was the only developing world institution included on the list of 29 global systemically important banks approved by the G20 summit (China.org.cn, 2012). In November 2015, the BOC, in a first for a Chinese bank, launched two global commodity business centres in Singapore, the first to be launched outside China. The two centres are the global energy commodity business centre and the global commodity repo centre (Lim, 2015). At the same time, it signed a memorandum of understanding with International Enterprise (IE) Singapore to assist Singapore corporations internationalise, and develop Singapore's commodity trading and financial sectors. Another agreement with the Singapore Stock Exchange supports renminbi commodity financial innovation as part of Singapore's role to promote the use of the renminbi in the region. The BOC was also selected by China's Ministry of Finance in the list of the latter's 3-year 3 billion renminbi bonds on the London Stock Exchange – listed on June 8, 2016 – which was the first Chinese sovereign renminbi bond issued and listed outside of China (Bank of China, 2016). Also in June, 2016, BOC Hong Kong received PBC approval to join the China International Payments System (CIPS), which allows overseas banks to participate in the yuan clearing business with Chinese yuan clearing banks (*Global Times*, 2016). The CIPS is an alternative to the Society for Worldwide Financial Telecommunications (SWIFT) system dominated by Western banks. In 2022, it achieved cross-border renminbi settlement volume of 31.14 trillion yuan and cross-border renminbi clearing volume of 741 trillion yuan (China Business Network, 2023).[4]

In sum, BOC's internationalisation experience throws light on, but does not fully answer, the first question posed – how does BOC balance the Chinese state's strategic priorities against its commercial objectives? In complying with the "Going Out" strategy and the Belt and Road Initiative, BOC has demonstrated its compliance with state priorities – as it has for much of its history. But compliance also serves BOC's commercial objectives. For instance, to the extent that these enterprises reach markets not already crowded with Western enterprises, it makes good commercial sense for BOC to follow. Besides, Chinese banks' greater familiarity with Chinese enterprises gives them an edge over other banks. Also, China's slowing economy and the increasingly difficult business environment at home as China's economy slows is also impelling overseas expansion by Chinese enterprises. Pursuit of these commercial opportunities also fits well with the other state strategy of renminbi internationalisation. The question remains, however, as to whether BOC and other international Chinese banks

4 Following Russia's attack on Ukraine in February 2022, the United States and a coalition of cooperating countries imposed harsh financial sanctions on the Russian government, corporations and individuals, which bar Russian banks from using SWIFT (Eichengreen, 2022).

have pursued commercial objectives as vigorously as they could to compete with other international banks. Certainly, they have been alleged not to have reached the governance and service levels of multinational banks like HSBC, which would have disadvantaged them when dealing with non-Chinese, including local, clients in the countries they do business. In other words, has the BOC, like other major Chinese state-owned banks, internationalised but is not yet international? Does this disadvantage reflect BOC's institutional weakness or does this suggest BOC's prioritising state over commercial objectives?

In seeking further insights into this state–commercial balance, an examination of BOC's experience in a host country would provide clues, since how well it competes with other banks in the country would speak to its effectiveness in pursuit of commercial objectives. The extent the bank is prepared to localise its operations is also a measure of its competitiveness.

4. BOC in Malaysia – From Old to New Business

Old Business. Not quite as storied as BOC in its home turf, the story of BOC in Malaya and Singapore is nevertheless interesting in that it is intertwined with BOC's ownership at any point in its history. BOC was established in Singapore in 1936 and in Penang in 1939. This was the period described earlier when BOC was administered under Chiang Kai-shek's Kuomintang. It was also the period just before Japan's invasion of China in 1937 (Singapore) and the outbreak of the Pacific War in 1941 (Penang). From British Colonial Office correspondence, however, while the Colonial Administration of Malaya (comprising Peninsular Malaysia and Singapore) were reacting to unfolding developments, there appeared to be no awareness of the impending Japanese invasion of Malaya (Cheong et al., 2015). The colonial administration in Malaya was preoccupied with controlling the substantial flow of remittances to China so that a part of these did not fall into the hands of the Japanese. This control was exercised through limiting the quantum of each remittance made. The licensing of remittance houses or agents through which remittances passed, and through promulgation of regulations in September 1941 having BOC in Singapore as the only conduit through which remittances must past.

That BOC was chosen rather than HSBC which had a long history in China and a strong presence in Hong Kong through which a lot of remittances passed, was testament to its important role as a conduit of remittances to China. More than this, fear of leakage through Hong Kong and the belief that BOC was better able to channel remittances to their intended recipients in China likely motivated this choice. Sympathy for the Chinese Nationalist government as it battled the Japanese in China was also a likely factor, as reflected in the opinion: "… China is fighting for the same ideals as Great Britain and upon the success of her resistance depends in no small degree the security of Malaya itself not to mention British and other foreign interests in the Far East generally" (SFPMA, 1941). Whatever the rationale, this choice did not go down well with HSBC. It complained that "it is very galling to have the fruits of years of effort taken away from us for no good purpose and handed over gratuitously to the BOC by our own government … and this in one of our own colonies" (Stuart, 1941). The colonial administration in Malaya, however, was fearful of remittances going through Hong Kong which HSBC would have used. A third major bank which might have felt even more aggrieved would have been the Overseas Chinese Banking Corporation, founded in Singapore, which had built up a sizable remittance business, but there was no evidence that it protested at all. These protestations notwithstanding, Malaya and Singapore would fall to the Japanese in a matter of months.

After the Second World War, BOC must have reopened in Peninsular Malaysia, but by 1949, the establishment of the PRC would have seen BOC Malaya's ownership transferred to the Communist government. Malaya, too, faced a new world after the war. Almost immediately after the war's end, the period known as the Cold War began, pitting "the free world" led by the US against Communist regimes led by the Soviet Union. Malaya, still under British administration, was on the side of the UK/US and thus anti-Communist. However, it had to deal with an insurgency led by the Communist Malayan Races Liberation Army with origins in the Malayan People's Anti-Japanese Army which had fought against the Japanese during the Second World War (see Comber, 2009). This insurgency, dubbed "the Malayan Emergency", began in 1948 and did not end until 1960, and contributed to a tense relationship with China (He et al., 2019). By 1957, Malaya gained independence from the British as the Federation of Malaya but inherited the anti-Communist stance, complicated further by the fact that most Communist insurgents were ethnic Chinese and ethnic Chinese formed a substantial minority of the population.

Under these circumstances, BOC's presence in Malaya represented an anomaly – BOC Malaya was seen as an official Chinese financial institution, but Malaya had no formal ties with China (Abdul Razak, 2016, p. 35). In 1959, BOC Malaya was asked to close down its operations. Behind this legal inconsistency was the Malayan government's belief that BOC Malaya was acting on behalf of the Chinese government. In a 1958 memorandum to Lim Yew Hock, Chief Minister of Singapore, the Malayan government alleged that BOC branches in Malaya were acting like honorary consuls for the PRC, and that their activities were harmful to the safety of the Federation of Malaya (China Foreign Ministry Archives, 1958, p. 16). Since BOC's main dealings were with Malaya's ethnic Chinese population, the Malayan leadership also saw BOC's role as undermining the loyalty of this significant group (China Foreign Ministry Archives, 1959).

New Business. It did not reopen in Kuala Lumpur, Malaysia's capital, until 2001. In the intervening years, the Federation of Malaysia was formed (in 1963) but relations did not thaw even after Malaysia established formal ties with China (in 1974) because of China's stance in relation to the Malaysian Communist Party. It took Mahathir Mohamad, Malaysia's fourth prime minister, who saw China as an opportunity rather than a threat, to fully normalise relations with China in the 1990s.

Bank of China (Malaysia) Berhad (henceforth BOCM) thus reopened to a much more cordial relationship between Malaysia and China than when it shut its doors. China at the dawn of this century had grown rapidly for over a decade and was continuing at this pace for another. And as mentioned earlier, it had just launched the "Going Out" strategy. Thus, in the conducive environment over the last 23 years since its reopening, it has expanded to 8 branches and set up 3 China Visa Centres across the country (Bank of China Malaysia, n.d.).

BOCM today is focused on Malaysia–China bilateral trade and other economic relations. Key products and services offered by BOCM include:

- *Corporate financial business*: overdraft, term loan, syndicated loan, letter of credit, trust receipt, note discounted, forfaiting, foreign currency loans under trade, export letter of credit financing, bank guarantee, Shipping Guarantee and other financial services.
- *Personal financial services*: local currency current account, local currency savings account, local currency time deposit account, foreign currency account, local remittance, overseas remittance, inward remittance, cash exchange, personal housing loan, wire transfer/express depository machine service, prepaid card, payroll service and other personal services.
- *Foreign exchange fund business*: foreign exchange trading on behalf of customers.
- *Featured products and services*: USD transfer, RMB pre-settlement transfer, RMB remittance, MYR transfer (Bank of China Malaysia, n.d.).

As evidence of this approach, BOCM was designated as the renminbi clearing bank in Malaysia by central banks of both countries in 2015 (*Malay Mail*, 2015). With a clearing house in Malaysia, the ringgit can be directly converted to yuan, hence reducing the cost of transaction. Malaysia is the second country after Singapore in ASEAN to establish a renminbi clearing bank with China. The significance Malaysia accorded to this event can be judged by the fact that it was presided over by the then Prime Minister Najib. With China's economic footprint growing through ramping up its outward FDI, including through the Belt and Road Initiative, BOCM should see its business with the local Malaysian Chinese community, companies and investors from China grow.

5. BOC as an International Bank – the Malaysian Experience

Although generalisation from a single case study is impossible, BOC's operations in Malaysia can still offer interesting insights into the extent to which Chinese state banks have internationalised. First, by numbers alone, China's rapidly growing outward FDI, consonant with the state's "Going Out" strategy and the Belt and Road Initiative, both of which are supported by BOC, suggests that internationalisation is gathering pace. This is particularly true for Malaysia where Chinese FDI had grown from almost nothing in 2003 to US$1.61 billion in 2022 with Malaysia ranking 15th in the world (Ministry of Commerce of the People's Republic of China et al., 2023). Simultaneously, the investment focus of Chinese FDI has broadened. BOC's strategy, in common with other Chinese state banks elsewhere, is to provide financial support to Chinese enterprises investing in Malaysia. This strategy is acknowledged by BOC. Noted Zhong Xiangqun, Chief Operating Officer of BOC Hong Kong after its acquisition of BOC (China)'s ownership in BOCM:

> We look forward to serving the main customers from China that are related to the infrastructure projects in Malaysia. In fact, we are already serving some of

them. At the same time, we would want to facilitate Malaysian corporations in their ventures into ASEAN countries (Yong, 2016).

This approach of leveraging BOC's competitive advantage over other (non-Chinese) commercial banks makes good business sense. It also makes perfect sense to leverage off its designation as a renminbi clearing bank. As China deepens its trade relations with Malaysia and countries in the region, the renminbi's trade settlement potential will be even greater (Zeng, 2023). In 2023, due to the reopening of China's economy resulting in deeper economic ties, BOCM is expected to benefit from increases in bilateral trade and investment flows between China and Malaysia (Bank of China Malaysia, 2023). The Southeast Asian region relies heavily on the US dollar as its main foreign currency. Current adoption of the renminbi in Southeast Asian countries, Malaysia included, is still relatively modest. But in Southeast Asia, the use of the renminbi for trade and investment has surged (Gupta, 2023). The renminbi became a reserve for some emerging market economies and developing countries including Malaysia. Although the scale is very small – often below 5% of the total holding in these countries – it is something of a symbol of the renminbi's emergence as a reserve currency to some extent (Popowicz, 2022). Overall, then, BOC's growing footprint in Malaysia, with its loan portfolio that is 70% Malaysian and of which half are SMEs, therefore also suggests some success in "localising" its operations (Yong, 2016).

Yet, while viable as a short- to medium-term strategy, this approach has limitations. First, a good revenue stream from the above means the strategy adopted by BOC not only allows but also abets it to avoid head-on competition with non-Chinese global banks. Together with the limited competition BOC and other state banks face at home, achieving global competitiveness in providing a full range of services to clients will be a tall order. Indeed, the view has been expressed that a truly global mentality has yet to emerge from Chinese state banks, and that "the sophistication of their banking operations, infrastructure and technology cannot yet be compared with those of banks in developed countries" (Camacho, 2011, pp. 3–4).

Together with the fact that even without global banks like Citibank and HSBC, domestic players are well entrenched in delivering retail and personal services to local clients already in a crowded market (Shane, 2015), breaking into the local market to provide traditional banking services will be no easy task for BOC. The result, noted Calkins (2013), citing Liu Jing of the Cheung Kong Graduate School of Business, is that "Chinese banks find it very hard to do business with local (non-Chinese) customers. They dream of serving local clients but are forced to follow pre-existing clients as they move into international markets." BOCM is likely to see its path to growth in these areas an uphill battle. It is therefore no surprise that deposits from customers in the year 2022, grew at 5.24% to RM8.68 billion from a year earlier, compared to 0.33% decrease in loans and advances and 2.27% growth in total assets. Most of the employees of the overseas branches of BOC are composed of expatriate Chinese employees or local Chinese people, and their overseas service ability is relatively weak, so they have not formed a large local customer group. Moreover, according to BOC, at present, the business of overseas banks is still mainly limited to deposit and loan, exchange, settlement and clearing. Lack of research and development of local targeted products in the host country, it is difficult to form a differentiated competitive advantage. At present, the overseas customers of Chinese banks are mainly Chinese customers (see below – business plan 2023 of BOCM).

> The Bank is committed to its goals of becoming the leading China-based Bank and one of the prominent foreign banks in Malaysia. It aims to be the preferred bank for both Malaysia and China-based enterprises and individual customers, the leading bank in RMB business and cross-border services as well as most reliable China-based bank among the Chinese community in Malaysia.

Potential competition can come not only from non-Chinese banks. In January 2010, the Industrial and Commercial Bank of China (Malaysia) Berhad was incorporated in Malaysia (Industrial and Commercial Bank of China Malaysia, n.d.) while the China Construction Bank (Malaysia) Berhad became the third Chinese state-owned bank to be granted a banking license in Malaysia (Xinhua News, 2016). Both are fully-owned subsidiaries of their parent banks in China. Would these latecomers give BOCM much competition? The answer is not likely. As with other Chinese enterprises operating in a country, the Chinese state is likely to "manage competition" by allocating different projects to different banks.[5]

A second challenge BOC and other state banks face is their ties to the Chinese state. That the state has majority ownership and full control, and these banks are supporting the globalisation of state enterprises and the government's Belt and Road Initiative make these ties manifestly clear. Whereas these links may pose no problem for Malaysia, which maintains cordial state-to-state relations, other countries, especially advanced nations, harbour suspicions that these banks are acting at the behest of the Chinese state to further its interests.[6] The anti-Communist *Epoch Times* goes so far as to describe these banks as "answering to the Communist Party, not its customers", and that "for political reasons, state-owned lenders eschew global industry-leading software for home-grown systems (Yu, 2016)."

The takeover by BOC Hong Kong of its parent's branch and sub-branch network that extend into the six ASEAN countries of Thailand, Singapore, Malaysia, Cambodia, Vietnam and the Philippines has helped transform itself into a regional player (Mak, 2016). Although the official explanation given is to better leverage the expertise and product variety at the BOC Hong Kong to serve as a hub for Southeast Asia, which is a legitimate business strategy, uncertainty exists as to its real motive, with explanations ranging from an attempt to offset business slowdown in Hong Kong to simply following state policy (Mak, 2016, Yong, 2016). It is also difficult to explain why the BOC Hong Kong, which has limited expertise in the ASEAN region (Shane, 2015), should be favoured over an ASEAN country like Malaysia as a regional hub. It is even more difficult to understand how, with BOC Hong Kong already playing a regional role, BOCM can be

[5] For an example of how Chinese enterprises coexist in Malaysia, see Li and Cheong (2017).

[6] The attempted acquisition of Australia's Rio Tinto the Anglo-Australian mining company by Chinalco, the state-owned Chinese aluminium giant provides a cautionary tale. Chinalco sought and received loan financing at low interest to accomplish this acquisition. However, strong political and public opposition scuttled the deal (Cimilluca et al., 2009).

a regional hub as announced by BOC Hong Kong's chief operating officer (COO), Zhong (Yong, 2016).

Thus, despite its size and pace of growth, either by choice or because of capacity constraints, BOCM does not have enough international orientations or reach of global banks like HSBC and Citibank. To compete with these global banks requires the bank to hone its competitiveness on a level playing field. This most likely means localising its operations to understand what services local clients from individuals to businesses with no connection to Chinese enterprises or the China market demand. However, the business model it currently employs does not place great emphasis on localisation. Also, in the role it has chosen to play, BOCM's commercial objectives appear to be subordinated to the state's strategy. But in adopting this approach, it will find it hard to compete with truly global enterprises.

6. Conclusion

The BOC story emphasises the importance of history in explaining the role of the Chinese state in banking today. The chaos attendant upon political fragmentation in BOC's early days was a lesson the much stronger and unified China's leaders of today learnt. The ownership and control of the BOC and other state banks should ensure compliance with state policies so that history would not be repeated. In this sense, state priorities remain the prime objective of the BOC despite it having become a commercial bank.

This is shown by the fact that despite the very different context before the Second World War and today, a common thread runs through BOC's business following its internationalisation. That thread is its links with China and the Chinese state. When BOC established branches in British Malaya, it was to capture remittances by Chinese migrants in the territory to China. BOC today supports directly Chinese enterprises that respond to the Chinese government's "going out" call, as well as local Malaysian enterprises doing business with China, and in doing so, promotes the Chinese state's strategies and policies.

In providing financial support to China's enterprises' internationalisation process, the BOC has necessarily gone global. Indeed, measured by the scale of operations and geographical coverage, BOC's progress in this direction has been impressive, which is well illustrated by its expansion in Malaysia since it reopened in 2001. The BOC also intends to play a major role in renminbi trade as Malaysia has designated it as a renminbi clearing bank.

However, the BOC model of internationalisation that has relied on China's businesses and aligned with the policy priorities of the Chinese government has major limitations. The internationalisation of banks to compete with existing global banks requires competitiveness in a comprehensive range of services, and the infrastructure to support them. By eschewing direct competition, both service diversification and support infrastructure will be slow to develop. In this context, the BOC's limited localisation initiatives suggests that its commercial objectives has remained less developed.

Further, although not a problem in most free market economies, the close adherence to the Chinese government's dictates can lead to suspicion about BOC's objectives that can raise opposition to its initiatives. The overall assessment of BOC's internationalisation strategies, based on its experience in Malaysia, is that it still has a long way to go to be competitive. It has neither the international culture nor the range of financial products to cater to all tastes. These capabilities, including governance and corporate culture, should be acquired eventually. But as of now, BOC is not there yet.

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