

Analysis of the Development of China Investment Banks

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Abstract: The investment banking industry is an important component of the financial industry, and investment banks are extensively involved in various aspects of social and economic development. Therefore, researches focusing on investment banks are necessary and important. This study will conduct an in-depth exploration of the history of China's investment banking industry, including each development phase, changes in market size, major reasons for development, and predictions and analysis of future development. It will also compare the development of investment banks in Western developed countries to provide experience for the future development of China's investment banks. In addition, the article will predict and look forward to the future development of China's investment banking industry at the end. It is believed that through the analysis of the past and the absorption of advanced foreign experience, one can better understand the driving force of China's investment banking industry and the challenges and opportunities it may face in the future. These results shed light on guiding further exploration of investment banks.

Keywords: investment bank, comprehension, development

1. Introduction

In the winter of 1990, the establishment of the Shanghai and Shenzhen stock exchanges marked the official establishment of China's capital market, which meant that the demand for investment banking services in China began to emerge. More than thirty years later, China's capital market has grown into the world's second-largest stock and bond market. However, compared to Western capitalist developed countries, China's investment banking industry started late and has a more complex development situation. Under the pressure of deglobalization and economic downturn, it is necessary for us to review the development process of our investment banking business, learn from the experience of Western countries, and thus better develop China's investment banking.

The development history of China's investment banking industry has spanned several decades. During this time, many scholars have conducted outstanding research on the development of China's investment banking industry. Liu pointed out in her research that the development of China's investment banking industry needs to find new trends and choose suitable models [1]. Wang analyzed the current situation and development strategy of China's investment banking business in his research [2]. Although the above two documents were written earlier, they still have strong reference value for the early development and prediction of the investment banking industry. Jiang and others found in their research on five commercial banks that Chinese commercial banks are constantly expanding their investment banking business to meet customer needs [3]. Shu and Li believe that during the

economic transition period, the development of China's investment banking business needs more exploration and innovation to adapt to market demand and change [4]. A more recent study was completed by Liu and others, who pointed out that with the rapid development of China's economy, investment banking has become one of the important directions for the innovative development of commercial banks [5].

The investment banking industry in Western countries has developed for several decades and has a wealth of experience and successful cases. This article will also analyze these cases. For example, Goldman Sachs, Morgan Stanley, and Merrill Lynch are all globally renowned investment banks. These companies have unique experience and advantages in business scope, organizational structure, and talent training. One can gain many insights from the development experience of Western investment banks. For example, one should adhere to a customer-centric business philosophy, improve service quality, and meet customer needs; one should also optimize the organizational structure to achieve efficient collaboration and high-quality services in our business.

2. The Investment Banks of China

2.1. Different Stages of China IB Development

In 1979, China implemented the policy of reform and opening up, and the new policy began to relax control over the financial market, which meant that China's investment banking business market began to develop. During this period, the development of China's investment banking business was mainly carried out by state-owned specialized banks such as the China Export-Import Bank and the China Agricultural Development Bank, which were responsible for fundraising, investment, and financing tasks. However, the scale of the investment banking industry at this stage was relatively small, and its business functions were relatively simple.

With the opening of China's stock market in 1990, new opportunities were provided for the development of the investment banking industry. During this period, investment banks began to engage in securities underwriting, stock issuance, and other businesses, such as the establishment of China International Capital Corporation (CICC), which laid the foundation for China's investment banking industry. In 1997, the Asian financial crisis broke out, but the crisis was mitigated in the Chinese mainland due to excellent decision-making by the Chinese government. Therefore, the impact of the crisis on China's investment banking industry was limited, providing space for its development and catching up with Western developed countries.

However, with the rapid development of the investment banking industry, many problems emerged. Document [1] mentioned that although great achievements have been made, the development of China's investment banking industry urgently needs to find new models. Since then, the Chinese investment banking industry has been in the process of reform.

Entering the 21st century, China's investment banking industry has entered a new stage of development. As an important part of the financial system, the healthy development of the investment banking industry is crucial to the stability and development of the whole system. Therefore, the government has implemented a series of financial reforms to promote continuous innovation in the investment banking industry. First, structural reforms were carried out in the investment banking industry in the 21st century. Prior to this, China's investment banking industry was mainly dominated by large state-owned banks, with low market competition. In order to promote market competition, the Chinese government implemented a series of policies to encourage the development of private banks and strengthen regulatory mechanisms. These reform measures increased market competition and promoted market prosperity and development. In 2002, literature [2] made the judgment that "structural reform is very beneficial to the development of China's investment banking industry," which proved to be very prescient in hindsight.

Second, technological innovation was also carried out in the investment banking industry in the 21st century. With the development of information technology and internet technology, the investment banking industry began to adopt more intelligent and digital means to improve business efficiency and service quality. For example, investment banks began to use artificial intelligence, blockchain, and other technologies to improve risk management, transaction processing, and customer service [5].

Lastly, service innovation was also carried out in the investment banking industry in the 21st century. With the acceleration of economic globalization and the internationalization of financial markets, China's investment banking industry began to develop in the direction of internationalization. Chinese investment banks began to provide more specialized and diversified services, such as international mergers and acquisitions, overseas listings, and cross-border financing. These services can not only help Chinese enterprises gain more opportunities in the international market but also help foreign enterprises enter the Chinese market.

In summary, China's investment banking industry has undergone structural reform, technological innovation, and service innovation in the 21st century. These reforms and innovations have provided strong support for the healthy development of the investment banking industry and contributed to the stability and development of China's economy.

2.2. The Market Change of Chinese Investment Banks

From the market perspective, the Chinese investment banking industry is experiencing rapid growth. More specifically, the market size of Chinese investment banks has grown from 19.5 billion yuan in 1995 to 3,901.4 billion yuan in 2020, nearly a 200-fold increase in 25 years. This also indirectly reflects the vigorous development of China's real economy (seen from Fig. 1). In addition, the total asset size of investment banks is an important indicator for assessing the development of China's investment banking industry, as it accurately reflects the scale and business capabilities of investment banks. From 50 billion yuan in 1995 to 5,500 billion yuan in 2020, the asset size of Chinese investment banks has expanded 110 times (shown in Fig. 2).

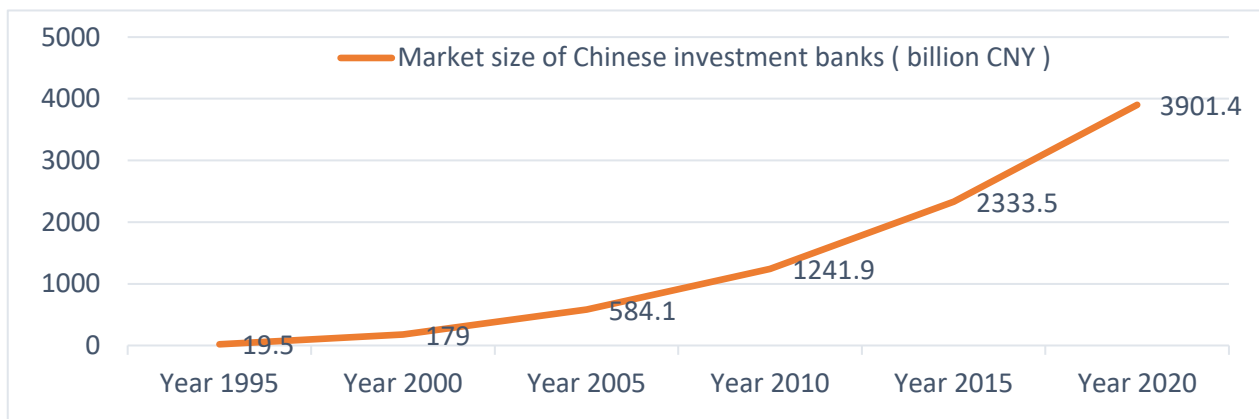


Figure 1: Market size change of Chinese investment banks.

Furthermore, it can be observed that the market size of Chinese investment banks has been growing at an accelerating pace since 1995, reflecting the expanding demand for investment banking services during periods of rapid economic growth. The growth trend of investment bank asset size accelerated significantly around 2005, which was caused by the policies and reform plans of that time.



Figure 2: Total asset size change of Chinese investment banks.

2.3. Development Background

In analyzing the development process of China's investment banking industry, one finds that it is influenced by many factors, mainly including the following four points:

- Policy promotion. The government has introduced many policies favorable to the development of the investment banking industry at different stages, such as relaxing control over the financial market and allowing foreign banks to establish joint venture investment banks.
- Economic growth. China's economy has been growing rapidly, and the demand for the capital market has been expanding, providing a vast market space for the development of the investment banking industry.
- Financial innovation. With the increasing maturity of the financial market, the investment banking industry is constantly innovating business models and products to meet the diversified market demand.
- International cooperation. In cooperation with international financial institutions, China's investment banking industry has introduced advanced management experience and business models, thereby enhancing its competitiveness.

2.4. The Problems & the Solutions

In the development process of China's investment banking [6], there are several major problems: intense market competition, imperfect regulatory system, insufficient risk management capabilities, and talent loss. To address these issues, Chinese investment banks can take the following measures:

- Strengthen cooperation with international financial markets and improve global competitiveness. Investment banks can seek to establish strategic partnerships with international financial institutions and jointly expand their businesses.
- Improve the regulatory system and reduce systemic risk. Strengthen supervision of investment banks and promote the standardized development of financial markets.
- Improve risk management capabilities and strengthen internal risk control. Investment banks should establish a sound risk management system to ensure the stable development of their businesses.
- Cultivate specialized talents and improve employee quality. Investment banks should enhance talent training and improve employees' professional skills and overall quality.

Looking forward, China's investment banking industry will face many opportunities and challenges.

2.5. Forecast & Analysis of the Future Development

Looking into the future, the investment banking industry of China will face many opportunities and challenges as follows. For opportunities:

- Deepening financial market reform. With the continuous deepening of China's financial market reform, the investment banking industry will have more room for development, such as in the bond market and asset management [6].
- The Belt and Road Initiative. As the Belt and Road Initiative is further advanced, China's investment banking industry will play an important role in areas such as infrastructure investment and cross-border mergers and acquisitions.
- Technological innovation. The development of big data, artificial intelligence, and other technologies will bring new business opportunities to the investment banking industry and improve service efficiency and quality.
- Regarding to challenges:
 - Intensified international competition. With the integration of the global financial market, China's investment banking industry will face competitive pressure from international giants.
 - Stricter regulation. In order to prevent financial risks, regulatory authorities may increase the intensity of supervision over the investment banking industry, creating some pressure.
 - Insufficient business innovation capabilities. Compared to international advanced levels, some Chinese investment banks still have a significant gap in business innovation and risk management, requiring efforts to improve.

In summary, the Chinese investment banking industry will continue to maintain steady growth in the future, but it also needs to constantly improve its innovation capabilities and competitiveness to cope with the increasingly fierce domestic and international competitive environment.

3. Investment Banks in Developed Countries

This section will briefly introduce the development history of investment banks in developed countries.

3.1. Japanese Investment Banks

The history of Japanese investment banking can be traced back to the post-war period, characterized by government-led development, financial liberalization, and internationalization. After the war, Japanese investment banks developed rapidly under the guidance of the government, which helped restore the country's economic strength. Since the 1980s, Japan's financial market has gradually undergone financial liberalization and internationalization, achieving remarkable achievements. However, since the 1990s, Japanese investment banks have faced serious non-performing asset issues and the impact of the global financial crisis. Moreover, due to the uniqueness of Japan's economic system, the impact of the financial crisis was particularly severe, and the development of Japan's investment banking industry has gradually stagnated since the 1990s.

3.2. British Investment Banks

The history of British investment banking is long, dating back to the establishment of the London Stock Exchange in the 17th century. In the early 19th century, British investment banks began to expand internationally, becoming a major global financial center. After World War II, the UK economy was severely damaged and only slowly recovered after a long period of rebuilding. In the 1980s, state-led economic construction gradually stagnated, and the UK implemented a series of financial reforms to promote the development of investment banking [7]. However, the 2008 global

financial crisis also had a severe impact on British investment banks, leading to the collapse or acquisition of many banks.

3.3. American Investment Banks

The development of American investment banking began in the 19th century, and as the US economy grew rapidly, the investment banking industry gradually rose. In the 1930s, the US government implemented a series of financial reforms, strengthening supervision over investment banks, and during World War II, many investment banks were forced to transform. After the war, with the introduction of the Marshall Plan and the establishment of the dollar hegemony, financial institutions' business flourished, marking the golden age of investment banking. From the 1980s to the 1990s, US investment banks gradually realized internationalization and diversified operations. However, the 2008 global financial crisis also had a huge impact on US investment banks, with many going bankrupt or being acquired. Since then, the US has implemented stricter supervision over investment banks to ensure financial stability [8,9].

4. Implications

4.1. US Investment Banks

As the world's largest investment banking market, the United States' experience in the field of investment banking is worth learning from for China. The following are the American experiences that Chinese investment banks can learn from:

- Innovate financial instruments and services. US investment banks have excelled in the innovation of financial products and services, such as bond issuance, equity financing, and derivatives trading. Chinese investment banks should pay more attention to product and service innovation to meet market demand.
- Risk management. US investment banks emphasize risk management and have established strict risk control and internal audit systems. Chinese investment banks should learn from the US, strengthen the construction of risk management systems, and ensure the steady development of the business [10].
- Expand internationalization strategies. US investment banks operate globally and have accumulated rich experience in internationalization. Chinese investment banks should follow suit, expand their internationalization strategies, and enhance their international competitiveness.
- Comply with regulations and ethical standards. After the 2008 financial crisis, the US investment banking industry has become more stringent in its requirements for regulations and ethical standards. Chinese investment banks should take this as a lesson, comply with regulations, focus on ethical construction, and maintain industry reputation [11].

4.2. British Investment Banks

The British investment banking industry has achieved significant development in the past few decades, and its experiences and lessons are also worth the attention of the Chinese investment banking industry. The following are the experiences that Chinese investment banks can learn from:

- Strengthen cooperation. British investment banks maintain close relationships with governments, enterprises, and other parties, forming a good business ecosystem. Chinese investment banks should also strengthen cooperation with all parties to promote the healthy development of the capital market.

- Strengthen supervision. After the financial crisis, the British investment banking industry reformed and improved its regulatory system. Chinese investment banks should strengthen self-discipline, actively cooperate with regulatory authorities, and improve the overall level of the industry.
- Focus on sustainable development. Compared to other countries, British investment banks play a positive role in sustainable development, such as supporting green finance and socially responsible investments. Chinese investment banks can learn from their experience, support sustainable development projects, and achieve win-win results.

4.3. Japanese Investment Banks

Japan is a financial powerhouse in the Asian region, and its investment banking development experience also has certain reference significance for Chinese investment banks. The following are the Japanese experiences that Chinese investment banks can learn from:

- Strengthening long-term investment. Compared to other countries (such as the United States), Japanese investment banks have advantages in long-term investment, such as infrastructure investment and strategic industry investment. Chinese investment banks can learn from their experience, strengthen long-term investment, and promote the development of the real economy [12].
- Improving corporate governance. Japanese investment banks have a high level of corporate governance, which provides a reference for Chinese investment banks. Chinese investment banks should improve their corporate governance to ensure business compliance and transparency.
- Strengthening the construction of local financial centers. Japan has some experience in the construction of local financial centers. Chinese investment banks can learn from their practices, support the construction of local financial centers, and promote regional economic development.

4.4. Other Insights

The ability of investment banks in Western capitalist countries to counter economic crises is often insufficient. The author has cited several examples of investment banks in various countries falling into development difficulties due to economic crises in the introduction of investment banking industries. Chinese investment banks should be prepared to combat risks and carry out early warning work. Compared to British investment banks, Japanese investment banks and even the entire financial system are more deeply influenced by the United States; this makes Japan's financial industry less autonomous, easily subject to restrictions from other countries, and ultimately leading to serious consequences. Chinese investment banks should adhere to their autonomy while engaging in cross-border financial cooperation.

5. Conclusion

In summary, after years of rapid development, Chinese investment banks have gained strong strength and market position. This study also summarized the problems and solutions encountered by the Chinese investment banking industry and analyzed how Chinese investment banks should learn from the advanced experience of foreign investment banks. This section is the author's summary of the article's discussion and will look forward to the future development of China's investment banking industry. First, Chinese investment banks have made significant progress. The business scope of Chinese investment banks has gradually expanded from traditional businesses such as equity financing and bond issuance to diversified business areas such as mergers and acquisitions, asset restructuring, and risk management. With the rapid development of China's economy, the scale of investment banking business has continued to expand, and the activity of various capital market transactions has been greatly improved. The market competition of Chinese investment banks is becoming increasingly fierce. Domestic and foreign investment banks are actively entering the

Chinese market, and the competition pattern presents diversified characteristics. To ensure the healthy development of investment banking business, Chinese regulators have continuously strengthened the supervision of the investment banking industry, guiding the industry to operate in a standardized manner.

In addition, Chinese investment banks can have future developments in several fields. In the future, Chinese investment banks will further utilize advanced technologies such as artificial intelligence and blockchain to achieve business innovation and product upgrades, and improve service quality and efficiency. Chinese investment banks will continue to increase their business expansion efforts in countries along the "Belt and Road Initiative", helping Chinese enterprises "go global" and participate in the global economic integration process. In the context of an increasingly strict regulatory environment, Chinese investment banks will continuously strengthen compliance management, improve their risk resistance capabilities, and ensure stable business development. To address the challenges of global climate change, Chinese investment banks will actively play the role of green financial service providers, supporting sustainable development projects and green industry development. Compared to investment banks in Western developed countries, Chinese investment banks have three characteristics: a later start, greater reform resistance, and a larger market share. This means that Chinese investment banks need to pay more attention to various aspects during their development. Whether Chinese investment banks can develop healthily and efficiently in the future still requires the joint efforts of the government, practitioners, and a wide range of enterprises.

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