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TRANSNATIONAL BANKS AFTER 2008–2009 ECONOMIC CRISIS AND 2020 PANDEMIC: COMPARISON OF TRENDS

Abstract

***Objective*:** to determine and compare the key trends that occurred in transnational banking after 2008–2009 economic crisis and 2020 pandemic.

***Methods*:** comparison, data grouping, historical method, theoretical cognition.

***Results*:** basing on the analysis of scientific economic literature and statistical data, the main trends in the development of transnational banking since 2008–2009 economic crisis has been revealed, which include strengthening position of China and other fast-growing markets as transnational banks' home countries and the growing importance of developing and emerging markets as transnational banks' host countries, the geographic expansion of their activities; diametrically opposite trends have been determined after 2020 pandemic, namely, the weakening position of transnational banks from China, loss of positions of developing and emerging countries as transnational banks' host countries, transnational bank' shift from globalization to regionalization.

***Scientific novelty*:** for the first time on the basis of up-to-date data, the article studies the newest trends in in transnational banking and makes predictions on the possible development of banks in the nearest future.

***Practical significance*:** the conclusions and suggestions of the article can be used policymakers in coping with new trends in transnational banks and their influences on national economies.

Keywords: Transnational banks; Trends; Crises; Pandemic; Host countries; Home countries; Globalization

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Introduction

Since the 2008–2009 global economic crisis the importance of transnational banks for the global economy has been steadily growing. Transnational banks had both increased their cross-border credit flows and established physical presence in many countries of the world. Given the growing role of transnational banks, determining and comparing the major trends in transnational banking after 2008–2009 economic crisis and 2020 pandemic, is a matter of extreme importance.

A decade after the global economic crisis the year 2020 is seen by many scholars and practitioners (McIntyre, Ward, Searle-Smith) as a year of tipping points in the evolution of transnational banking. The industry nowadays is being transformed. Among the main prerequisites for change Hawkins and Mihaljek include technological innovation, the deregulation of financial services worldwide, opening-up to international competition, evolution of corporate behaviour, recent debt and banking crises in Asia and Latin America, privatizations of state-owned

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banks [1]. The equally important factor is a coronavirus for evolution in transnational banks is the 2020 pandemic, which has quickly evolved from a public health concern to a serious challenge to the global economy.

The rest of the article is organized as follows. The next chapter summarizes main trends in transnational banking since the 2008–2009 economic crisis as well as the factors that has contributed to these trends, and overviews the latest scientific publications and up-to-date data on transnational banking to forecasts the most likely scenario in transnational banking development since the 2020 pandemic. The last chapter concludes.

The results of the research

According to Arsenova, economic globalization, liberalization of international capital movement, precipitation of scientific progress in information and telecommunication technology, accelerated development of national and transnational stock markets, privatization of banks in a number of emerging and developing countries are among the most important factors contributing to the development of transnational banks in mid-2000s [2].

On the basis of scientific economic literature and statistical data analysis, mainly from "The Bankers" and "The Bank for International Settlements", we have summarized the major trends in the development of transnational banking since the 2008–2009 economic crisis and since the 2020 pandemic. These trends are as follows: the strengthening position of the transnational banks from fast-growing markets (in particular, from China), the growing importance of developing and emerging countries as transnational banks' host countries and geographic expansion of transnational banks' activities.

Applying "The Bankers" statistical database, we have researched how the list of 20 largest banks by market capitalization has changed during the years 1990–2019.

In 1990, Japanese banks dominated, because the Japanese economy experienced relatively rapid growth. Among the Top-20 largest banks there were 9 Japanese (Sumitomo Bank, Japan), 3 French (Credit Agricole, BNP Paribas, Banque Nacionale de Paris), 2 Swiss (UBS, Swiss Bank Corp.) and 2 British (Berclays Bank, National Westminster Bank) banks.

The situation changed in the 2000s, when the Top-20 list was headed by US banks Citigroup and Bank of America. Although most of the banks were Japanese, their number decreased to 7. At the same time, the number of US banks doubled. As of 2010, 11 of the Top-20 largest banks were European, 5 were US, 3 were Chinese, and 1 was Japanese.

In 2015, the list of the largest banks was headed by Industrial and Commercial Bank of China. However, if in 1990 only one China's bank — Bank of China was in the Top-20, in 2015 China has 5 of the 20 largest banks in the world. Instead, only 1 Japanese bank — the Mitsubishi UFJ Financial Group — entered the Top-20, while in 1990 Japanese banks numbered 9 out of 20.

In 2019, the list was still dominated by US and Chinese banks, 7 out of 20 were US and 5 out of 20 were Chinese [3, 4].

The dominant position of China as the main transnational banks' home country was the result of a number of reasons. According to Borst, Calkins, Gallagher, and Xu the most important were:

1) the Chinese "Going global" foreign economic policy. The aim of this policy is to encourage Chinese corporations and banks to invest abroad and enter foreign markets. The main aim of the banks' expansion strategy is to provide access to natural resources and to help Chinese businesses expand abroad. The implementation of this policy was also facilitated by China's accession to the World Trade Organization [5];

2) Chinese banks, as a result of their relative isolation from the financial systems of the West, were less affected by the 2008–2009 crisis and, therefore, were better positioned than Western banks and were able to expand. Western banks were forced to consolidate their overseas operations, overcoming the effects of the global crisis and the Eurozone debt crisis, while Chinese banks pursued an active foreign expansion strategy [6];

3) the setting up of China Development Bank and China Export-Import Bank, which implemented political functions. Their key task of which was to achieve the political goals of the Chinese government. The Big Four Banks (Bank of China, China Construction Bank, Agricultural Bank of China, and Industrial and Commercial Bank of China) implemented the commercial function and focused on market-oriented credit flows [7];

4) Chinese banks conduct their activities in the markets of a substantially different group of countries (usually those countries for which access to international capital markets is restricted) than international financial institutions or Western banks, which reduces the level of competition between them. Consequently, Chinese banks have expanded their network by operating in the markets undervalued by Western banks (in particular, the resource-rich countries of Africa and Latin America) [8].

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The growing importance of developing and emerging countries as transnational banks' host countries is another worth noting trend. According to the data collected by Claessens and Cerutti, in 1995 35% of transnational banks were located in developed countries and 65% in developing countries, whereas in 2013 25% of transnational banks were located in developed countries and 75% in developing countries [9, p. 28]. In other words, developing countries have become the main focus of transnational banks' external expansion in post-crisis years.

The advantages of developing and emerging countries as transnational banks' host countries are: higher interest rates, higher value of foreign currency, and higher demand for foreign credits. They also guarantee a significant share of the market (about 80% of the world's population live in developing countries). It is highlighted in scientific economic literature that under certain circumstances and relevant policies, developing and emerging countries become an attractive market for as transnational bank.

One of the important trends in the development of transnational banks since 2008–2009 economic crisis has been the geographic expansion of transnational banks. While in 1995 there were 19 countries with no transnational banks, in 2009–11 (Cuba, Ethiopia, Haiti, Iceland, Iran, Libya, Oman, Qatar, Saudi Arabia, Sri Lanka and Yemen) [10]. Based on the analysis of data of the Central Banks of these countries only 2 countries — Ethiopia and Iceland were still without transnational banks presence.

The 2008–2009 global economic crisis took more than a year to spread from the suburbs of California and southern Spain to the financial centers of the world. The 2020 pandemic has taken just three months to spread from China and to Europe and North America. The pandemic, which has quickly evolved from a public health concern to a serious challenge to the global economy, may reshape previous trends in transnational banking. The economists (Tooze, for example) predict that this crisis will exceed anything the transnational banking has previously witnessed [11].

Most economists and scholars underline that banks have entered this crisis in a better position than before the 2008–2009 economic crisis, when a sharp decline in bank credit flows exacerbated the impact of the global crisis on the economy. According to Marous, before the pandemic, the banking industry has been experiencing an unique decade of growth and prosperity. Despite increasing consumer expectations and increased competition from nontraditional financial institutions, most banks and credit unions were stronger than at any period since the crisis of 2008–2009. This time the banks are even seen as potentially part of the solution and are given a chance to improve their image. But it also presents them with some painful dilemmas. The resilience of banks, however, may be tested in some countries in the face of large market and credit losses, and this may cause them to cut back their credit flows to the economy, amplifying the slowdown in activity [12].

As mentioned in the "Global Financial Stability Overview: Markets in the Time of COVID-19", this crisis "presents a severe threat to the stability of the global financial system. Following the pandemic, financial conditions tightened at unprecedented speed. Market volatility spiked and borrowing costs surged on expectations of widespread defaults" [13, p. 3].

The next post-pandemic trend worth noting is the weakening position of Chinese banks. Caplen writes, that "Chinese banks will take a hit from a rise in bad credits as a result of the pandemic, and transnational banks need to relook at the financing of supply chains". Given the fact that pandemic was firstly identified in China, the Chinese banks can't be bystanders as the crisis develops.

Banks were the avenue used by the government to pump demand into the economy following the financial crisis 12 years ago. It is likely, therefore, that they will be called upon again to support the economy as it suffers from the spread of coronavirus. The problem is that the banks are less well placed to assist than during 2008–2009 global crisis and they will also take a direct hit to their balance sheets resulting from coronavirus, which was not the case previously. Back in 2008–2009 the Chinese banks did not take a direct hit to their balance sheets as the subprime bad assets that caused the financial crisis were mostly held by Western banks. On top of this they were in robust health, with lots of spare capital, allowing them to make billions of dollars-worth of new credits and help keep China's growth rate high as the global economy, and the economies of China's major trading partners, contracted [14].

Country's big four banks also risk rise in bad credits amid economic recovery effort. Profit growth of China's big four state-owned commercial banks, which rank among the Top-20 banks and world's largest lenders, is expected to be eroded and bad debts are likely to stack up in 2020 as banks do their national duty to help battle the economic destruction caused by the pandemic. Since the outbreak of coronavirus in January, Chinese government has ordered the country's banks to assist to the national

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recovery by continuing to lend to troubled companies while also lowering interest rates. Such "national service" is a common practice for state-owned companies in China and often includes making non-commercial decisions to help the economy at the expense of profits.

The Industrial and Commercial Bank of China, the world's largest commercial bank by total assets, posted a net profit of $44bn for 2019, up 4.9 per cent from the previous year. Bank of China reported a 4.1 per cent rise in profit, but also noted in its annual report that coronavirus would probably have an impact on the group's asset quality. Agricultural Bank of China, the country's third-largest commercial bank, warned the pandemic could cause distress among its manufacturing customers [15].

In economic publications the pandemic has already been called the biggest emerging markets crisis ever. With their populations at risk, their public finances stretched, and financial markets in turmoil, many developing and emerging countries face a huge challenge. The global shock has an uneven chronology. In the West it was the virus that triggered the financial crisis. In the large emerging countries of the world economy (like Argentina, Brazil, sub-Saharan Africa, India, Thailand, and Malaysia) the virus has yet to arrive at full strength. For them, the financial shock wave is running ahead of the disease. Back to back, the two crises threaten to create an overwhelming whirlpool for developing and emerging countries whose impact on the world economy will be terrific.

Historically large capital outflows intensified domestic shocks in developing and emerging market economies. These developments have raised the risk that the inability of borrowers to service their debts would put pressure on banks and cause credit markets to freeze up. A long-lasting period of dislocation in financial markets could trigger distress among financial institutions, which, in turn, could lead to a credit crunch for nonfinancial borrowers, further exacerbating the decline in economic.

The experts say that after the pandemic the world will be a very different place, as the pandemic is starting to destroy the foundations of the globalization. I the same time, they mention, that the pandemic is not threatening the future of globalization and is not likely to end globalization, but is likely to change it for the better.

In 2008, the world successfully pulled together when faced with the threat of economic crisis. In 2020, confronted with the threat of the pandemic, it is every country for itself. Governments and banks are not coordinating their economic response to the threat. The virus's impact is highly regionalized but the public policy effects are becoming increasingly nationalized.

Globalization can become the biggest victim of the pandemic. A highly interrelated global economy not only facilitates the spread of the coronavirus, but also exacerbates the negative economic consequences. Open economies and economies with a prominent banking sector are particularly vulnerable to economic shocks related to the pandemic. The economic losses, in turn, will strengthen forces of protectionism and isolationism. As a result, banking may become more localized and regionalized.

European banks are under intense pressure as the coronavirus halts all major economies, at a time when these institutions were still struggling with the legacy issues of the 2008-2009 economic crisis [11].

Scientific literature emphasizes that credit flows at the regional level may be more attractive than credit flows at the global level. Banks can benefit from regional specialization because they acquire specific knowledge. Therefore, when of transnational banks are already active in a particular region, they are likely to seek to expand their presence in the same region. Moreover, transnational banks tend to concentrate their activities on the markets within their geographical region or on the markets of countries that have close historical ties (colonial dependence, etc.) with their home country.

The generalized comparison of trends in transnational banking after 2008-2009 economic crisis and 2020 pandemic is presented in table 1.

Table 1. – Comparison of trends in transnational banking between 2008–2009 post-crisis and 2020 post-pandemic periods

period / trend	2008–2009 post-crisis period	2020 post-pandemic period
main home countries	China and other fast-growing markets	developed countries
main host countries	developing and emerging countries	developed countries
prevailed geographic strategy	globalization	regionalization

Source: compiled by the author on the basis of the Bank for International Settlement database

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Conclusions

Based on the results of the research we can make a conclusion about the changing role of developing and emerging countries as transnational banks' home and host countries, and transnational banks moving from globalization to regionalization. The banks are much stronger now before the 2020 pandemic than they were before 2008–2009 global economic crisis. In the context of the 2020 pandemic the banks are even seen as a potential remedy for the crisis.

After the 2008–2009 crisis the financial position of transnational banks from China and other fast-growing markets. Consequently, their importance for global economy increased dramatically. In contrast, due to the pandemic and its implications for the Chinese economy, China is very likely to lose its position as a major transnational banks' home and host country. During and after the period of pandemic there will be a steady trend in transnational banking towards regional model, as opposed to the global model which they used to implement earlier. In other words, transnational banks are likely to focus their activities on local and regional markets, rather than global market.

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