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MULTINATIONAL BANKING IN THE TIMES OF CORONAVIRUS OUTBREAK: TRENDS AND CHALLENGES

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ABSTRACT

The article provides an analysis of the changes that has recently occurred in the activities of multinational banks, taking into account the consequences of the coronavirus outbreak. Given the importance of multinational banks in many countries, understanding the scale and direction of these changes for the world economy has become essential. Over the last two decades we have been witnessing the following trends in multinational banking: the credit strategies transformation – from aggressive into conservative; the rise of South-South banking; the shift toward alternative sources of funding; the dramatic increase in banks size; the expansion of Chinese banks; the strengthening position of fast-growing markets as multinational banks' home countries and the growing importance of developing and emerging markets as multinational banks' host countries; the geographic expansion and regionalization of their activities. Our findings show that the aforementioned trends are driven by the economic downturn in developed countries and the increasing economic importance of developing countries. On the basis of this finding we forecast a low likelihood that banks from developed countries will be active lenders in the nearest future. Banks from developing countries have much better financial positions, which increase their relative importance as foreign lenders, especially within their geographical region. It looks like the year 2020 will become a year of tipping points in the development of multinational banking. A decade after the 2008-2009 global economic crisis banking industry faces a new challenge, which seems to have influenced almost every sector of the world economy, – the coronavirus outbreak. Given the background, the consequences of the coronavirus outbreak on multinational banking should be carefully examined.

Keywords: *Coronavirus outbreak, Credits, Determinants, Multinational banks, Trends*

1. INTRODUCTION

Over the last three decades the importance of multinational banks (MNBs) for most countries of the world has dramatically increased. MNBs from both developed and developing countries have not only boosted their cross-border capital flows but have also overcome national borders and established their physical presence in foreign markets. Given the growing role of MNBs for the host countries, exploring the main directions of their evolution as well as challenges facing them, including the consequences of 2008-2009 economic crisis and 2020 coronavirus outbreak, is a matter of extreme importance. The rest of the paper is organized as follows. In the next chapter, which is divided into four subchapters, the main trends in multinational banking since 2008-2009 economic crisis has been summarized. The overview of the latest scientific publications and up-to-date data on multinational banking in the times of 2020 coronavirus outbreak is presented in chapter 3, which in turn, consists of four subchapters. The last chapter concludes.

2. TRENDS IN MULTINATIONAL BANKING SINCE 2008-2009 ECONOMIC CRISIS

For the purpose of the study the period after the 2008-2009 economic crisis has been chosen for several reasons. Firstly, the data for our study is based on economic statistics from «The Bankers» and «The Bank for International Settlements», which contain accessible and comparable data on banking since mid-2000s. Secondly, it was during these years that the main economic, technical and regulatory factors evolved, which led to the rapid growth of MNBs, the acceleration of their external expansion, and the growing importance of MNBs in the international economy. The most important factors contributing to the development of MNBs in mid-2000s were as follows: economic globalization; acceleration of scientific and technological progress, especially in the sphere of information and telecommunication technologies; liberalization of cross-border capital movement and financial services; accelerated development of national and international stock markets; economic and financial market recovery; privatization of banks in a number of developing countries (Arsenova, 2011, 99). Supplementing the list compiled by Arsenova, we consider that financial crises are equally important, because they weaken the position of small and medium-sized local banks, but contribute to the development of MNBs. Based on the analysis of scientific publications covering multinational banking, we have systematized several key trends. In our opinion, the main trends in the development of multinational banking since 2008-2009 economic crisis are as follows: strengthening position of the MNBs from fast-growing markets (in particular, from China); the growing importance of developing and emerging countries as MNBs' host countries; geographic expansion of MNBs' activities; the shift toward decentralized banking system and conservative credit strategy; the rise of South-South banking; the dramatic increase in banks size. The most important trends in multinational banking since 2008-2009 economic crisis are overviewed in the next subchapters.

2.1. The strengthening position of MNBs from China and other fast-growing markets

On the basis of «The Banker» and «Global Finance» database, we tracked how the TOP-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, Dai-Ichi Kangyo Bank, Fuji Bank, Sanwa Bank, Mitsubishi Bank, Industrial Bank of Japan, Tokai Bank, Long-Term Cr. Bank of Japan, Bank of Tokyo), 3 French (Credit Agricole, Compagnie Financiere de Paribas, Banque Nationale de Paris), as well as 2 Swiss (UBS, Swiss Bank Corp.), 2 British (Barclays Bank, National Westminster Bank) banks. And finally, only one bank of the USA (Citicorp), Germany (Deutsche Bank) and China (Bank of China) is listed. 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 there were 5 of the 20 largest banks in the world. Along with this, only 1 Japanese bank - the Mitsubishi UFJ Financial Group entered the TOP-20, while, as noted above, in 1990 Japanese occupied almost half of the list. In 2019, the list was still dominated by US and Chinese banks respectively 7 and 5 (Table 1).

Table following on the next page

Table 1: TOP-20 banks by market capitalization

Countries	Years				
	1990	2000	2010	2015	2019
Australia	0	0	0	2	1
Canada	0	0	0	2	2
China	1	2	3	5	5
France	3	2	4	1	1
Germany	1	1	1	0	0
Great Britain	2	1	4	2	1
Hong Kong *	1	-	-	-	-
India	0	0	0	0	1
Italy	0	0	1	0	0
Japan	9	7	1	1	1
Netherlands	0	1	0	0	0
Spain	0	0	1	1	1
Switzerland	2	2	0	1	0
USA	1	4	5	5	7

**Since 1997, Hong Kong has been a special administrative unit within China*
Source: authors' calculations based on the datafrom «The Banker» and «Global Finance»

The dominance of Chinese banks was the result of a number of reasons, the crucial, in our opinion, were:

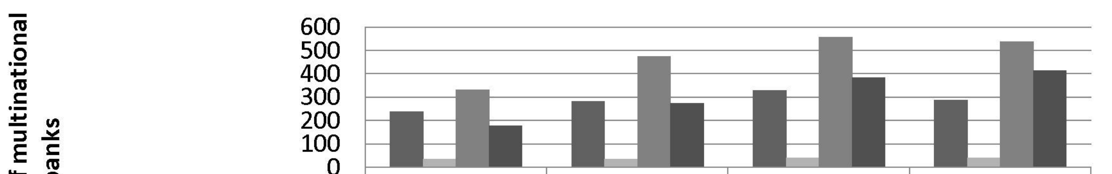
1. the foreign economic policy of the Chinese government, which has been called «Going out» or «Going global» (Nash, 2012; Wang, 2016; China Policy, 2017; Li, Cheong, 2018; Abeliansky, Martínez-Zarzoso, 2019). The aim of this policy is to encourage Chinese corporations and banks to invest abroad and enter foreign markets. The purpose of the banks' aggressive overseas expansion strategy is, first and foremost, to provide access to natural resources and to help Chinese businesses expand abroad (Zhang, Zhang, Tan, 2020). The implementation of this policy was also facilitated by China's accession to the World Trade Organization (Graham, 2012; Borst, Creehan, 2015; Mavroidis, Sapir, 2019);
2. Chinese banks, due to their relative isolation from the financial systems of developed countries, were less affected by the global financial crisis and, as a consequence, were more favorably positioned than banks from developed countries and were able to expand and grow. Chinese banks pursued an active foreign expansion strategy at a time when Western banks were forced to consolidate their operations abroad, overcoming the effects of the global financial collapse and the Eurozone debt crisis (Calkins, 2013; Murshudli, 2013; Pan, He, Sigler et al, 2018; Shenglin, Yu, Gu et al, 2018);
3. the separation of the political functions of Chinese banks from the commercial ones, which resulted in the creation of China Development Bank and China Export-Import Bank, the key task of which was to achieve the political goals of the Chinese government. This allowed the Big Four Banks (Bank of China, China Construction Bank, Agricultural Bank of China, and Industrial and Commercial Bank of China) to focus on sound market-oriented lending (Berger, Hasan, Zhou, 2009; Fungáčová, Pessarossi, Weill, 2013; Xu, Gan, Hu, 2013; Tan, 2015);
4. tight regulation on the activities of foreign banks. In China, foreign banks expansion is hampered by local supervisors and regulators, that consistently pursue a policy of limited admission of foreign banks capital into the national financial system. In the banking sector, China's government is primarily focused on establishing joint institutions in which the Chinese side could access technological and management innovations of foreign partners (Xu, 2008; He, 2014; PwC, 2014; Luo, 2016; Wang, Chenavaz, 2016; Yang, 2017; Pham, 2018);

5. 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 (ERA, 2009; Bräutigham, 2011; Haroz, 2011; Ayodele, Sotola, 2014; Abdulai, 2017) and Latin America (Gallagher, Irwin, Koleski, 2012; Kaplan, 2016; Avendano, Melguizo, Miner, 2017; Bersch, Koivumaeki, 2019; Roby, 2020). At the same time, it should be noted that a tendency of decreasing investment activity of Chinese banks in Latin America has been evidenced for the last 4 years. According to new research from Boston University and think-tank the Inter-American Dialogue, their loans dip to 10-year lows as oil-backed deals wane and new lenders and partnerships emerge (Ray, R., Barbosa P.H.B., 2020). Experts are providing an opinion, that total combined Chinese finance to the region is unlikely to ever approximate to its peak level (Myers, Gallagher, 2020).

2.2. The growing importance of developing and emerging countries as MNBs' host countries

Another trend that is worth noting is the growing importance of developing and emerging countries as MNBs' host countries. According to data compiled by S. Claessens and N. van Horen, in 1995, 35% of MNBs were located in developed countries, and 65% in developing countries, whereas in 2013, 25% and 75%, respectively (Claessens, Horen, 2012, 22-23; Claessens, Horen, 2015, 877). In other words, developing countries have become the main focus of MNBs' external expansion in post-crisis years.

Figure 1: MNBs' host countries before and after the 2008-2009 global economic crisis



	1995	2000	2007	2013
OECD	237	280	326	286
Other developed countries	32	34	38	38
Developing countries	330	473	555	536
Emerging contries	175	271	382	412

Source: authors' calculations based on the data from Claessens, Horen, 2012; Claessens, Horen, 2015

The advantages of developing and emerging countries as MNBs' host countries include higher interest rates, value of foreign currency, and demand for foreign credits. They also guarantee a significant share of the market (about 80% of the world's population live in developing countries). According to S. Prahalad and L. Hart, developing and emerging countries form up a multi-trillion market with a population of about 6 billion people and this figure will continue to grow. Even the world's poor, mainly living in developing countries, can, under certain circumstances and relevant policies, be a profitable market for business (Prahalad, Hart, 2008, 4, 7). However, in most developing countries, the scale of MNBs presence is still quite limited. This is primarily due to the unpredictability of political and legal changes in these countries (some of them have strict currency laws that may vary depending on the state of foreign exchange reserves and the balance of international payments) and the difficulties in profits repatriating (host countries may require to ensure that revenues are spent domestically rather than transferred to the home country).

2.3. Geographic expansion of MNBs

One of the important trends in the development of MNBs since 2008-2009 economic crisis has been the dramatic expansion of the geography of their activities. While in 1995 there were 19 countries with no MNBs, in 2009, 11 (Cuba, Ethiopia, Haiti, Iceland, Iran, Libya, Oman, Qatar, Saudi Arabia, Sri Lanka and Yemen) (Claessens, Horen, 2012, 10), and in 2019 only 2 - Ethiopia and Iceland (based on the analysis of data from the Central Banks of these countries).

2.4. The shift toward decentralized banking system and conservative credit strategy

After the Latin American debt crisis of the 1980s and the Asian financial crisis of 1997–1998 there was a dramatic change in banking system and MNBs' credit strategy. The shift toward decentralized banking system slowed down in mid-2000s. Direct cross-border credits to developing countries have recovered due to the dollar appreciation. In addition, the introduction of the euro and significant investments by European banks in US securities had a similar effect (McCauley, 2009). Both direct and indirect credits peaked in the first quarter of 2008, and subsequently began to decline. During 2008-2009 global economic crisis trends differ significantly depending on the analyzed group of the host countries: while in developed countries direct and indirect credits declined annually by 0.9% and 3% respectively, in developing countries volume of direct credits decreased (annually by an average of 0,3%) and indirect loans grew up by 0.8% (Zapotichna, 2016). Credit reductions can be explained by various factors, three of which, according to E. Cerutti and S. Claessens, are decisive. Firstly, the deterioration of MNBs' balance sheet, when many of them faced capital shortages and liquidity deficits, especially during 2008-2009. Secondly, the decline in demand for credit due to deteriorating economic conditions, as well as the increase in defaults and other risks from the host countries. Thirdly, increasing regulatory constraints and uncertainty about the future of the world banking system, as well as the rules governing it, including the possibility of free movement of resources within multinational banking groups and across borders. All these factors have forced banks not only to adjust their credit strategies in foreign markets, but to do it in a specific way, in particular, to reduce the volume of direct cross-border credits to a greater extent than indirect credits (Cerutti, Claessens, 2014, 15). After the global economic crisis, the previous trend towards a shift towards a decentralized banking system has intensified. One of the major post-crisis trends has been the slowdown in growth and contraction in cross-border lending. Due to financial difficulties, many MNBs, especially from Europe, have been forced to reduce their cross-border credits and relocate their financial resources on domestic market (market of the home country). This trend has raised concerns among economists that the global financial system is experiencing a period of «deglobalization» and fragmentation. However, the dramatic growth of direct cross-border credits in Asia, in our view, is not a reduction in multinational lending, but a shift in global credit flows and the growing importance of Asian banks.

3. TRENDS AND CHANGES IN MULTINATIONAL BANKING AFTER 2020 CORONAVIRUS OUTBREAK

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 coronavirus outbreak has taken just three months to engulf first China and now Europe and North America. Westward spread of COVID-19 coronavirus infection triggered an economic crisis whose violence is set to exceed anything the multinational banking has previously witnessed (Tooze, 2020). The coronavirus outbreak, which has quickly evolved from a public health concern to a serious challenge to the global economy, may accelerate reshape previous trends in international banking. Most economists and scholars underline that banks have entered this crisis in a better position than the 2008-2009 economic crisis, when a sharp decline in bank lending exacerbated the impact of the global crisis on the economy. According to J. Marous, before the coronavirus outbreak, the banking industry has been experiencing an unprecedented period 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 (Marous, 2020). The higher levels of capital buffers, enhanced supervision and strengthened regulations, central bank liquidity support, put MNBs in a better position than at the onset of the 2008-2009 global economic crisis. 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 lending to the economy, amplifying the slowdown in activity. As mentined 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 coronavirus outbreak, financial conditions tightened at unprecedented speed. Market volatility spiked and borrowing costs surged on expectations of widespread defaults» (IMF, 2020, 3).

3.1. The weakening position of MNBs from China

Given the fact that coronavirus outbreak was firstly identified in China, the Chinese MNBs can't be bystanders as the crisis develops. According to B. Caplen, «Chinese banks will take a hit from a rise in bad loans as a result of the outbreak of coronavirus, and international banks need to relook at the financing of supply chains» (Caplen, 2020). In times of trouble China turns to its banks. They 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 loans and help keep China's growth rate high as the global economy, and the economies of China's major trading partners, contracted (Caplen, 2020). Moreover, China's banking regulator was already under pressure to address a shadow banking (Bryane, 2014; Jiang, 2015; Xi, Xia, 2017; Li, Hsu, 2019) and a rising amount of non-performing loans (Kossof, 2014; Zhu, Wang, Wu, 2015; Zhang, Cai, Dickinson, Kutan, 2016; Rehman et al., 2019). The coronavirus, however, and its direct influence on the Chinese economy means that all reform plans will need to dial back to focus on the country's banking system with hundreds of billions of dollars worth of new non-performing assets. Country's big four banks also risk rise in bad loans amid economic recovery effort (Mann, Ridgers, 2018; Peresa, Vidon, 2019). 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. This, in our opinion, will affect the decrease in lending by Chinese banks in certain regions of the world. For example, this trend has already been noted in Latin America even before the global spread of COVID-19, predicting a bleak economic outlook for 2020 (Soutar, 2020). We can assume that for this region a similar trend will not be long-term, given that these MNBs provide for the resumption of financing and the creation of projects that contribute to the formation and development of the New Silk Road in Latin America (Ugarteche, de Leyn, 2020). Since the outbreak of coronavirus in January, Chinese government has ordered the country's banks to assist to the national 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 People's Bank of China has already cut the benchmark lending rate in order to help struggling companies borrow at reduced costs, and analysts expect it to lower the rate several more times this year, further squeezing net interest margins a key gauge of banks' profitability. 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 (Weinland, 2020).

3.2. The changing role of developing and emerging countries as MNBs' host countries

In economic publications the coronavirus outbreak 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 developimg 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, and this, of course, will further exacerbate economic recession (Tooze, 2020).

3.3. Moving from globalization to regionalization

The experts say that after the coronavirus outbreak the world will be a very different place, as the pandemic is starting to destroy the foundations of the globalization. At the same time they mention, that the coronavirus outbreak is not threatening the future of globalization and is not likely to end globalisation, 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 coronavirus outbreak, it is every country for itself. Governments and banks are not coordinating their economic response to the threat (Hutton, 2020). 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 coronavirus outbreak. The economic losses, in turn, will strengthen forces of protectionism and isolationism. As a result, banking may become more localized and regionalized (Huang, 2020). 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. The region's lenders have undergone a massive transformation since 2008 by increasing capital positions and complying with tougher regulations. They have, nonetheless, struggled to return to their precrisis market levels. The European banking index was still down by more than 50% from

March 2008 to the start of this year. Virus-fueled selling in global markets means that the same index is now down 70% from March 2008. «European banks remain vulnerable and fragile from the financial and debt crises and the coronavirus crisis delivers a fresh hit to the financial sector, compounding investor uncertainty» (Amaro, 2020). Scientific literature emphasizes that lending at the regional level may be more attractive than lending at the global level. Banks can benefit from regional specialization because they acquire specific knowledge. Therefore, when MNBs are already active in a particular region, they are likely to seek to expand their presence in the same region. Moreover, MNBs 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 (Ehlers, Wooldridge, 2015).

4. CONCLUSION

Based on the study, the following conclusions and suggestions can be made:

1) the banking industry was much stronger before 2020 coronavirus outbreak than before 2008-2009 global economic crisis. This time the banks are even seen as a potential remedy for the crisis. One of the main legacy issues from the 2020 crisis on multinational banking is the level of bad loans;
2) after the 2008-2009 crisis the financial position of MNBs from China and other fast-growing markets strengthened; their importance for global economy increased dramatically. In contrast, due to the coronavirus outbreak and its consequenses for the Chinese economy, China is very likely to lose its position as a major MNBs' both home and host country;
3) during and after the period of coronavirus outbreak there will be a steady trend in multinational banking towards regional model, as opposed to the global model which they used to implement earlier. In other words, MNBs are likely to focus their activities on local and regional markets, rather than global market.

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