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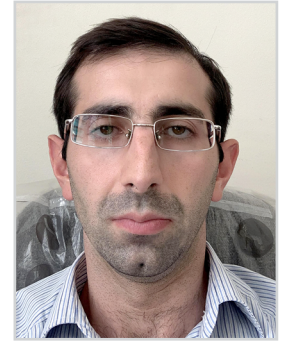
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International banking business and bank strategy: global trends and benchmarks for post-Soviet states

Abstract. The authors analyze the state of international banking business before and after the global economic crisis of 2007-2009, and make predictions on potential future effects of the ongoing COVID-19 pandemic on transformation of international banking and bank strategy. The analysis focuses on trends and changes in the two most important forms of trade in banking services, namely, cross-border banking flows, which include direct cross-border banking flows and local banking flows of international banks' subsidiaries abroad, and foreign bank presence. It has been concluded that direct cross-border banking flows are more volatile than local banking flows of foreign banks during economic and social upheavals. The period under study has witnessed large increase in foreign bank presence, both in terms of number and local market share. The study determines changes of leading international banks and their home countries, highlighting the weakening position of banks from advanced countries and increase in the role of banks from emerging markets and developing countries.

The authors review international expansion strategies of major banks from the post-Soviet states, that are influenced both by the opportunities and goals of banks going abroad, and by the institutional features of their banking systems; countries which these banks are targeting are predominantly comparable to the post-Soviet states in terms of economic development, and are chosen by criteria of their attractiveness, such as high level of trade and political relations with the bank's home country, the presence of diaspora, the degree of saturation and growth dynamics of the banking market in the host country. The reasons behind the banks' geographical expansion decision include, among many others, the dramatic growth of their economies, stimulated by the involvement in globalization processes, and liberal banking reforms. Obstacles of economic and non-economic nature that are hindering this expansion, encompass high level of competition in external banking markets, expensive financial resources of domestic banks, low level of expansion of the post-Soviet states-based enterprises to the non-post-Soviet states, discriminatory qualification requirements for personnel and composition of management bodies, problems related to banking licensing procedures and requirements, aspects of culture and communication; their transformation from local banks, operating in the local market, to banks with a clear manifestation of the tendency of their international expansion amidst changing global environment and uncertainty.

Keywords: Bank Strategy; International Banking Business (IBB); Foreign Banks; Changing Global Environment; Global Economic Crisis; The post-Soviet States

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**Міжнародний банківський бізнес і банківська стратегія:
глобальні тренди й орієнтири для пострадянських країн**

Анотація. У статті проаналізовано стан міжнародного банківського бізнесу до та після світової економічної кризи 2007–2009 рр. Зроблено прогнози щодо потенційного впливу наслідків пандемії COVID-19 на трансформацію міжнародного банківського бізнесу та банківської стратегії в майбутньому. Розглянуто міжнародні стратегії ключових банків із країн пострадянського простору, на формування яких впливають як можливості та цілі банків, що здійснюють свою діяльність на зовнішніх ринках, так і інституційні особливості їхніх банківських систем. Країни, на які спрямована діяльність цих банків, зазвичай близькі за рівнем економічного розвитку з пострадянськими державами, і були обрані за критеріями їхньої привабливості, такими як тісні торговельні та політичні зв'язки, ступінь насиченості й динаміки зростання банківського ринку країни-реципієнта. До причин географічної експансії належать, зокрема, швидке економічне зростання, стимульоване залученням до процесів глобалізації та лібералізацією банківських систем. Перешкоди економічного та неекономічного характеру, що стоять на заваді експансії, це високий рівень конкуренції на зовнішніх ринках, нестача фінансових ресурсів вітчизняних банків, дискримінаційні кваліфікаційні вимоги до персоналу та складу органів управління, проблеми, пов'язані з процедурами та вимогами банківського ліцензування, культурні та комунікаційні аспекти. Зроблено висновок про те, що поступово відбувається трансформація пострадянських банків із банків, що здійснюють свою діяльність на регіональному ринку, в банки з вираженим проявом тенденції до міжнародної експансії в умовах мінливого глобального середовища та невизначеності.

Ключові слова: банківська стратегія; міжнародний банківський бізнес; іноземні банки; мінливе глобальне середовище; світова економічна криза; пострадянські країни.

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**Международный банковский бизнес и банковская стратегия:
глобальные тренды и ориентиры для постсоветских стран**

Аннотация. В статье проанализировано состояние международного банковского бизнеса до и после мирового экономического кризиса 2007–2009 г. Сделаны прогнозы относительно потенциального влияния последствий пандемии COVID-19 на трансформацию международного банковского бизнеса и банковской стратегии в будущем. Рассмотрены стратегии международной экспансии крупных банков из постсоветских государств, на формирование которых влияют как возможности и цели банков, осуществляющих свою деятельность на внешних рынках, так и институциональные особенности их банковских систем. Страны, на которые направлена деятельность этих банков, как правило, близки по уровню экономического развития с постсоветскими государствами, и были выбраны по критериям их привлекательности, такими как тесные торговые и политические связи, степень насыщенности и динамики роста банковского рынка страны-реципиента. К причинам географической экспансии банков относятся, в частности, быстрый экономический рост, стимулируемый привлечением к процессам глобализации и либерализации банковских систем. Препятствия экономического и неэкономического характера включают высокий уровень конкуренции на внешних рынках, недостаток финансовых ресурсов отечественных банков, дискриминационные квалификационные требования к персоналу и составу органов управления, проблемы, связанные с процедурами и требованиями банковского лицензирования, культурные и коммуникационные аспекты. Сделан вывод о том, что постепенно происходит трансформация постсоветских банков из банков, осуществляющих свою деятельность на региональном рынке, в банки с выраженным проявлением тенденции к международной экспансии в условиях переменной глобальной среды и неопределенности.

Ключевые слова: банковская стратегия; международный банковский бизнес; иностранные банки; изменчивая глобальная среда; мировой экономический кризис; постсоветские страны.

1. Introduction

Rapidly changing global environment, globalization, changes in the institutional and regulatory framework, as well as, different types of crises have a great impact on the development of international banking. During recent economic and social upheavals, including, global economic crisis of 2007-2009, Eurozone debt crisis of 2010s, oil price collapses of 2014-2015, and ongoing COVID-19 pandemic, the development of the international banking was accompanied by such challenges as turbulence in the global economy, financial imbalances, growing vulnerability and breakdown of the regulatory mechanism of national banking systems, serious systemic risks, bankruptcy of a number of leading international banks, a significant limitation of their foreign operations. These challenges affected the structure and organization of international banking, had consequences for the benefits and risks that international banking brings to an economy. In response to new business conditions, banks around the world have been forced to re-evaluate and adjust their strategies, change the ratio of domestic and overseas activities, solve problems of reducing the profitability of banking. As such, it is of utmost importance to take stock of what has changed in international banking in recent years amidst globalization and uncertainty, and what these changes mean for banks from the post-Soviet states.

2. Brief Literature Review

Theoretical issues and practical aspects of the development of the IBB and the impact of global challenges on the formation of banking strategies are widely and multifacetedly covered in economic literature. First scientific works on the problem appeared only in the 1970s, and most of them were devoted mainly to general issues on the theory and history of international banking and its role in the economies of developed states (Baker, 1974; Brimmer & Dahl, 1975; Grubel, 1977; Lees, 1977, etc.). During 1975-1976 the Columbia Journal of World Business and the Federal Reserve Bank of San Francisco Economic Review published a series of articles devoted to the problem of international banking (Columbia Journal of World Business, 1975; Federal Reserve Bank of San Francisco Economic Review, 1976).

As the processes of financial globalization deepened, the layer of thematic priorities in the works of Western researchers on the development of international banking has expanded significantly. This is clearly evidenced by the diverse range of titles of scientific publications by scientists-economists: (Altmann, 2006; Bouchet & Islam, 1992; Claessens, Demirgüç-Kunt, & Huizinga, 2001; Coulbeck, 1984; Felsenfeld, 2007; Hermes & Lensink, 2001; McCauley, Ruud, & Woolridge, 2002; etc.).

After economic and social upheavals of the XXI century, including, global economic crisis of 2007-2009, Eurozone debt crisis of 2010s, oil price collapses of 2014-2015, and ongoing COVID-19 pandemic, scientists have radically changed the theoretical, methodological and empirical approaches to the study of international banking. This, in turn, was embodied in fundamental scientific works of the second decade of the XXI century, which were dominated by new views on the problems and opportunities of international banks in a rapidly changing global environment (Demirguc-Kun, Evanoff, & Kaufman, 2017; Finel-Honigman & Sotelino, 2015; Kim & McKenzie, 2010; McCauley, 2014; Sist, 2018; Weston, 2012; etc.).

Along with a dense study of the theory of the issue, scientists began to focus on new trends, as well as specific issues of a narrower nature that are of practical importance for the banking industry. Among them, there are those that are related to the topic we are researching: strategy and business models of international financial structures (Altmann, 2006; Argimón, 2019; Buranatrakul & Swierczek, 2017; Everett, McQuade, & O'Grady, 2020; McCauley, McGuire, & von Peter, 2012; etc.), regulation of IBB (Navaretti et al., 2010; Singh, 2020; Sum, 2016; etc.), foreign bank capital expansion (Claessens & van Horen, 2014; Eray, 2020; Iwanicz-Drozdowska et al., 2018; etc.), trends in international banking development caused by the COVID-19 pandemic (Kearney, 2020; Blake & Weisman, 2020; Haasbroek, 2020; McKinsey & Company, 2020a, 2020b; OECD, 2020; etc.).

It should be noted, that the conclusions made by Western authors cannot always be considered as universal recommendations, in particular, for banking systems of the post-Soviet states which are at the stage of their formation and have certain specificity. The above mentioned issues in international banking were studied by scientists and economists from the the post-Soviet states, namely, by (Abalkina, 2016; Bulatova & Marena, 2019; Mamedov, 2008; Momot, 2018; Vladychyn, 2015; Yarygina, 2016; etc.).

3. The purpose of the paper is to identify the main international strategies adopted by commercial banks from the post-Soviet states that contribute to the development of IBB in the context of contemporary global challenges, and to determine factors influencing their international expansion.

4. Results

4.1. Transformation of IBB amidst the Changing Global Environment

The problem of bank strategy choice has become of crucial importance in the operational activity of banks in the last decades, attracting the forces of scholars and practitioners in the field of banking. Priorities include: determining ways to maximizing profits, strengthening market positions, obtaining the status of systemically important bank, selecting the target region or market.

The oil price collapses, global economic crisis of 2007-2009, Eurozone debt crisis of 2010s, and COVID-19 pandemic has catalyzed transformations in the international banking and lead to transformation of bank strategies. Much of these changes reflect market and regulatory forces.

4.1.1. Changes in the Cross-Border Banking Flows

Global economic crisis of 2007-2009 coupled with Eurozone debt crisis of 2010s and the subsequent recessions in many countries created a new macroeconomic environment characterized by slower economic growth, low (or negative) interest rates and a new policy environment. These forces in combination have influenced the performance and strategies of banks (Molyneux & Wilson, 2017).

The decade before the global economic crisis, the epicentre of which was the US banking system, was marked by a large increase in financial globalization, both through cross-border banking and foreign bank presence, which is documented by (Canuto, 2017; Claessens & van Horen, 2015; Lane, 2013). Bank for International Settlements (BIS) international banking statistics data shows, that cross-border bank flows, including both direct cross-border banking flows and local banking flows of foreign banks' subsidiaries abroad, more than doubled over the period of 1995-2007.

The trend of increased financial globalization was not homogeneous. The patterns differed significantly in terms of lending and borrowing, advanced, emerging and developing countries. Advanced markets-based banks were in a leading position in cross-border lending. Among these, U.S. banks were less aggressive over this period than in earlier periods, while many (smaller) European markets-based banks became large lenders. In terms of borrowing countries, advanced countries were again the most important. Regarding emerging and developing countries, until the global economic crisis they were net recipients of cross-border banking flows (Dráb & Kočišová, 2018).

After global economic crisis, there has been large reduction in cross-border banking flows, driven by adverse supply and demand, and increasing regulatory constraints. 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 lending to a greater extent than indirect lending.

The subsequent Eurozone debt crisis put further strain on the European banks, and intraregional banking flows dropped sharply. According to Claessens (2017), the collapse in cross-border banking flows among advanced countries and the fragmentation within the Eurozone occurred for three reasons. First and foremost, markets and regulators wanted banks to restore their balance sheets and profitability. Second, banks cut back as demand for external financing abroad was less, and sovereign and other risks increased. And, third, over time, banks had to meet tougher regulations, including stiffer capital and liquidity requirements and other new rules.

The COVID-19 pandemic, has major consequences for international banking. According to BIS international banking statistics, published in July 2020, cross-border banking flows on emerging markets and developing economies, as well as on some advanced economies, stagnated amid the pandemic-induced turbulence in global financial markets. Thus, their growth rate fell to 1.8% as of end-March 2020, down from 2.0% at end-2019 and 3.7% at mid-2019 (Bank for International Settlements, 2020). Along with this, the opinion is expressed that due to changes in economic and political policies under the influence of the coronavirus pandemic, whether they like it or not, banks will be forced to abandon their international plans (Haasbroek, 2020).

4.1.2. Changes in the Foreign Bank Presence

As has already been mentioned, financial globalization increasingly happened through foreign bank presence, with increases in market share especially high in emerging markets and developing countries. One of the key factors that contributed to increases in foreign bank presence was the privatization of banking system in many countries and regions, and subsequent sale of domestic banks to foreigners. While in East Asia and Latin America, this privatization was the result of economic crises of the late 1990s, in the post-Soviet states it followed their transition from centrally planned into market economies of the early 1990s (Claessens & van Horen, 2014).

Between 1995 and 2006, banking sectors of many emerging and developing countries were gradually transformed. Forced by domestic deregulation, including the removal of entry barriers, technological advances, increased financial integration and more generally heightened globalization, the importance of foreign banks in these countries has shown a rapid increase (Claessens et al., 2008).

According to numbers presented by van Horen (2012), over the period 1995-2009, the share (in terms of numbers) of foreign ownership by emerging market banks has stayed relatively stable, as both advanced country banks and emerging market banks increased their overseas activity. In subsequent years the number of emerging market-based banks only increased.

According to (Claessens, 2017), there have been considerable shifts in international bank presence since the global economic crisis of 2007-2009. While the number of international banks exiting markets remained more or less the same, there was much less entry after the crisis: only about one-fifth as many international banks entered compared with the peak year - 2007, just before the crisis. Banks from countries hit by a systemic crisis at home expanded their assets less. International banks in euro-zone host countries reduced their assets to a lesser extent than domestic banks did, suggesting that they acted there as sources of stability.

4.1.3. Changes of the Leading International Banks

Over the last three decades the list of leading international banks has changed. Before global economic crisis of 2007-2009 the list was headed by the triangle «Western European-Japanese-American banks». But in the post-crisis period these banks were forced to retreat under the pressure from emerging and developing markets competitors. The importance of banks from these states, in particular, from fast-growing markets, especially China, Brazil, India and Singapore in international banking has dramatically increased, both through cross-border bank flows and direct foreign bank presence. As the ratings from The Banker and Global Finance show, banks based in these markets are gaining strength and are now looking to expand beyond their borders.

In the ranking of *The Banker Top 1000 World Banks 2020* TOP-20 includes seven banks from China, with four of them took the first four places (The Banker, 2020). The most important reasons for the dominance of Chinese banks are reflected in Table 1.

However, trend on emerging market-based banks leadership should not be taken unequivocally. Firstly, despite the dramatic international expansion of Asian (especially Chinese) banks, American and Western European banks still hold the lead in certain parameters of banking efficiency. Secondly, undesirable side effects can appear in the Chinese economy in the aftermath of COVID-19 pandemic. Given the fact that pandemic firstly emerged in China, the Chinese banks cannot be bystanders as the crisis develops. Since the outbreak of the pandemic, the Chinese banks were ordered to assist to the national recovery by continuing to lend to troubled companies while also lowering interest rates. Country's big four banks, which rank among the TOP-20 banks in the world, are likely to lose their leading position in this list also risk rise in bad credits amid economic recovery efforts (Weinland, 2020).

Table 1:
The most important reasons for the dominance of Chinese banks in the global banking market

A deliberate policy of the Chinese government to encourage Chinese to implement aggressive overseas expansion strategy (Zhang, Zhang, & Tan, 2020).
Relative isolation of Chinese banks from the financial systems of developed countries which made them less impacted by economic breakdowns than Western banks and, as a result, better-positioned for international expansion (Pan et al., 2018).
Strict regulatory policy on the activities of foreign banks in China (Yang, 2017).
Reduction of competition between Chinese and Western banks due to different directions of overseas expansion (Bersch & Koivumaeki, 2019; Roby, 2020).

Source: Compiled by the authors based of the specified scientific works

Moreover, emerging market-based banks tend to focus on small acquisitions, often to service local customers abroad or to offer services to migrants. Even though, at the global level, emerging market foreign banks are still small, these banks are becoming of considerable importance in many emerging markets. Features of the old and new paradigm of IBB and bank strategy are systematized in Table 2.

As stated in the report submitted by a Study Group established by the Committee on the Global Financial System: «the rapid transmission of shocks across the global financial system through internationally active banks, together with the concurrent macroeconomic problems, has prompted calls for improvements to these banks' business models that will strengthen their risk and liquidity management» (Bank for International Settlements, 2010).

4.2. Role and Position of Banks from the post-Soviet States in the International Banking

After gaining independence, banking systems of the the post-Soviet states have undergone fundamental transformations. Governments and central banks adopted policy measures to promote the transformation of centrally planned banking systems into market-oriented ones. Banking systems of these transition economies were liberalized by freeing interest rates and decentralized by transferring commercial banking activities from the central bank to state banks, restructuring and privatizing state banks and allowing entry of new private banks, both domestic and foreign (Fries & Taci, 2005).

Big banks from the post-Soviet states with foreign activities and network of overseas branches and subsidiaries began to appear only in recent years. They have difficulties operating in developed countries, and that is why they are mostly located in countries comparable to the post-Soviet states in terms of economic development. As a result, the presence of these banks in the non-post-Soviet states is limited, which can be explained by a number of reasons: high competition in foreign markets, strict regulations on rating and reliability, which banks from the

Table 2:
Features of the old and new paradigm of IBB and bank strategy

	Old paradigm	New paradigm
Business model	<ul style="list-style-type: none"> • profit-maximizing strategy; • profits maximization via an increased volume of activities; • accelerated growth in cross-border lending; • international expansion is mainly driven by the pursuit of new business opportunities, by higher profit margins and by incentives to follow existing customers abroad; • providing loans to riskier borrowers; • direct cross-border banking flows prevalence. 	<ul style="list-style-type: none"> • risk-minimizing strategy; • profits maximization via an efficient management of costs; • minimization of the amounts of loans; • dramatic drop in cross-border lending; • greater decentralization of the international banking model, in which a greater portion of banking operations is funded, managed and supervised in the same location; • indirect banking flows in the local currency of foreign jurisdictions prevalence; • banks are forced to abandon their international plans in specific way – direct flow to a larger extent than indirect.
Geographical coverage	<ul style="list-style-type: none"> • globalization-fuelled strategies; • lending by international banks exhibits a clear geographical pattern. 	<ul style="list-style-type: none"> • regionalization-fuelled strategies; • the rise of the nation-state at the expense of globalization; • new global system that is more fragmented and more dependent on local economic and financial conditions and could hinder the efficient flow of funds across borders.
Banking supervision and regulation	<ul style="list-style-type: none"> • liberalization and deregulation of banking; • mitigation of the restrictions to foreign bank entry by bilateral and regional trade and investment agreements; • higher degree of openness to foreign banks among WTO members; • harmonization of banking supervision and market infrastructure; • elimination of cross-border differences in supervisory practices. 	<ul style="list-style-type: none"> • tightening of banking regulations; • strengthening of local supervision and regulation (strengthening of the relationship between national regulators and international banks); • national interests, rather than adherence to global standards and principles, are more likely to be the driver of political and policy-makers' agendas; • establishment of regulatory environment in which banks hold stronger capital and liquidity buffers and build balance sheets that are resilient to funding shocks.
The alignment of forces in the international banking market	<ul style="list-style-type: none"> • shift towards emerging market economies; • the position of highly developed countries becoming relatively weaker. 	<ul style="list-style-type: none"> • strengthening of competition between developed market-based banks (increasing tensions between the Western and Chinese banks); • less availability of credit to emerging markets (flight to safety that often sees capital outflows from emerging markets).
Perception of large international banks in the context of risk-taking	<ul style="list-style-type: none"> • too big to fail; • prevalence of the opinion about positive impact of international banks on the economy of the host countries. 	<ul style="list-style-type: none"> • too big to survive; • prevalence of the opinion about destabilizing impact of international banks on the economy of the host and home countries during economic and social upheavals.

Source: Compiled by the authors

post-Soviet states do not always correspond to. Hence, the peculiarities of strategies of banks from the post-Soviet states are associated not only with the opportunities and goals of banks going abroad, but also with the institutional features of their banking systems, as well as with the conditions for attracting foreign banks in the home country.

The position of the post-Soviet banks in the IBB is largely determined by the size of their assets and capital. The banking systems of the former Soviet republics have been rapidly growing in the years preceding the global economic crisis of 2007-2009. This was largely facilitated by the growth of their economies, stimulated by the involvement in globalization processes, as well as the liberal banking reforms carried out in a number of countries. As a result, in many states of the former USSR, the growth rate in 2005-2007 of banking assets and capital exceeded 40% and 50%, respectively.

This, to a certain extent, contributed to the acceleration of integration processes in the financial sphere, which in practice were carried out mainly in the form of entry of the largest post-Soviet credit institutions into the markets of other countries of the region. During this period, there were a dozen large banks operating simultaneously in several in the post-Soviet countries. The main driving force of the integration processes were the banks of Russia (22 banks in 6 countries), Kazakhstan (20 and 7, respectively) and Ukraine (6 and 4): the banking systems of these particular countries dominated the post-Soviet space (Figure 1.A.) (Kostin, 2010; Matovnikov, 2010).

However, the 2007-2009 global economic crisis has caused a sharp deterioration in the banking sector of the former USSR. It affected especially hard on Kazakhstan, Ukraine and Moldova, where the aggregate assets of national banks in 2009 decreased significantly. For example, in Kazakhstan, they reduced by more than 20%, and two of the five largest banks defaulted on their international obligations and came under state control. Such serious consequences of the crisis for the banks of these countries were largely due to the negative side effect of financial globalization - the resulting high dependence on foreign capital, the inflow of which in 2008-2009 fell several times.

In subsequent 5-years period the post-Soviet banking systems developed relatively well with positive asset dynamics. However, already in 2015 this indicator was largely negative: their total assets in dollar equivalent decreased by 22%. The worst result in the rating on the dynamics of assets was shown by all banks of Azerbaijan and Moldova, which were characterized by negative dynamics of assets. In other the post-Soviet countries, the situation was also alarming: in Belarus, only 1 out of 9 leading banks represented in the rating had positive asset dynamics; in Georgia - 2 (6), Kazakhstan - 2 (19), Ukraine - 3 (17), Armenia - 3 (6), and in Russia - 24 (116), respectively. The reason for such a significant slowdown was the weakening of national currencies against the dollar and the general decline in economic growth, as well as other crisis phenomena in the financial system. As of 2019, the aggregate capital of the banking systems of the post-Soviet countries is slightly more than USD 1.8 trillion, i.e. 6.5% less than the corresponding figure for 2012, which is to some extent due to the massive revocation of banking licenses, in particular, in Russia, Ukraine and Azerbaijan. Nevertheless, in 2019 compared to 2007, the share of Russia in the total assets of the banking systems of the post-Soviet countries increased by 9.75 percentage points (Figure 1.B.).

According to systematized and comparable data collection by country, represented in *The Bankers* (which does not include data on Russian and the Baltic banks), for the year 2019 Kazakhstan retains the highest weighting in the top 100 the post-Soviet states based banks, with 17 banks accounting for 26.77% of total assets, followed by Ukraine - 18 and 21.07% and Belarus - 13 and 14.78%, respectively (Table 3).

When choosing the target markets, the post-Soviet banks are guided by criteria of their attractiveness, such as high level of trade and political relations with the home country, the presence of a diaspora, the degree of saturation and growth dynamics of the banking market in the host country, etc. From this point of view, The post-Soviet space is the main focus of the international strategy for former Soviet republics based banks. Moreover, regional priority is precisely what distinguishes the post-Soviet banks' strategies from the European and American ones. This situation can be explained by a number of reasons: the post-Soviet states share common historical past as the result of close ties within the framework of the single national economic complex of the former USSR; revival of old and the formation of new industrial alliances and trading arrangements; geographical proximity of these states reduces the costs of doing business; similarity of economic reforms carried out in most the post-Soviet states.

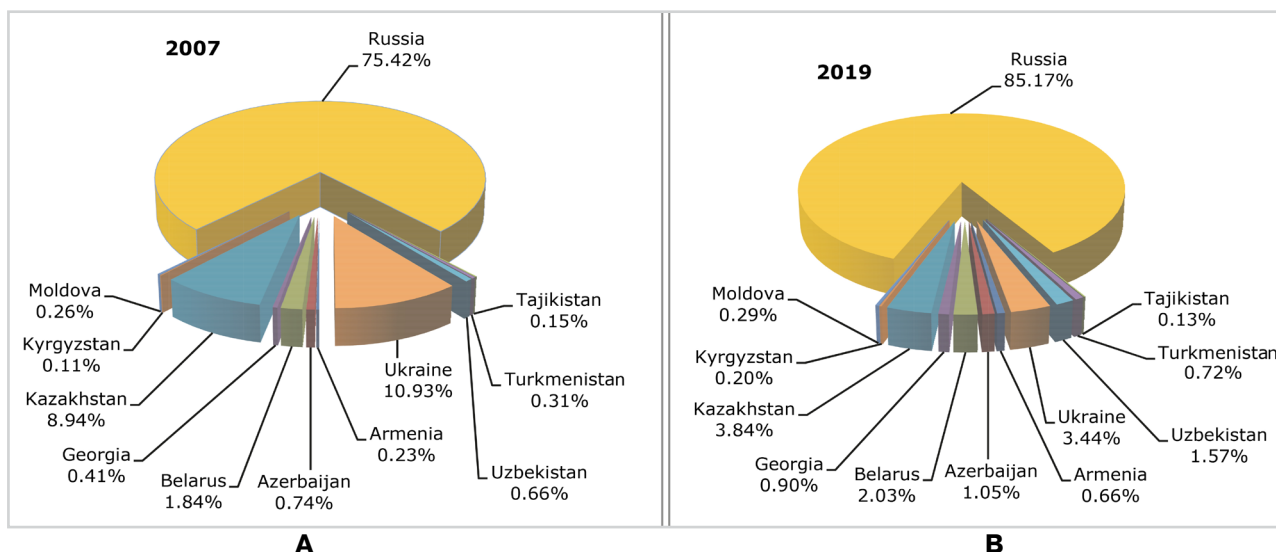


Figure 1:
The ratio of the total assets of the banking systems of the post-Soviet countries (at the end of the period)

Source: Compiled by the authors based on data from the central (national) banks of the post-Soviet countries and Ismailov (2009)

Table 3:
Country aggregates on the top 100 post-Soviet states-based banks (excluding Russian, Estonian, Latvian and Lithuanian banks), 2019

Country	Banks in ranking	Assets in ranking (%)
Armenia	16	4.95
Azerbaijan	9	5.96
Belarus	13	14.78
Georgia	9	7.22
Kazakhstan	17	26.77
Kyrgyzstan	3	0.56
Moldova	4	1.52
Tajikistan	1	0.14
Turkmenistan	3	8.64
Ukraine	18	21.07
Uzbekistan	7	8.39
Total	100	100

Source: Compiled by the authors based on Gillet (2020)

Lending within the geographic region may be more attractive than globally. Banks can benefit from regional specialization because they acquire specific knowledge. For example, bank clientele in Ukraine is closer in character to the typical clientele of Azerbaijan banks, which means it is possible to use marketing techniques and offer product lines tried out with the «domestic» clients.

At the same time, it should be emphasized that the degree of expansion of the former USSR banks to the non-post-Soviet states is currently rather weak, although, for example, entering the European market, the post-Soviet banks work with richer customers, get a guarantee of property protection and an opportunity to compete with the weakened during the crisis financial institutions of the Old World. There are a number of economic and organizational obstacles hindering this expansion. Economic obstacles include high level of competition in external banking markets; expensive financial resources of domestic banks; low level of expansion of the post-Soviet states based enterprises to the non-post-Soviet states. Organizational obstacles include difficult nature of country entry and settlement; discriminatory qualification requirements for personnel and composition of management bodies; problems related to banking licensing procedures and requirements; management challenges due to differences in legislative restrictions, aspects of culture and communication.

In this regard, we propose to consider the development of international banking strategies of the post-Soviet states on the example of Azerbaijan. Our choice is due to available information and existing researches on the activities of Azerbaijan-based banks. After the collapse of the

USSR, Azerbaijan enjoyed an exceptional development in terms of re-establishing its economy, and economic ties with its neighbouring countries. Hence, regional expansion to these countries was a natural decision. Macroeconomic factors (in particular, the economic wealth from energy export revenues) also played a role (Ozturkcan, 2018). In this article, we will focus on developing an international strategy for the country's two leading banks - the International Bank of Azerbaijan (IBA) and PASHA Bank.

The development of Azerbaijani banks in the context of the trend of transnationalization is currently weak, which predetermines their insignificant presence abroad. The most likely participant in integration into the IBB is the IBA. Until 2017, it was the largest bank in the Caucasus region and one of the leading banks in the post-Soviet space, with subsidiaries in Russia and Georgia, and representative offices in Great Britain, Germany, the USA, the UAE, and Luxembourg. Despite the default, this bank has real opportunities to expand its business abroad and is able to revive in international markets with skilful leadership and global thinking.

Other Azerbaijani banks that have potential opportunities and prospects for entering international markets are PASHA Bank, Kapital Bank and Xalq Bank, which, in terms of assets and total capital, are, along with IBA, in the first group of leading domestic credit institutions. The strategic vision of the development of these banks presupposes their consistent transformation from local banks operating in the local market to banks with a clear manifestation of the tendency of their participation in IBB.

PASHA Bank, being the largest private bank in Azerbaijan by total equity, launched subsidiary financial institutions in Georgia and Turkey. The mission of the bank involved becoming an international bank.

Azerbaijani financial institutions led the expansion of its resources to the neighbouring states. For example, SOCAR is one of the very big foreign investors with operations both in Georgia and Turkey. As a private investor coming to Georgia and Turkey PASHA Bank had less challenges than others might have had. Since Azerbaijani business was expanding, like SOCAR, so PASHA Bank kind of followed the Azerbaijani businesses in its geographic expansion. And Turkish entrepreneurs have been active in Azerbaijan for many years already. By providing presence in Turkey, the bank could also serve those Turkish entrepreneurs interested in Azerbaijani market as their premier bank. Azerbaijan, Georgia and Turkey are all emerging countries. Therefore, there are some similarities involved as well as differences.

Azerbaijani experts indicate that there were some bottlenecks and challenges, both during the setup and market introduction phases. The major challenge in the Turkish case was about fulfilling the requirements established by the Turkish regulators, especially by the Banking Regulation and Supervision Agency. Turkish financial sector is known as one of the well-regulated and advanced sectors in the globe in terms of its structure. Making such a move meant that PASHA Bank had to meet the standards and requirements. As a second challenge, getting known in the market was a major difficulty. Turkish financial market involved numerous foreign investors from the Western world with established marketing practices, but PASHA Bank was the first one from the Caucasus and Central Asia (Ozturkcan, 2019).

As has already been mentioned, the post-Soviet space is the main focus of the international strategy for former Soviet republics. In this context, Ukraine can become a strategic market for Azerbaijani banks' international expansion. When choosing the most appropriate option strategy for such an exit, several points should be taken into account: large size and high capitalization of the Ukrainian banking market; intense competition and dense saturation of the market with banking services; wide geography of the market; the focus of Azerbaijan and Ukraine on the further development of foreign trade cooperation. At the same time, it was revealed that Azerbaijani banks have a number of competitive advantages in certain product niches and customer segments, in particular, are priority in servicing the largest Azerbaijani business in Ukraine and opportunities and experience in supporting companies' foreign trade activities. It is necessary to focus and on the fact that SOCAR, which has started a very promising business in Ukraine, has ambitious plans for its expansion (construction of an oil terminal, sales of oil products through its own retail network, investment programs, cooperation with various Ukrainian enterprises).

This, in our opinion, creates a real opportunity to enter the Ukrainian banking market as a backbone bank for SOCAR. Support for given vector of development includes assistance for current activities (settlement and cash services, salary programs, etc.), project and trade financing, attracting other companies to service SOCAR's counterparties in this market.

5. Conclusions

In conditions of financial-economic and social uncertainty IBB has been going through deep transformation. The upheavals caused by global economic collapse, the subsequent Eurozone debt crisis, falling oil prices and pandemic outbreak have accelerated regional changes in the organization structure of international banking. This, in turn, resulted in changes in the distribution of banks' assets and profits between developed countries on one side, and emerging and developing countries on the other, ratings of the world's largest banks, regional features of IBB. Before the global economic crisis of 2007-2009, there was a striking increase in international banking. Given the changes in the international bank environment, a shift from an old to a new paradigm of IBB and bank strategies has occurred. The clearest effect of the global crisis was on cross-border banking flows, which were on a sharply increasing trend just before the crisis, and dramatically decreased after the crisis. Direct cross-border banking flows were more volatile than local banking flows of international banks. Much of these changes reflect market and regulatory forces, notably European and US banks' retrenchment in the aftermath of their crises, and the growing role of emerging markets and developing countries in international banking.

The cross-border activities of the largest banks of the former Soviet republics are characterized by regional priority. The main direction of their international strategy is the the post-Soviet space, while the degree of expansion into non-the post-Soviet states is currently rather weak due to a number of economic and organizational obstacles. The review of the case study of strategies for entering foreign markets of leading Azerbaijani banks conducted in this article allowed us to reveal the main vectors of their marketing activities, and the prospects for transnationalization of the country's banking system.

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