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International Cases and Lessons of Banking Openness

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Abstract

With the continuous deepening of economic and trade exchanges between countries in the world and the continuous extension and improvement of global value chains, financial openness has naturally become the only way for all countries in the world. As an important part of financial openness, the risks of banking openness cannot be ignored. This article analyzes the banking opening policies of major developed countries and typical cases of developing countries' banking openings, and explores the relevant enlightenment of these cases to the opening of a country's banking industry. Through the analysis of the banking opening cases of relevant countries, it is concluded that financial opening countries should proceed step by step, opening the banking industry first, and then gradually liberalizing capital projects to prevent a large inflow of foreign capital in the short term and erode the country's financial sovereignty. At the same time, an effective financial supervision mechanism should be established, and appropriate policies should be given to the domestic banking industry to ensure that the control of the domestic banking industry is firmly grasped on the basis of favorable competition and to achieve a protected opening.

Keywords

Financial Opening; Banking Opening; Financial Sovereignty; Financial Supervision; Risk Supervision.

1. International Cases of the Opening of the Banking Industry in Developed Countries

The developed countries in Europe and the United States are the main promoters of financial liberalization and financial opening, especially the United States, with its hegemonic status, forcing many developing countries to relax financial control, and then achieve the purpose of plundering other countries' financial resources. However, a closer examination of the banking opening policies of developed countries will reveal that these countries have implemented an open protection for the banking industry. [1]The following will analyze the regulatory policies of foreign banks in the United States, Japan, and the United Kingdom and the equity structure of the banking industry, so as to get a glimpse of the opening-up policies and concepts of the banking industry in developed countries.

1.1. United States

The United States is one of the countries with the most developed financial markets in the world, and it is also the country that advocates financial liberalization most in the world. On the surface, the US financial market is very open[2]. However, the US is one of the countries with the most serious financial protection. In order to ensure financial security and financial sovereignty, the United States has promulgated and implemented a series of banking laws and regulations since the 1990s, which have openly and directly protected the domestic banking industry. These regulations mainly include the "Foreign Bank Supervision Strengthening Act", the "Financial Service Modernization Act", and the "Foreign Investment and National Security Act."

The U.S. protective measures for the banking industry mainly include: First, implement foreign currency control to provide monetary protection for the U.S. banking industry. For example, strictly restrict the circulation of foreign banknotes in the country and restrict bank customers from opening foreign banknote accounts. Second, strictly restrict foreign banks' access to the U.S. market and strictly control the shareholding ratio of foreign banks. In the 1990s, the United States strengthened the supervision of foreign banks, promulgated the "Foreign Bank Supervision Enhancement Act" and continuously revised it, which greatly increased the difficulty for foreign banks to enter the US financial industry[3]. The United States has always exercised strict control over the restrictions on the shareholding ratio of foreign banks. The Committee on Foreign Investment in the United States is also very strict in reviewing foreign acquisitions to ensure that foreign acquisitions will not affect national financial security. Third, strictly restrict the business scope of foreign banks, such as prohibiting foreign banks from acquiring or controlling US domestic banks, and prohibiting foreign banks from absorbing US residents' deposits in China. The U.S. clearly lists the banking industry as a key area threatening U.S. national security, setting high thresholds for foreign banks to enter the domestic banking industry, and setting more restrictions on the scope of business of foreign banks, thus ensuring the monopoly of domestic banks status.

Through these regulatory measures, it is difficult for foreign banks to compete fairly with domestic banks in the United States, and the status of foreign banks in the United States continues to decline. Since the 1990s, the proportion of assets of foreign banks in the United States has been far lower than that of banks in the United States. At the same time, the number of institutions of foreign banks in the United States has also been declining.

Relevant data shows that in 2018, the four major U.S. banks (Bank of America, Wells Fargo, JPMorgan Chase Bank, and Citigroup) held more than 5% of the shares in the US financial groups. In addition, the equity of the U.S. banking industry is relatively dispersed, with the top three shareholders holding no more than 10% of the shares, and the proportion of foreign holdings is even lower. Therefore, if a country’s banking industry wants to achieve a protective opening up, it needs to prevent excessive concentration of equity and prevent foreign banks from taking too much equity and eroding the control of domestic banks.

1.2. Japan

In the 1990s, the Japanese economy stagnated and the Japanese banking industry was also deeply affected. Within a few years after the "bubble economy" burst, many Japanese banks went bankrupt. For example, Hokkaido Takushoku Bank and Japan Long-Term Credit Bank went bankrupt in 1997 and 1998 respectively. The government began to inject public funds into commercial banks to stabilize the banking system and further improve the corresponding laws and regulations of the banking industry. In March 1998, Japan lifted the ban on financial holding companies, followed by a wave of mergers and acquisitions in the Japanese banking industry. After years of vertical and horizontal collapse, Japan formed three major financial groups in 2004: Mizuho Financial Group and Mitsubishi UFJ Financial Group and Sumitomo Mitsui Financial Group. The successive establishment of financial groups since 1999 has played an important role in dealing with the non-performing assets of the Japanese banking industry, and has also greatly improved the international competitiveness of the Japanese banking industry. It is these financial giants that have firmly controlled the Japanese banking industry in Japan's own hands.

From the perspective of shareholding structure, Japan's shareholding structure is quite special. Japan implements a main bank system that allows banks and companies to hold each other's shares. The shares of Japanese banks are concentrated in financial institutions and other legal persons, and cross-shareholding is obvious, and the proportion of individual and foreign companies' shareholding is very low. The formation of this type of shareholding structure in Japan has a certain connection with the government's restrictions on foreign investment. The Japanese government strictly restricts foreign capital from entering important areas of the national economy, which has prompted large Japanese companies to compete for bank control as a support for their expansion. The main shareholder of the Japanese banking industry is Japanese entity companies, which is conducive to promoting the healthy development of bank-enterprise relations and also guarantees the country's absolute control over the banking industry.

It is worth noting that Japan's supervision of foreign banks is very strict and sound. In terms of banking market access, if foreign banks want to set up branches in Japan, they must be approved by the Minister of Finance. They must also meet the requirements in terms of assets and business personnel. They must also issue guarantees to ensure that they will not affect Japan's financial order. In terms of business scope, although Japan has gradually relaxed business restrictions on foreign banks, foreign banks have always been difficult to rival domestic banks in Japan, and their market share is low. Relevant data show that Japanese foreign bank assets account for a low proportion of the total assets of the Japanese banking industry. In recent years, it has remained at around 4%-5%. The supervisory authorities have also implemented strict risk supervision on foreign banks, and have strict regulations on deposit reserves and loan concentration.

1.3. United Kingdom

Britain is a capitalist country with a long history and a developed financial industry. Historically, the British financial industry regulatory system has been known for its loose rule of law and strong industry self-discipline. The history of the British banking industry has more than 300 years. From the Bank of England established in 1694 to the HSBC with branches all over the world, the British banking industry has deeply influenced the world's banking system.

About 50% of the assets of the British banking industry are held by foreign banks, and 2/3 of the 450 authorized banks in London come from abroad. The British banking industry is highly internationalized and has extensive connections with foreign countries. This also determines that the supervision of foreign banks requires a certain degree of flexibility and freedom. The United Kingdom implements national treatment for foreign banks, and foreign banks can compete with local banks on an equal footing if they meet the access conditions. The UK’s main regulatory policies for foreign banks include: market access is the same as that of domestic financial institutions, and branches must maintain sufficient liquidity and meet foreign currency risk guidelines; in terms of foreign shareholding, foreign banks are required to hold more than 15 shares of domestic banks. %, must obtain the permission of the British Financial Services Authority (FSA); foreign banks also need to abide by the deposit reserve system; the United Kingdom also conducts on-site inspections and off-site inspections of foreign banks, which effectively saves supervision costs.

The equity of the British banking industry is also relatively dispersed, and the governance structure is relatively complete. This can be seen from the shareholding ratios of the major banks in the UK. As of the end of 2018, the top three shareholders of HSBC Holdings were Ping An Asset Management Co., Ltd. (China), Black Rock Group (U.S.) and Bank of New York Mellon (U.S.), holding 7.01%, 6.59%, and 5.55%, respectively. Major shareholders are foreign investors; Barclays Bank’s major shareholders are also mainly US institutional investors; Standard Chartered’s major shareholder Temasek Holdings (Singapore) is also foreign.

As the UK's financial industry is relatively developed and the regulatory system is relatively complete, the principle of national treatment is applied to foreign banks. This has resulted in foreign banks occupying a larger market share in the UK, and the phenomenon of foreign holdings by local banks is also more obvious. This also reflects the high degree of internationalization of the British banking industry, the relatively complete banking supervision system in the UK, and the high stability of the UK financial system. However, with the slowing down of the British economy, the impact of Brexit and the emergence of "anti-globalization" in the United States, the United Kingdom may strengthen the supervision of the banking industry in the future.

2. International Case Analysis of the Opening of the Banking Industry in Developing Countries

The banking industry is an important strategic resource of a country. For countries where indirect financing is dominant, the importance of the banking industry is even more self-evident. Historically, financial openness and financial liberalization have led to many cases of financial crises in developing countries. These countries loosened capital account controls and implemented privatization of financial institutions too quickly, resulting in the banking industry being controlled by foreign capital. When the crisis occurred, the foreignization of banks encouraged capital outflow. The following will take the financial crises in Mexico, Thailand, and Argentina as examples to analyze how financial liberalization and bank foreignization in these countries have contributed to the occurrence of the financial crisis.

2.1. Mexico

Mexico’s financial crisis in 1994 was a typical financial crisis in developing countries during the process of financial liberalization. Mexico has implemented financial liberalization too quickly under the condition of imperfect regulatory system and lagging development of its financial market, which has laid hidden dangers for the outbreak of the financial crisis. In December 1992, Mexico and the United States signed a North American trade agreement. Mexico promoted the opening up of trade. At the same time, the speed of Mexico's financial opening was also greatly accelerated. Mexico liberalized the banking industry and vigorously promoted the privatization of banks, which made Mexico gradually lose control of its own banks. After foreign capital controlled the banking system, it invested bank funds in high-risk areas, increasing the difficulty of financing for real enterprises, making the real economy lack sufficient economic support, and leading to a recession in the national economy. The Mexican supervisory authorities have not changed their supervisory concepts in the process of bank privatization in a timely manner. The assessment and supervision of bank risks are seriously insufficient, which has led to excessive expansion of bank credit and aggravated the accumulation of systemic bank risks.

In the face of Mexico's turbulent political situation and uncertain economic situation, the confidence of foreign investors has declined, the inflow of foreign capital in Mexico has fallen sharply, coupled with the weak growth of foreign trade, Mexico has experienced a huge balance of payments deficit. In response, the Mexican government suddenly announced a policy of 15% devaluation of the peso in December 1994 to stimulate exports and balance the balance of payments. However, this was counterproductive, and the result was a huge market panic. Foreign investors desperately sold pesos and bought U.S. dollars. The peso exchange rate fell sharply. In order to stabilize the value of the currency, Mexico’s foreign exchange reserves have almost been exhausted, which undoubtedly makes people more suspicious of Mexico’s debt solvency, and there is a new round of peso selling. In 1994, the peso experienced a substantial depreciation, followed by a new round of devaluation in 1995, and Mexico’s international reserves also fell sharply during that period. Mexico relies heavily on foreign investment. The emergence of the peso crisis caused foreign capital to flee on a large scale, and Mexico eventually fell into a financial crisis.

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In the Mexican crisis, the opening up of the banking industry played a role in fueling the flames. First of all, after foreign banks controlled the Mexican banking industry, excessive bank funds flowed into real estate and finance, limiting the development of the real economy, leading to an increase in the level of bad debts of banks; Under the impact of the peso crisis, the banking industry has instead contributed to large-scale capital outflows. The Mexican crisis has shown that when the country's banking industry is fully opened up, the country's regulatory system must be improved to fully protect the country's financial sovereignty; the real economy is the lifeblood of a country's economy, and economic development cannot be overly dependent on foreign capital.

2.2. Thailand

A typical currency crisis appeared in Thailand's financial crisis in 1997. The outbreak of this crisis is inevitable with Thailand's rapid implementation of financial market liberalization and privatization of financial institutions. Thailand began financial liberalization in 1989 and opened up its domestic financial system to foreign investors. Since the beginning of the 1990s, Thailand has implemented foreign exchange liberalization reforms for four consecutive times. Foreign exchange liberalization reforms have led to a large influx of foreign capital into Thailand. The inflow of foreign capital has a relatively large proportion of short-term and medium-term funds, which has made Thailand's short-term foreign debts high and debt-type currency mismatch . Figure 3-4 shows Thailand's short-term foreign debt from 1990 to 2000. It can be seen that short-term foreign debt increased sharply before the outbreak of the financial crisis in Thailand. In addition, foreign capital has flowed to the stock market and real estate on a large scale, causing asset price bubbles. As early as the end of 1996, international speculators had insight into the unsustainability of Thailand's bubble economy and fixed exchange rate system, so they rushed to sell the baht in 1997, which caused a currency crisis in Thailand and caused turbulence in the Thai financial market. Subsequently, international capital flowed out sharply, countless companies in Thailand closed down, and the economy fell into a downturn.

The opening of Thailand's financial industry was seriously inconsistent with Thailand's economic level and financial supervision level at that time. During the period of financial liberalization in Thailand, its economy grew rapidly on the surface, but its economic foundation was very weak, and Thailand's economic structure was simple.

Over-reliance on exports and current account deficits have made the government long dependent on foreign debt to drive import and export business. From 1990 to 1994, Thailand's current account deficit accounted for an average of more than 5% of GDP. In 1995, it reached more than 8%, exceeding the 5% warning line. The long-term deficit will inevitably lead to an increase in foreign debt6. After the Thai banking industry was controlled by foreign capital, the banking industry became the driving force of asset price bubbles. Regulators failed to prevent the flow of funds to the stock market and housing market in a timely manner, which made the country's economy very fragile. At present, the economies of all countries in the world are also facing the phenomenon of falling out of reality to a certain extent. In this regard, more attention needs to be paid to supervision of foreign investment.

2.3. Argentina

There are similarities between the Argentine crisis and the Mexican financial crisis, and both are related to financial liberalization and the privatization of the banking industry. Latin American countries were affected by neoliberal thoughts in the 1990s and implemented financial liberalization on a large scale, and Argentina is no exception. Since 1988, Argentina has liberalized capital account controls and opened up financial markets such as banking and securities. Argentina vigorously promoted the privatization of banks and allowed foreign investors to acquire its own state-owned and private banks, which led to the final control of the Argentine banking industry by foreign capital. As shown in Figure 3-5, in 1992, Argentina's domestic banking assets accounted for as much as 82%. With the advancement of financial liberalization, the proportion of domestic banking assets continued to decline. By 2001, the assets controlled by domestic banks had already It dropped to 33%, and the proportion of foreign bank assets rose rapidly from 12% in 1992 to 67% in 2001. As of 2001, 8 of Argentina's top 10 banks had been controlled by foreign capital, which shows that Argentina had lost in 2001 Control of the banking industry.

Argentina has also fully liberalized the business scope of foreign banks, which has made the U.S. dollar popular in Argentina, and the phenomenon of foreign currencies expelling the domestic currency has led to high foreign debts in Argentina and threatened the monetary control ability of the financial authorities. After the crisis, the banking industry controlled by foreign capital did not play a role in stabilizing the economy at all, and it became a tool for capital to help escape. In the end, the Argentine financial crisis broke out, Argentina's currency depreciated sharply, the pressure on foreign debts increased greatly, the country's economy fell into recession, the political situation was turbulent, the unemployment rate rose sharply, and the social poverty rate increased rapidly. The Argentine crisis also quickly affected Latin American countries such as Brazil and Uruguay, and eventually evolved into a Latin American financial crisis. In the process of financial opening up, it is necessary for a country to protect the dominant position of financial sovereignty and sovereign currency, and promote the reform of the exchange rate system.

3. Conclusions and Comments

The banking industry is an important strategic resource of a country, and it plays an important role in the resource allocation and industrial development of a country. Therefore, ensuring the control of the banking industry has become an important proposition for financial security. It can be seen from the United States and other developed countries that the banking industry in these countries has gone through a process of deregulation and then strengthening control. The US banking industry has implemented a protective opening, and the Japanese banking industry is firmly controlled by several major domestic financial groups. Although the United Kingdom has relatively few restrictions on foreign banks, its financial foundation is very strong, risk prevention capabilities are strong, and it has the necessary conditions for financial openness. The development history of the banking industry in developed countries is much longer than that of other countries in the world, and the financial market is also more perfect, and the banking industry has been strictly restricted. In the final analysis, this is because the importance of financial capital has become increasingly significant. From the Southeast Asian financial crisis in the 1990s to the subprime mortgage crisis in 2008, the lethality of financial capital is evident. The hegemony established by the United States in the world today is largely due to the support of its financial hegemony. For a long time to come, financial hegemony and financial security will become more important issues.

The financial crises in Mexico, Thailand, and Argentina are all related to the financial opening of their countries. Although these countries have solved the problem of insufficient domestic funds through financial opening, they have caused foreign financial institutions to dominate the domestic banking industry due to excessive opening up. This has severely weakened the country's financial control capabilities, affected the effectiveness of the country's macroeconomic policies, and threatened the country's financial security. The foreignization of the Mexican banking industry has increased the difficulty of financing for SMEs and affected the government's macro-control effects; Thailand's inflow of foreign capital has exacerbated the country's asset price bubbles and led to financial out-of-control; Argentina's dollarization has led to a rapid increase in foreign debt. Argentina finally abandoned the currency board

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system. These countries sacrificed their own financial sovereignty in exchange for temporary economic prosperity, and they were eventually countered by foreign capital. Therefore, in the process of opening up the banking industry, a country must be cautious and must guarantee its own financial sovereignty.

Generally speaking, the opening of a country's financial industry includes the opening of the banking industry and the opening of capital projects. The two have a certain order of opening. Generally, the banking industry follows the principle of opening capital projects first, then opening up. Countries such as Thailand have completely opened up both at the same time. , Intensified the impact of short-term cross-border capital on the domestic financial system. The IMF regulates capital and financial items in seven categories and 40 sub-items. With the acceleration of the financial opening process, a country's capital accounts will gradually become fully convertible. In the process of gradual increase in the convertibility ratio, more We need to be cautious about the impact of the simultaneous opening of capital accounts and the banking industry on our country. We should continue to improve our country's financial market, improve the supervisory capabilities of supervisory institutions, enhance the competitiveness of domestic financial institutions, and prevent systemic risks from domestic banks.

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