

Global Banks: The Race for Supremacy in 2018

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Abstract

The globalization of banking has become an important phenomenon of the economic world especially in the last decades. Today's global banking landscape is dominated by the Chinese and American banks. The aim of the paper is to briefly analyze the fierce competition for supremacy in the global banking system in 2018 by taking into account various criteria such as revenues, profits or assets. The authors achieved the objective of the paper by using a quantitative method. The information was gathered through a comprehensive literature review from numerous sources of secondary data from various domains. The paper shows that the Chinese banks dominated the global banking system last year.

Key words: global banks, China, United States of America, global banking system, financial globalization

J.E.L. classification: F3, F65, G2.

1. Introduction

Banking has become an increasingly global business since the Middle Ages. Twelfth-century Italy proved to be a fertile ground for the appearance of commercial banking. The rise of the Italian merchant banking houses (e.g., the Medici, the Bardi) was the result of the following two factors: the expansion of trade activities in the Italian coastal cities (e.g., Venice, Genoa, Amalfi) and the weakening of religious restrictions related to economic activity, especially in the Renaissance period (Roussakis, 1997; Cassis *et al*, 2016; Reinert *et al*, 2017). These large banking houses carried on a multitude of activities such as the financing of trade, the providing of loans, the formation of deposits, or the exchange of foreign currencies (Munro, 2002). Also, they extended their activities to leading European cities through a network of agents and numerous offices. Italian banks founded foreign branches to "assist their cross-border lending and trade finance activities" (Jones, 1990, p. 2) and to "effect payments and arrange for the delivery of the goods on behalf of their clients" (Smith *et al*, 2012, p. 3). Thus, the Italian banking houses dominated the international finance until the fifteenth century. Their place was taken by the German merchant banks (e.g., the Fugger, the Welser) as they fell into insolvency.

During the seventeenth century, the Dutch banks began to dominate the European finance. With the emergence and development of the capitalistic enterprise, the British banking houses (e.g., the Baring, the Warburg) started to rule the international finance since the end of nineteenth century until the World War I and London became the leading financial center of the world (Roussakis, 1997). Later, the U.S. banks (e.g., JPMorgan Chase, Goldman Sachs) became pre-eminent at the global scale as the United States of America (USA) transformed itself into the world's first

economic superpower. The international expansion of the U.S. banks continued after the end of Second World War. However, in the late 1970s the Japanese banks became aggressive competitors and threatened the American superiority. Today's global banking landscape is dominated by the Chinese and U.S. banks.

The globalization of banking has become an important phenomenon of the economic world especially in the last decades. The multiplication of financial and economic crises, the strengthen of the financial interconnectedness, the imperfect synchronization of business and financial cycles across countries, the increase of mergers and acquisitions, the existence of regulatory reforms, the changes in monetary policies and capital flows, the liberalization of financial markets, the expansion of cross-border banking networks, the improvements in technology and communications have been some of the main factors that influenced the evolution of the global banking system (Grossman, 2010; Cerutti *et al*, 2017; Toma *et al*, 2018a; Park *et al*, 2018; Agénor *et al*, 2019).

The aim of the paper is to briefly analyze the fierce competition for supremacy in the global banking system in 2018 by taking into account various criteria such as revenues, profits or assets. The paper comprises three sections besides the introduction. The second section provides the theoretical framework. The third section illustrates the research methodology. The fourth section displays the findings. The paper ends with conclusions.

2. Theoretical background

Based on financial globalization, a defining feature of the contemporary world economic system (Copelovitch, 2010), global banks represent the key concept of the paper. Financial globalization is related to the rapid increase of global ties developed through cross-border financial flows (Bexley *et al*, 2012). Global banks are defined as "financial firms owned by developed-market households, which engage in financial intermediation and trading in the world economy" (Morelli *et al*, 2019, p. 13).

In order to differentiate global banks from international banks researchers focus on the way in which a bank finances its foreign assets. It is said that a global bank uses „funds raised in a foreign market to finance its claims on borrowers in the same foreign market” and concentrates on „serving local markets locally” whereas an international bank uses „funds raised in its domestic market to finance its claims on borrowers in a foreign market” and concentrates on „cross-border business” (McCauley *et al*, 2002, p. 42). Global banks can be characterised as follows (Cetorelli *et al*, 2014; Morelli *et al*, 2019):

- They are complex organisations.
- They are structured to incorporate affiliates all over the world.
- Their affiliates span numerous levels of ownership.
- The business-type variety of their affiliates shows distinct tendencies according to the economic geography of their parent organizations.
- They possess generally a superior number of nonfinancial affiliated entities in comparison with their affiliated banking organizations.
- They mediate and provide international lending and investment.
- They are highly diverse in terms of size.
- Their geographic presence is different.

Thus, the rise of global banks was the result of the wave of globalization in finance (Poelhekke, 2015). These banks are huge financial intermediaries competing in the world economic system. In this respect, Chinese commercial banks have become strong competitors for U.S. banks in the global banking system in the last decade as China is increasingly challenging the American global economic supremacy (Toma *et al*, 2017; Toma *et al*, 2018b; Jack, 2019). While these biggest Chinese commercial banks are still largely state owned, the American banks are private.

3. Research methodology

In order to accomplish the aim of the paper the authors used a quantitative method. Various sources of secondary data (e.g., articles, working papers, books) from the domains of banking, economics, and history provided the needed information for performing the literature review. The research was conducted mostly in a Romanian library where numerous books and several electronic databases (e.g., RePEc Archive, Oxford Journals, Taylor & Francis, Sage) were found and consulted.

4. Findings

In their race for supremacy, global banks obtained impressive results in 2018. Last year, the world's largest bank after revenues was the Chinese colossus Industrial & Commercial Bank of China with more than \$168 billion (Table 1). From a geographical point of view the ten largest banks of the world after revenues were from:

- China- 5 banks: Industrial & Commercial Bank of China, China Construction Bank, Agricultural Bank of China, Bank of China, China Development Bank;
- USA- 4 banks: JPMorgan Chase & Co, Bank of America, Wells Fargo, Citigroup;
- United Kingdom (UK)- 1 bank: HSBC Holdings.

Table no. 1. The world's largest bank after revenues in 2018

Rank	Name	Revenues (US\$M)
1	Industrial & Commercial Bank of China (China)	168,979.00
2	China Construction Bank (China)	151,110.80
3	Agricultural Bank of China (China)	139,523.60
4	JPMorgan Chase & Co (USA)	131,412.00
5	Bank of China (China)	127,714.10
6	Bank of America (USA)	110,584.00
7	China Development Bank (China)	103,072.90
8	Wells Fargo (USA)	101,060.00
9	Citigroup (USA)	97,120.00
10	HSBC Holdings (UK)	86,131.00

Source: (Fortune, 2019a)

In 2018, the Industrial & Commercial Bank of China gained more than \$45 billion in profit, the highest profit in the global banking system (Table 2). From a geographical point of view the ten largest banks of the world after profits were from:

- China- 5 banks: Industrial & Commercial Bank of China, China Construction Bank, Agricultural Bank of China, Bank of China, China Development Bank;
- USA- 4 banks: JPMorgan Chase & Co, Bank of America, Wells Fargo, Citigroup;
- UK- 1 bank: HSBC Holdings.

Table no. 2. The world's largest bank after profits in 2018

Rank	Name	Profits (US\$M)
1	Industrial & Commercial Bank of China (China)	45,002.30
2	China Construction Bank (China)	38,498.40
3	JPMorgan Chase & Co (USA)	32,474.00
4	Agricultural Bank of China (China)	30,656.50
5	Bank of America (USA)	28,147.00
6	Bank of China (China)	27,225.20
7	Wells Fargo (USA)	22,393.00
8	Citigroup (USA)	18,045.00
9	China Development Bank (China)	16,744.30
10	HSBC Holdings (UK)	13,727.00

Source: (Fortune, 2019b)

Global banks are among the biggest world's employers. Last year, the Agricultural Bank of China was the largest employer in the global banking system with more than 477,000 employees (Table 3). From a geographical point of view the ten biggest employers in the global banking system were from:

- China- 5 banks: Agricultural Bank of China, Industrial & Commercial Bank of China, China Construction Bank, Bank of China, China Development Bank;
- USA- 4 banks: Wells Fargo, JPMorgan Chase & Co, Bank of America, Citigroup;
- UK- 1 bank: HSBC Holdings.

Table no. 3. The number of employees of the world's largest bank in 2018

Rank	Name	Number of employees
1	Agricultural Bank of China (China)	477,526
2	Industrial & Commercial Bank of China (China)	449,296
3	China Construction Bank (China)	366,996
4	Bank of China (China)	310,119
5	Wells Fargo (USA)	258,700
6	JPMorgan Chase & Co (USA)	256,105
7	HSBC Holdings (UK)	235,217
8	Bank of America (USA)	204,489
9	Citigroup (USA)	204,000
10	China Development Bank (China)	9,507

Source: (Fortune, 2019a)

In 2018, the Industrial & Commercial Bank of China owned assets of more than \$4,027 billion, the largest in the global banking system (Table 4). From a geographical point of view the ten largest banks of the world after assets were from:

- China- 4 banks: Industrial & Commercial Bank of China, China Construction Bank, Agricultural Bank of China, Bank of China;
- USA- 2 banks: JPMorgan Chase & Co, Bank of America;
- France- 2 banks: BNP Paribas, Crédit Agricole Group;
- Japan- 1 bank: Mitsubishi UFC Financial Group;
- UK- 1 bank: HSBC Holdings.

Table no. 4. The world's largest bank after assets in 2018

Rank	Name	Assets (US\$B)
1	Industrial & Commercial Bank of China (China)	4,027.44
2	China Construction Bank (China)	3,376.52
3	Agricultural Bank of China (China)	3,287.36
4	Bank of China (China)	3,092.21
5	Mitsubishi UFC Financial Group (Japan)	2,812.88
6	JPMorgan Chase & Co (USA)	2,622.53
7	HSBC Holdings (UK)	2,558.12
8	Bank of America (USA)	2,354.51
9	BNP Paribas (France)	2,336.66
10	Crédit Agricole Group (France)	2,123.61

Source: (Garrido et al, 2019)

By taking into account the above mentioned criteria (revenues, profits, assets, employees) the global banking system revealed several main features in 2018 as follows:

- The ten largest banks of the world were located in Asia, North America and Europe.
- The Chinese banks and U.S. banks were the major players and dominated the hierarchies.
- The Industrial & Commercial Bank of China was the world's largest bank in terms of revenues, profits and assets.
- The total profits gained by the Chinese banks were superior to those obtained by their American counterparts.

- The total assets owned by the four largest banks of the world surpassed \$13,000 billion. All of them were Chinese.

5. Conclusions

The paper contributes to the development of the scientific literature related to the global banking system, in general, and the global banks, in particular. Firstly, it explains the strong relationship between financial globalization and global banks. Secondly, the paper presents the main characteristics of the global banks. Thirdly, it analyzes the incessant race for supremacy between the Chinese banks and the U.S. banks in the global banking system. Fourthly, the paper shows that the Chinese banks dominated the global banking system in 2018. Further researches might expand this study by taking into account other criteria such as the Tier 1 capital or the market capitalization.

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