

# CHINESE OR AMERICAN BANKS?

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## Abstract

*The turbulent economic environment that characterizes nowadays society pushes companies, public institutions, entrepreneurs and other stakeholders involved in the economic game towards flexibility and constant vivid awareness. Banks have to behave in a similar fashion if they want to be competitive on the global market. A strong connection between the world's biggest banks and the economies they come from exists, China and the United States of America being world leaders. The aim of the paper is to highlight the evolution of the world's largest banks in the period 2016-2017 by using criteria such as Tier 1 capital, assets and market capitalization. The research is based on a quantitative method. The results of this research show that even though both China and the USA are key competitors in the banking sector, the Industrial & Commercial Bank of China stands out in terms of Tier 1 capital and assets both in 2016 and in 2017.*

**Keywords:** banking system, China, United States of America, Tier 1 capital, assets, market capitalization

**JEL Classification:** F39, G21

## 1. Introduction

The roots of the modern banking system can be traced to twelfth century Italia. The rise of Italian merchant banking houses such as the Bardi, the Peruzzi and the Medici set the landscape for the current global banking system. Later, in the sixteenth century, the German banking houses grew in importance (Roussakis, 1997). Since then, the global banking system has continuously developed and become a key economic sector. On the one hand, the evolution of the banking system has been highly influenced by crises, bailouts, mergers, regulatory reforms, technology and customer behavior (Grossman, 2010; Brereton et al., 2014). On the other hand, many economic crises in history have been the results of different financial crises (Cetorelli et al., 2012).

As the beginning of 21<sup>st</sup> century has been characterized by uncertainty, volatility and turbulence (e.g., the 2007 financial crisis), most banks have understood the need to clearly articulate a core strategy, to improve the efficiency of the risk management function, to rebuild trust, to provide solutions that emphasize the customer experience, to increase their flexibility, to consolidate their operations abroad and to develop new operating models in order to regain profitable growth (AT Kearney, 2009; Choudhary, 2012; Claessens and van Horen, 2014; Ernst & Young, 2017). Increased competition in the banking industry around the world has led to riskier bank behavior and higher instability (Bolt and Tieman, 2004; Vives, 2010). To face global competition commercial banks has made considerable efforts to generate sustainable organic growth and to consistently create shareholder value (Accenture, 2013).

The paper analyses the evolution of the world's largest banks in the period 2016-2017 by taking into account various criteria such as Tier 1 capital, assets and market capitalization. The research is based on a quantitative method.

The paper comprises two sections besides this introduction. The first section presents the global competition in the banking industry worldwide. The paper ends with conclusions.

## 2. Chinese versus American banks

China and the United States of America (USA) dominate the global banking system in 2016 (Table 1, Figure 1). Having four banks each, they cumulate 8 out of the first ten banks in

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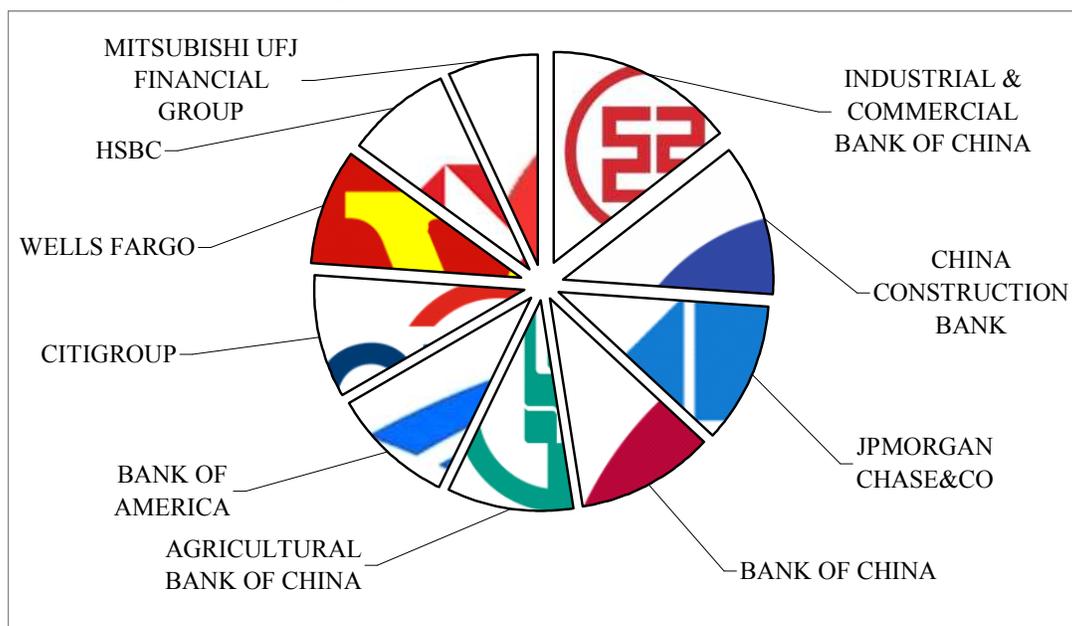
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the world, in terms of Tier 1 capital. With a focus on having “high quality capital” levels throughout the global banking system, Tier 1 capital refers to the “money that the bank has in its coffers to support all the risks it takes: lending, trading, and so on” (Financial Times, 2017). Between the two economic powers of the world, China has better ranked banks (first two positions) and, altogether, they cumulate more than their American counterparts. The last two positions are occupied by Great Britain and Japan. The difference between the first and the last placed bank is significant, the Industrial & Commercial Bank of China having more than twice Tier 1 capital than Mitsubishi UFJ Financial Group.

**Table 1. The world’s largest banks after their Tier 1 capital (07.2016)**

Rank	Bank	Tier 1 capital (US\$ bn)
1	Industrial & Commercial Bank of China (China)	274,432
2	China Construction Bank (China)	220,007
3	JPMorgan Chase & co (USA)	200,482
4	Bank of China (China)	198,068
5	Agricultural Bank of China (China)	185,607
6	Bank of America (USA)	180,778
7	Citigroup (USA)	176,420
8	Wells Fargo (USA)	164,584
9	HSBC (Great Britain)	153,303
10	Mitsubishi UFJ Financial Group (Japan)	131,753

Source: <http://www.thebanker.com/Top-1000/2016/2016>



**Figure 1. The world’s largest banks after their Tier 1 capital (07.2016)**

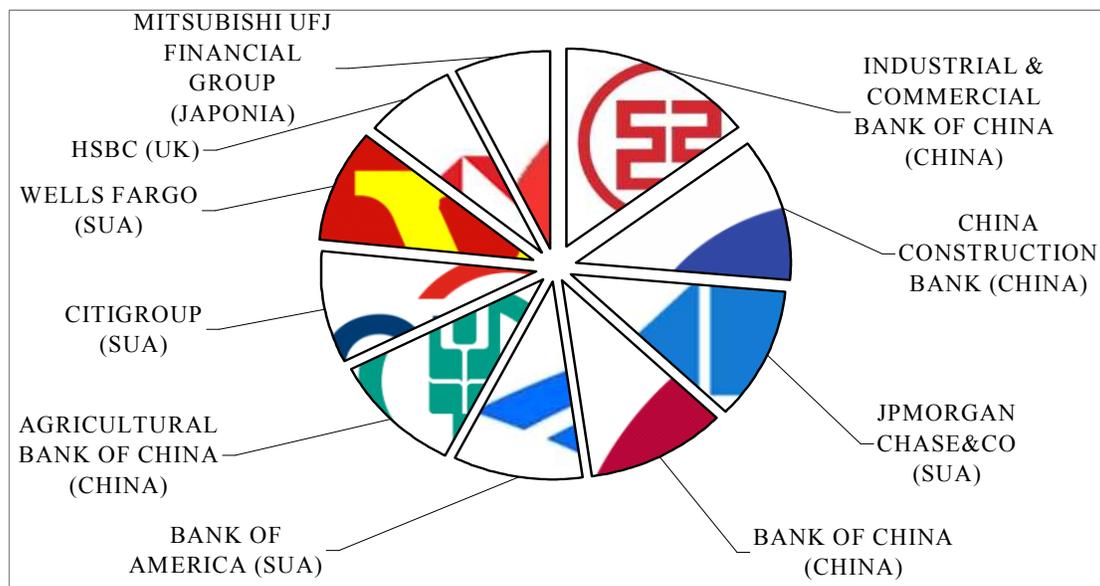
Source: authors’ contribution

In 2017, taking into consideration the Tier 1 capital criteria (Table 2, Figure 2), the global banking system is dominated by the same main power poles: China and the USA. They are dividing the ranking equally in terms of the number of banks, four each, but when considering the highest value, China places first with the Industrial & Commercial Bank of China. Great Britain and Japan are the other countries that managed to place on the 9<sup>th</sup> and 10<sup>th</sup> positions.

**Table 2. The world's largest banks after their Tier 1 capital (03.07.2017)**

Rank	Bank	Tier 1 capital (US\$ bn)
1	Industrial & Commercial Bank of China (China)	281,262
2	China Construction Bank (China)	225,838
3	JPMorgan Chase & Co (USA)	208,112
4	Bank of China (China)	199,189
5	Bank of America (USA)	190,315
6	Agricultural Bank of China (China)	188,624
7	Citigroup (USA)	178,387
8	Wells Fargo (USA)	171,364
9	HSBC (Great Britain)	138,022
10	Mitsubishi UFJ Financial Group (Japan)	135,944

Source: <http://www.thebanker.com/Top-1000>



**Figure 2. The world's largest banks after their Tier 1 capital (03.07.2017)**

Source: authors' contribution

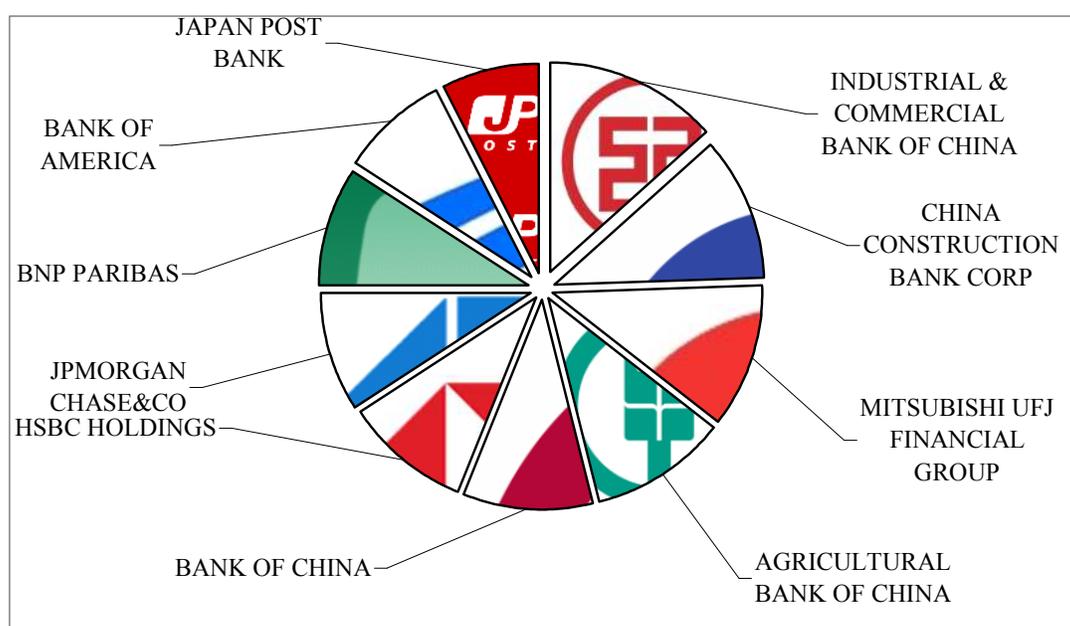
Both in 2016 and 2017, the ranking concerning the first 10 largest banks in the world by Tier 1 capital is clearly dominated by China and the USA. The Chinese and American banks are the ones competing, with no other bank coming on the big stage. The only change in the top is a castling between the Agricultural Bank of China and the Bank of America. The first placed bank isn't in a position where to feel threatened, the gap between the first and second place being consistent. Except HSBC, all the other banks registered an increase in they Tier 1 capital in 2017 in comparison to the previous year.

In terms of assets, the ranking regarding the world's largest banks in 2016 (Table 3, Figure 3) is dominated by China with four banks out of the first five, two of them ranking first and second: Industrial & Commercial Bank of China, respectively China Construction Bank Corp. Ranked 10<sup>th</sup> in terms of Tier 1 Capital, Mitsubishi UFJ Financial Group is now the third bank by assets (Japan has two banks in the top 10). Great Britain, the USA (two banks) and France are also present.

**Table 3. The world's largest banks after their assets (30.06.2016)**

Rank	Bank	Assets
1	Industrial & Commercial Bank of China (China)	3.549,88
2	China Construction Bank Corp (China)	2.981,85
3	Mitsubishi UFJ Financial Group (Japan)	2.901,34
4	Agricultural Bank of China (China)	2.818,89
5	Bank of China (China)	2.656,07
6	HSBC Holdings (Great Britain)	2.608,15
7	JPMorgan Chase & Co (USA)	2.466,10
8	BNP Paribas (France)	2.417,00
9	Bank of America (USA)	2.186,61
10	Japan Post Bank (Japan)	2.022,02

Source: <https://www.relbanks.com/worlds-top-banks/assets-2016>



**Figure 3. The world's largest banks after their assets (30.06.2016)**

Source: authors' contribution

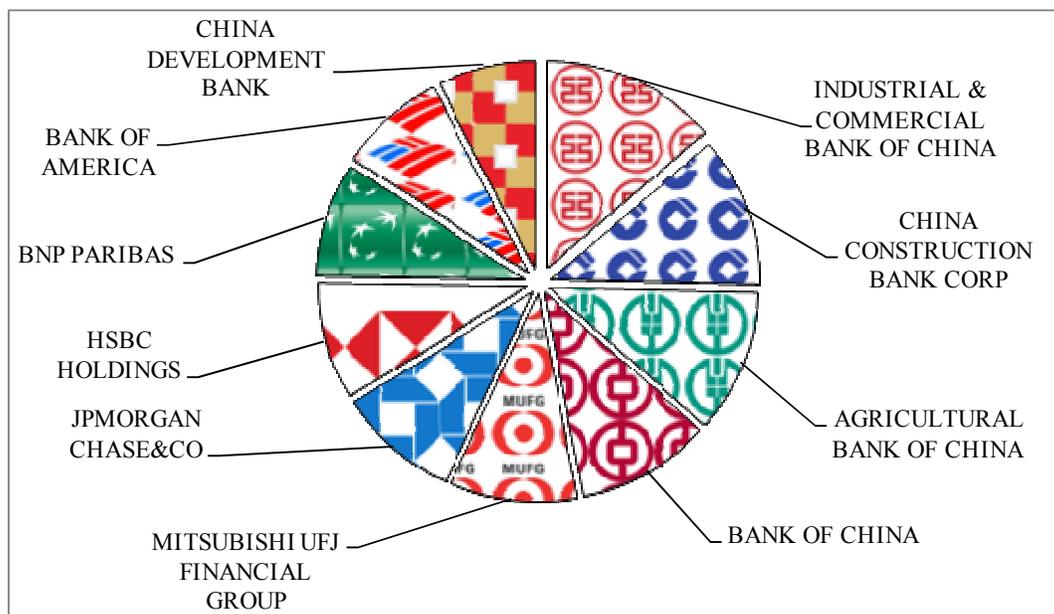
In 2017, the first four positions are held by Chinese banks and the fifth one being placed 10<sup>th</sup>, all of them registering an increase in their number of assets. The USA is on the second position when referring to the number of banks present amongst top 10, Japan, Great Britain and France having one bank each.

**Table 4. The world's largest banks after their assets (30.06.2017)**

Rank	Bank	Assets
1	Industrial & Commercial Bank of China (China)	3.764,27
2	China Construction Bank Corp (China)	3.200,38
3	Agricultural Bank of China (China)	3.035,37
4	Bank of China (China)	2.866,05
5	Mitsubishi UFJ Financial Group (Japan)	2.713,60
6	JPMorgan Chase & Co (USA)	2.563,17
7	HSBC Holdings (Great Britain)	2.492,44

8	BNP Paribas (France)	2.447,84
9	Bank of America (USA)	2.254,53
10	China Development Bank (China)	2.080,27

Source: <https://www.relbanks.com/worlds-top-banks/assets>



**Figure 4. The world's largest banks after their assets (30.06.2017)**

Source: authors' contribution

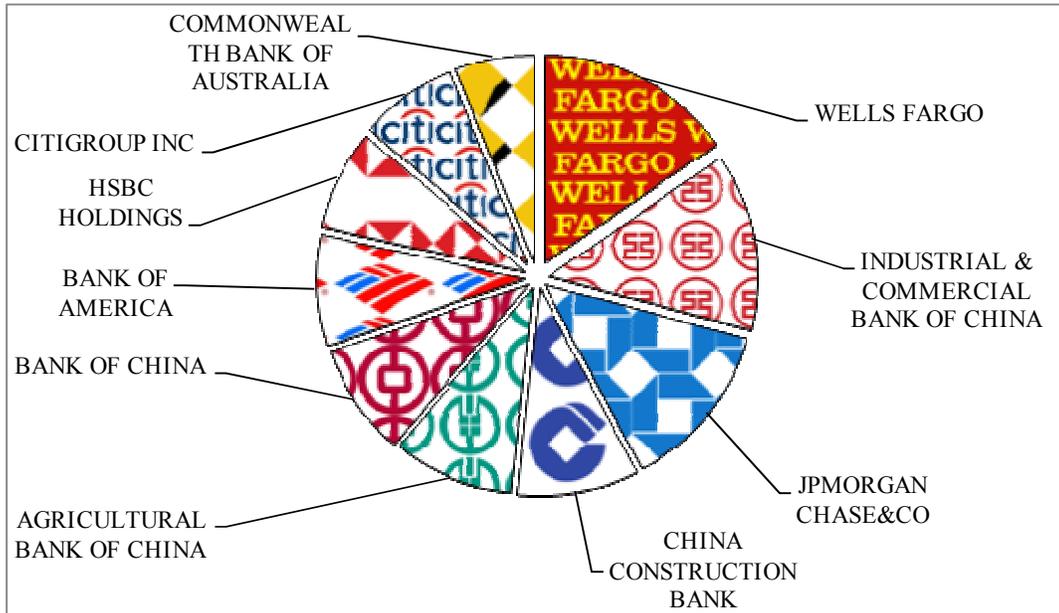
A new entry in the top 10 banks in the world by assets is China Development Bank, taking Japan Post Bank's 10<sup>th</sup> place. The Industrial & Commercial Bank of China maintained its leading position. China seems to be dominating the leaderboard in terms of the world's largest banks after their assets.

In 2016, the USA and China dominated the ranking regarding the world's largest banks after their market capitalization (Table 5, Figure 5), argument supported by them having four banks each, making room only for Great Britain and Australia. The USA ranked first, owing this to Wells Fargo.

**Table 5. The world's largest banks after their market capitalization (11.03.2016)**

Rank	Bank	Market capitalization
1	Wells Fargo (USA)	254,19
2	Industrial & Commercial Bank of China (China)	226,55
3	JPMorgan Chase & Co (USA)	217,79
4	China Construction Bank (China)	155,97
5	Agricultural Bank of China (China)	155,04
6	Bank of China (China)	144,16
7	Bank of America (USA)	142,39
8	HSBC Holdings (Great Britain)	128,91
9	Citigroup Inc (USA)	126,74
10	Commonwealth Bank of Australia (Australia)	99,69

Source: <https://www.relbanks.com/worlds-top-banks/market-cap-2016>



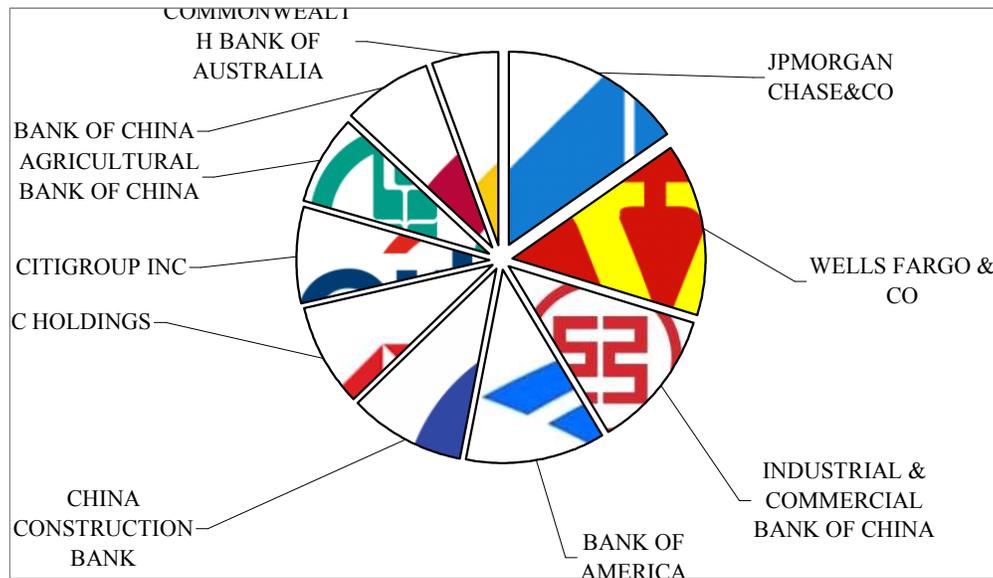
**Figure 5. The world's largest banks after their market capitalization (11.03.2016)**  
 Source: authors' contribution

Disputing their global domination once again, China and the USA have four banks each ranked among the world's top 10 largest banks after their market capitalization in 2017 (Table 6, Figure 6), Great Britain and Australia having only one each. The leader is an American bank, JPMorgan Chase & Co, closely followed by Wells Fargo.

**Table 6. The world's largest banks after their market capitalization (20.01.2017)**

Rank	Bank	Market capitalization
1	JPMorgan Chase & Co (USA)	299,393
2	Wells Fargo (USA)	276,578
3	Industrial & Commercial Bank of China (China)	229,700
4	Bank of America (USA)	228,778
5	China Construction Bank (China)	186,818
6	HSBC Holdings (Great Britain)	165,839
7	Citigroup Inc (USA)	159,898
8	Agricultural Bank of China (China)	148,100
9	Bank of China (China)	145,729
10	Commonwealth Bank of Australia (Australia)	106,355

Source: <https://www.relbanks.com/worlds-top-banks/market-cap>



**Figure 6. The world's largest banks after their market capitalization (11.03.2016)**

Source: authors' contribution

The top managed to highlight the leadership of the USA, with Wells Fargo being ranked first in 2016, then JPMorgan Chase & Co in 2017. The same banks formed the global rank in 2017 as in 2016, the only one holding its position being the Commonwealth Bank of Australia.

### Conclusions

The past years have witnessed an increased competition within the banking industry all over the world. As in the economic domain, China and the USA are the key competitors in the banking sector. China has succeeded in placing its powerful banks in the best positions in the ranking. Standing out of the crowd is the Industrial & Commercial Bank of China, leading the rankings by Tier 1 capital and assets both in 2016 and in 2017. In terms of market capitalization, the bank was second in 2016 and third in 2017.

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