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Chinese banks

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By inviting in a Chinese bank, America hopes for reciprocity

WESTERN politicians have been banging on Asia's door demanding greater access for their banks for so long that their fists must hurt. Increasingly, however, Asians are answering back, with some justification, "What about letting our banks operate in the West?"

On November 9th, a quarter of a century after the Bank of China became the first Chinese bank to win permission to open a branch in New York, and 18 years after Bank of Communications became the second, China Merchants Bank, the country's sixth-largest bank, became the third. It was a proud moment. Its president, Ma Weihua, said that the branch licence was an acknowledgment that Chinese banks now met global regulatory standards. In fact, the approval was as much an act of faith and of political calculation as a full endorsement. With this action, American officials hope that, in turn, restrictions on foreign firms doing business in China will be relaxed, especially those that hold sway over securities trading.

America's reluctance to grant licences to foreign banks stemmed from the implosion of Bank of Credit and Commerce International in 1991. It increased with concerns over money laundering and terrorist finance. Chinese banks were a particular cause of worry because of the risk of losses from politically directed loans.

But now that China Merchants is in, several more hope to follow. The two biggest, Industrial and Commercial Bank of China (ICBC) and China Construction Bank, have applications pending at the Federal Reserve. For all Chinese banks, earnings outside mainland China, Hong Kong and Macau are trivial. But in the past year there have been a flurry of investments, including big stakes by ICBC in Bank Halim Indonesia, Seng Heng Bank of Macau, and South Africa's Standard Bank. ICBC will not be the only Chinese bank to think that an American regulatory endorsement could be a step towards bigger things.

Bigger things have, all of a sudden, begun appearing on the horizon since a banking crisis erupted in the West. Over the past two years Western banks have made fortunes on minority investments in Chinese banks. Thanks to a stockmarket boom in China, its banks are now in a position to do the reverse. Theoretically, the biggest Chinese banks could buy Citigroup or HSBC. More realistically, they might purchase say 10% of a Western bank with weak assets.

Such a move would have a sound business logic, says a banker: Chinese banks are awash with liquidity; Western banks, thanks to the credit crunch, are short of it. Building a pipeline for the money to follow is not easy, however. Cultural barriers are huge, and non-Chinese regulators are opening a window to Chinese banks, not a door.

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