THE HISTORIC OPENING OF CHINESE FINANCIAL MARKET AND HOW THE US SANCTIONS ON BANKS THAT DO NOT COMPLY WITH THE US FINANCIAL SYSTEM POSES A THREAT TO INTERNATIONAL TRADE ESPECIALLY BETWEEN US AND CHINA.

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ABSTRACT

CHAPTER ONE: INTRODUCTION

* 1. Background to this study

Banking sectors in the past decade had a large crisis all over the globe. The financial markets during the 2007-2008 period around the world were badly damaged by a lack of clear regulations in the financial industry. This deregulation in the financial industry allowed banks to participate in hedge fund trading which caused a series of reactions that affected many economies including that of the United States of America and China.

1.1.1: Chinese historic opening of financial market

The Chinese financial market has been limited mainly and tied to the Shanghai market but as well tied to two other markets the Hong Kong and Shenzhen markets. The Chinese financial market is the second largest after that of the US. The growth in prominence of China’s economy is a clear indicator to the fact that their financial market is ranked second largest in the world. The economies of both the US and China are the two largest in the world in order respectively for a number of years. The Chinese economy has however expanded rapidly in the past two decades more than any other economy in the globe. This has allowed for great media attention both locally and internationally as investors continue diving deep into the Chinese economy. The Chinese financial system has come a long way from being a one bank like kind of system to a multiple banks system. Up to date the banking sector in China is at large controlled by the state. Even so the internationalization of the Chinese financial market remains to be historic due to the fact that it has never been open for foreigners. The opening up of the Chinese financial markets has since attracted a large number of international investors that have started to realize China’s untapped investment opportunities. The development of the Chinese financial system to its current status has taken decades where the past three decades have been most crucial in preparation for this move to open up the Chinese market.

1.1.2: US sanctions on banks that do not comply with US financial system

The history of economic sanctions have come a long way from the past since the Second World War. They have become a common strategy for countries to fight each other either to maintain status quo or a certain level of power. Sanctions are common especially with the US who employ a number of them but most recently financial sanctions have become more popular. Financial sanctions are used by countries to limit the flow of funds and other forms of value from a target country and to a target country as well as corporation or entity. Financial sanctions have various impacts and implications especially that threaten international trade between regions and countries. This goes a long way to disrupt many other factors into the world economy. The most affected institutions during financial sanctions are banks. The US financial sanctions are mainly imposed by US statutes or by executive orders together with other offices such as US department of the treasury as well as other federal agencies. The US sanctions on banks that fail to comply with the US financial system is a strategy by the US government to make investors and traders to choose between the US and other banks from foreign countries. Even so, according to other experts in matters economy, this is a move against the Chinese banks based in the US to make people choose between the US banks and the Chinese banks. The trade war between the two countries has been going on especially this past decade due to the prominence the Chinese are gaining in world matters especially economic matters. The US has been seen to use such sanctions on its major rivals especially China who are a threat to the country’s economy. This is not an unusual move since US have used this technique over time against its rivals due to their financial dominance in the world economic matters.

1.2: Statement of the problem

The two largest economies in the world have been locked in a long trade war that has caused a lot of damage to financial institutions all over the world. The world economy is very much dependent on the contribution of China and The United States of America. The trade battle between the two countries poses a huge threat to international trade and relations especially trade between the two countries. This rivalry has been caused by the significant growth of Chinese economy as well as the threat they pose to the US economy. It’s not so much of a secret the genesis of this trade war comes a long way since Chinese financial markets were open to the world. The Chinese on one hand accuse US of trying to hinder their rising economy and curb their global economic power. There might be truths to that accusation since the US global economic power have been threatened by the fast growing Chinese economy. On the other hand the US accuses China of unfair trading practices and property theft. This accusations between the two countries could be termed as international politics since there is no way to draw a line. Talks and negotiations between the two countries have proven difficult since there are still many unresolved conflicts between the two economic giants. Many businesses around the world have been affected by this trade battle and the most hit are banks. Trade depends highly on financial markets of which banks control a significant part of the markets. With the ongoing trade war between US and China banks have been sanctioned in the US especially when they do not comply with US financial system regulations.

1.3: Research questions in the study

1. What are the implications of the Chinese historic opening of their financial market?
2. What are the threats posed by the US sanctions on banks that do not comply with their financial system?
3. What are the concepts to be considered when the Chinese financial market was opened?
4. What has caused the sanctions the US has set on banks that do not comply with the financial system?

1.4: Objectives of the study

1. To understand what happens after Chinese financial markets are opened.
2. To determine the implications the US sanctions on banks have on international trade.
3. To identify what has caused and led towards the sanction on banks by the US.

CHAPTER TWO: LITERATURE REVIEW

2.1: Chinese banking trends in New York

The past decade has been hard for the Chinese banking industry with profits declining causing a tremendous loss. Interest rates have been highly impacted by this crisis which part of it was from the 2008 global economic crisis which played a significant role in the crisis of the financial markets. Commercial banks in China have to change trends and the strategies of running to fit into emerging banking trends especially in New York. Product innovation and boost of business transformation is one of the ways that Chinese commercial banks need to look into in order to solve the constant decline in profits. Market conditions have significantly changed in the banking sector and therefore there is need for new strategic ways to maneuver into the new market structures. There are ten major issues in the Chinese banking sector that have been constantly highlighted that will affect and pose major influence on the industry in the next couple of years. The continuous decline in profit margins is a major issue that has affected the Chinese banking sector in general. According to many experts in the area of finance and economics this next decade is more likely to bring a new wave of disruption into the banking sector. This means that traditional banking will have to evolve into better ways of working in the changing trends of financial markets. The main causes of such disruptions are well known to most people in the industry. Factors such as technology , economy, politics and environment continue to change and remain constant as main players in the change in financial system. Even so, the combination of all this factors will most likely cause unprecedented change in societies and economies all of which will eventually affect the banking sector both not only in China but globally.

2.1.1: Digital banking

The most prevalent Chinese banking trend in New York and in many other places around the globe is the shift to digital banking. To be more specific digital banking entails mobile banking and online banking. New York is a modern city and therefore that definitely means the use of technology in banking is very important. Most traditional banks are adopting or have already adopted digital banking services or even merging with digital banks to improve their service and products and remain relevant to the changing banking trends. The reason to all that change is that technology has offered consumers the luxury of banking and transacting at the comfort of their homes and or their5 work places. This is the era where speed and convenience are highly effective if businesses and especially those in the service industry have to remain competitive. Consumers do not want to walk or drive in long traffic delays just to go to a physical bank hence the change in banking trends. The generations have changed and in today’s world Millennials have taken over most sectors in the economy. The older members of generation Z together with Millenials have become the dominant players in workforce which implies they are also the biggest earners of this day and age. The digital transformation witnessed by traditional banks have forced them to implement the digital banking trends to remain competitive. Startups in the sector have become popular fast since most banks had rigidity in transforming into the new trends.

2.1.1.1: mobile banking

Mobile phones have become a necessity among most people all over the globe and so is the need for mobile banking. At this point mobile banking is like a mandatory requirement for all consumers. In New York there are many services that people need to pay as well as products. Banks have been forced to have mobile apps in order to maintain their competitive advantage in the banking sector. Modes of payment are also advancing in the present age and time hence making it easier for people to pay for goods and services from their mobile phones. In the early stages of this trend banks having a mobile app was the only requirement but as times change the need for more convenience continues to increase. It is no longer a unique thing for a bank to have a mobile app for banking but also at this point and time, just an app is not enough to retain customers. Chinese banks need to upgrade their apps consistently and update their speed by adding extra tools that can be used by consumers. Tools such as the use of finger prints to access ones accounts into the mobile app are becoming new necessities in this digital age. One should be able to view recurring charges as well as putting temporary holds on cards such tools are now necessary if a bank should maintain its customer market share. The additional tools and features in the mobile banking apps are what separate the competitiveness of a bank in terms of consumer retention and management.

2.1.1.2: Online banking

Online banking is one of the most convenient type of banking in the present age and time. Consumers even in the traditional banking systems needed to interact with their banks. Online banking in New York has become one of the most convenient ways of customers interacting with their banks and knowing what activities are happening in their personal accounts as well as getting new updates and changes that take place in their banking companies. Even so, there is still a number of consumers especially those of the older generations before millenials that do not trust online banking and prefer physical branches. Still despite that fact the bigger percentage is also adapting into online banking services which have made banking extremely easier. In the past there were long queues in the banking halls that made service delivery slower than it is now. This trends have been embraced by Chinese banks in New York in order to remain competitive all through the digital shift. However, the physical banks are still relevant since activities such as cheque deposits and account opening still need physical appearance. Online banking has also led to new innovations such as open banking.

2.2: The historic opening of Chinese financial market

China opened up its Shanghai shares listed to the foreign investors for the first time ever in 2014. The Chinese government by opening up its financial market were inviting more investors in terms of foreign banks, insurance providers and other financial entities that provide services to people and businesses. This move was historic since before that Chinese financial markets were not that open to foreigners and that limited the kind of investments they could get. On one side of the spectrum, China’s economy does not depend on the financial markets to thrive hence there was no much loss. On the other side the financial market means new realized opportunities for the Chinese economy and other foreign investors. Even so, it’s a win for all situation for both the economy and the private sector investors in China. This move has made it easier for investors both foreign and domestic or local to buy stocks and bonds. However, political tension between China and the US have made the process very rough for investors into the Chinese financial market even before the tension caused by the Corona virus pandemic.

On a broad perspective, China is showing its gestures by welcoming financial institutions from foreign countries. This move is to leverage them to expedite reforms as seen above such as business management and other strategies crucial in financial markets. This will help create a more competitive environment for domestic investors as well as open up the Chinese economy in a global context. That being said however, it may take a long time say several years before companies can take advantage of the welcoming gestures by the Chinese. There is a process that needs to be followed before all the binding agreements can take full scale action. This is because the industry already is dominated by local players and systems. On another from the relaxation of policies for foreign insurers and banks does not mean or guarantee success in China. Many companies may lay back and observe how the market behaves before making a risky decision to dive into the possible opportunity offered by the opening up of the Chinese foreign market. Either way it is important to note that China’s financial industry and markets are full in vitality and opportunities will always present themselves especially due to the fact that the economy will rely highly on the financial market. Well it may not be entirely as the US economy but opening up puts the Chinese economy in a position to rely on financial markets success. Competition is also high since there are other financial markets especially the US market which is the largest in the globe. The demand for private individual investors has also increased over the years hence there are still ways the Chinese will still attract more investors creating more billionaires into the Chinese economy. Other foreign financial institutions continue to build up their businesses in China while other keep evaluating the market and opportunities such as Citi.

2.2.1: Implications of China’s opening up financial markets

The move to open up the Chinese financial markets by the government was a huge move and it has some implications to the way securities were being traded. China opening up means they allow full foreign ownership of life insurance, futures and mutual fund companies. This eventually had to happen in stages to allow for smooth transitions between the past financial system and the new agreed system. Those changes played a major role into allowing more investors to come in and dive into the market. China also agreed to take the shortest time possible that is three months to deliberate on applications from electric payment service providers, that is to include those that are fully owned by foreigners. In the year 2019, regulators cleared the way for full takeovers of local banking companies by foreign owners. The ownership cap by now has been eased as foreign companies can now control wealth management firms as well as lead the underwriting for all kinds of bonds. Nevertheless, there are still existing barriers in this agreements. The trade war between US and China remains a threat to financial decoupling especially with President Donald Trump’s administration looking at restrictions on US investments on China’s financial market. Even with the corona virus pandemic causing more war between US and China, the Chinese government continues to declare that it will open up more and encourage foreign investment. There is also the challenges of cracking or penetration a market controlled by government –controlled rivals that have longstanding relationships with clients. China has also witnessed a shrink in its GDP in the past decade on a quarterly basis even as the world continues to be hit by the pandemic.

2.3: US sanctions on banks that don’t comply with US financial system

 The trade war between US and China has been going on for some time even when foreign banks are looking into taking advantage of Chinese opening their financial markets. This war has left the media stations focused on how Chinese tech giants such as Huawei are being treated by the US. A ruling made recently by Washington could leave a question mark into many businesses that depend on this Chinese companies. The ruling took the trade war between China and the US a notch hire and seemed to affect banks that are not affiliated to US financial system. Many media outlets interpreted that move as the US going after Chinese banks. In the year 2018 march 18 to be specific a federal court in Washington ordered two major Chinese financial giants to comply and hand in some bank records of Hong Kong Company linked to violations of US sanctions on North Korea. Well to the Chinese this is an act attack on their economy while to Americans an act of justice. Most or all media outlets might have gotten the story straight. The banks were found not to comply with the orders hence the accounts of the banks accounts US correspondent were terminated. That is to mean the banks cannot conduct transactions denominated in the US dollar which can otherwise be termed as ‘death penalty’ as far as financial matters are concerned. The global financial system is dominated by the US dollar up to date hence the sanction renders the bank powerless from a financial perspective.

This move by the US is not the first of its kind. The United States have financial dominance in the global economy and financial market hence they are able to do such sanctions against their rivals. The move has given the Donald Trump administration the power to leverage its rivals since such a move will not only affect the banks in question but also Chinas financial policies. That is to include law enforcement and other policies that advance US national security and Foreign policy interests. The sanctions brought about by the US china trade war will not only affect trade between the two countries but also bring uncertainty in international trade worldwide. The US sanctions on banks that fail to comply with US financial system hinders banks looking to tap into the Chinese financial market as well. Banks that do not comply with this sanctions by the US risk losing access to the US financial system. That is a tight position since the US are in a way making it clear that the foreign banks should choose between US and China.

China on the other hand instead went ahead to sanction 11 American citizens. The sanctions by the US was met with retaliation by the Chinese. This was expected since the Chinese are as mighty as the US as far as the world financial system is concerned. Some of the people sanctioned by China are American lawmakers. It was not clear however what the sanctions entailed for all parties involved. This comes as the US China trade war intensify over national security law concerns in Hong Kong. China however will not take counter measure to sacrifice its own interests but rather will continue with its plan of opening up the financial markets in the mainland which had remained restricted over a long time. Meanwhile the Hong Kong monetary authority claims the sanctions by the US have no legal status in their region hence there were no obligations for authorized financial institutions in Hong Kong to comply.

The trade wars between China and US have since seen many sanction on goods from both countries that have made business bad for many companies involved in the international trade between the two economic giants. The implications have affected other countries financial systems as well and damaged the global economic status. In a quote that states ‘we are all paying for this’ put up in social media by individuals and experts in matters economy trying to imply and show how the whole world is affected in the midst of the trade war between China and the US. The sanction on the banks is just a simplification of the matter at hand but it is very clear that every move to sanction foreign banks by the US is targeted on Chinese banks so as to push their agenda and interests in the national security law.

2.4: Chapter summary

This chapter shows how the research questions and objectives are related. The Chinese banking trends in New York is the broad concept in research while the historical opening of Chinese financial market is related to the US sanctions on banks that do not comply with US financial system. The trade war between China and US is one of the main causes of the sanctions between the two countries that has been caused by a number of factors that play a significant role in determining the global economic status. China and US are the two largest economies in the world therefore the sanction by US on foreign banks is a move that can be interpreted in many ways depending on the side of the spectrum. The Chinese financial markets open into the world at a time when there is conflict between the China and the US which creates tension and is an existential threat to general international trade as well as trade between the two countries. Chinese banks according to some sources are the main target of this sanctions by the US to hinder other foreign banks from trading in the Chinese market. The implications that this trade war between the two countries bring are such as restricted trade of goods between the two countries and into other countries which affects businesses that depend on good trade practices between China and the US. Chinese tech giants such as Huawei have experience such sanctions from the US. In the physical eye that might be a small move but in a wider perspective other companies and businesses such as banks that depend on Huawei are greatly affected by the sanctions. There has been talks and negotiations between both parties on how to resolve some of the disputes by the have been futile. US accused China of unfair trading practices and theft while China accused the US of trying to curb their economic power. With all that research and evidence from other interested researchers in this matters finance and economy it is clear that both the US and China have a long way to smoothening their relations to cease this trade war

CHAPTER THREE: METHODOLOGY

This study has adopted a cross-sectional description research design to aid in the gathering of evidence and information that comes up during the Chinese historic opening of financial markets to foreigners and the US sanction on banks that do not comply with US financial system that has resulted into a trade war between China and the US. The dissertation will try to understand the implications of Chinese opening their financial markets both positive and negative. As the Chinese opening financial market to the world the trade war with US that has resulted to sanctions between both of them. The sanctions pose an existential threat to international trade and trade between the two countries.

3.1: Study design

This paper seeks to better understand the research questions and the research objectives being studies through gathering of information and data from secondary sources such as social media platforms, media outlets published journals, financial reports and current market trends that are available in various websites and portals.

3.2: Site of study

This study was carried out in Loughborough University through analyzing of available information written and interviews and news exclusives around the world on the matters at hand as stated in the problem statement. The internet being the main source of data through books and academic journals has aided significantly in the findings, discussions, conclusions and recommendations of this dissertation.

3.3: Study inclusion criteria

This research study is a combination of different sources from media outlets and publications on the issue discussed. It involves other researchers work and opinions as well as my own opinion and speculations based on the understanding of the concepts as discussed.

3.4: Research instruments

3.4.1: Text books

One of the most common instruments of secondary research are textbooks. Textbooks are a collection of knowledge, principles, and concepts of the main selected topic. In this case financial matters together with international trade. This source of information or research instrument is used to find the basic and fundamental knowledge regarding the topic selected. Textbooks can be written by one or multiple authors who have the same view or expertise on the area of study. This research comprises concepts and financial knowledge on international trade and world financial systems. Textbooks have real life examples and illustrations that try to demonstrate and make the researcher understand the concepts of the study subject clearly. The explanations of key words used in the research dissertation were mainly derived from text books. This research made use of online or digital platforms that provide textbooks such as Google libraries and other libraries that have ready and existing information on matters finance and international trade. The textbooks were especially helpful when beginning the research and study since they help the reader establish the basis of the simpler concepts they are going to focus on throughout the research. Text books are a reliable source of information since they provide accurate data that has been verified and gives organized information in stages of complexity making it easier for the researcher to better understand the concepts being discussed in the dissertation. To the researcher a text book is both a research tool and a reference material for more clarity on principles used when researching the main study area. However it is important to understand that textbooks are not perfect and therefore the research needs other sources of information that will help guide the researcher in obtaining refined accurate results. Therefore, researchers should use textbooks wisely.

3.4.2: Public libraries

Public libraries are another source for the secondary data and information that was used in this dissertation. Public libraries contain details and copies of information on most if not all study subjects and topics in the world. The previously done research on financial and international trade is also found in the public libraries. Other researchers work on the topic of international trade and financial markets in the globe should be found in the public libraries. Public libraries also contain important documentation and information that is available for the general public vital for research dissertations. Information such as market statistics, banking regulations, financial systems, government publications as well as trade regulations can be found in public libraries. This study contains information that was derived and collected from the public library suitable and relevant to the research title.

3.4.3: Internet sources

With the advance in technology one of the most used ways of collecting secondary data is using internet as a source of information. Most people extract their information and basis from internet sources. Internet sources are a great tool to gather general data. Internet contains information about everything you might search on the World Wide Web. This source however requires good internet connectivity. The internet has readily available data that is easily accessible to anyone who wants to use it. Learners around the globe get most of their facts from the internet. Other information from the internet can even be downloaded through the click of a button. The increased use of smart mobile phone has made internet sources the easiest tools to use for research. This is an economical and cost effective research instruments. Websites have abundant information on current and emerging issues around the world as well as printed and even audio visual sources of information. Businesses get their data from internet sources on trends and market conditions and shares that are relevant to the type of entities. However, people need to consider the fact that some internet sources may contain unreliable and irrelevant information and therefore misleading especially when carrying out a research. It is important for researches to use trusted website when gathering information. This study has derived most of its information from sources in the internet since the information in websites are more updated than other sources of research. Current global economic matters and trade activities are updated every second and is readily accessible to everyone from all locations in the globe.

3.4.4: Media outlets and news

Media outlets are very reliable tools of research. On a daily basis people around the world follow up on emerging matters and trends. Media outlets give information on a real time basis as well as past details that are stored on official media outlets sites. Outlets such as CNBC give information mainly on world political matters, economic, environmental and social matters. They are a way of reaching and communicating to people on trends and things happening all over the globe. Media outlets provide insight into the information researched. This study has a relevant amount of information that has been acquired from media platforms. The information on the US and China trade war has gained a lot of prominence with media outlets and have been the leading stories around the globe with experts giving their opinions and perception of such emerging issues. News are also a real time way of getting relevant information especially on trending events all over the world such as sanctions by world economies to control trade and gain political mileage and push for their interests. World politics is mainly covered by news companies and corporates. Global financial markets as well as domestic ones mainly display their information through news. Business news as well as financial reports are all displayed in news channels hence proving to be a reliable source of information for research. The information displayed in news either live or past information has helped in shaping how global markets change and end up. For example people who trade securities and stocks use news platforms and media outlets to study trades and make decision based on the data as it comes in to determine risks and benefits. Such news is relevant to this study as it gives the researcher multiple dimensions of looking into the study topic and the problem statement.

3.4.5: Government and non-government agencies.

Secondary data and information was also collected from government and non-government agencies such as banking reports, financial regulations, federal proceedings, population’s bureaus, company details and statistics in the financial systems all that are relevant to this study. The data collected from government agencies is well documented and accurate therefore very critical when doing a secondary research. A good example US government printing office which provides public data and information to people that need it at a negotiable and affordable cost. Information from government and non-government agencies is credible and also simplified for analysis and derivation of accurate finding as well as making conclusions and recommendations. Data obtained from this sources is trust worthy and legal. Information on Chinese banking trends in New York as well as the Chinese financial markets can be easily obtained from this agencies as well as details of sanctions on banks that do not comply with financial systems.

3.4.6: Academic journals, newspapers and magazines

Academic journals are some of the main tools used in this study. This are written research papers by experts in the specific area of study and stored in virtual libraries as well as public libraries. Academic journals may also be in for of dissertations done by other researchers and learners on some concepts in the dissertation or even the whole research that contain relevant insights into the topic of the study. This paper contains more information that is gathered from academic journals that is relevant for this research.

Newspapers are also a reliable source of information and data used in this research. The issues discussed in this paper being emerging and trends that are known all over the world was easy to find in both past and present newspapers. Newspapers are written and edited to the authors best knowledge on the subject at hand hence may not be completely reliable. Even so, newspapers have been used over a long time as sources of information especially on matters economy and financial matters.

Magazines are also a reliable source of information that have helped in coming up with information regarding this study topic. Magazines such as business insider contain information on the most recent trends and news from the international trade to financial and business news very important to this research. Information contained in magazines may be obtained from news and also direct sources from exclusives with parties involved and views from other experts in the field of international affairs.

3.5: Data collection techniques

The tools used for research are the same ones used to collect data. This research took approximately four months in grouping of relevant data and information in order to organize into relevant and sensible information. The study also involved critical thinking techniques and also derivative techniques so as to process the information obtain from the main research tools.

3.6: Data analysis

All data collected was checked for completeness after every research source and tool was assembled. Secondary data analysis requires the use of investigation through research and additional knowledge on the topic of study. The reviewing of the secondary sources and noting down the concepts and the views other researchers have on the main topic was done. Further investigations on the research topic are done using the available sources such as news and media outlets such as CNBC. The advantage of secondary data analysis is that it is flexible and the researcher is not limited to certain programs and procedures for analysis as long as there is evaluation skills combined with critical analysis using available information from the secondary sources. Even so, secondary data analysis has not been used in many research areas especially fields that need numerical or quantitative data.

3.6.1: Quantitative data

Some availble secondary sources of data contained summarized frequencies and percentages based on the research that was done on specific topic areas by other researches. To test the links between the US China trade wars and the sanctions on banks by the US government, the study sought to look into events that led to this sanctions and what the conflict between the two economic giants entailed. In the same manner other concepts in this study such as the Chinese opening of financial markets, were related to the main subject of conflict between the two that eventually has affected the both the US and Chinese financial markets as well as international trade between the two countries.

3.6.2: Qualitative data

Data from sources such as news and media outlets which is available on different websites was transcribed by order of urgency and relevance to contribute to the main concepts of this study. The raw data text was then interpreted then separated to organize into tangible arguments and points of view by different experts in exclusive interviews. Data was also derived from other sources such as journals and internet sources as well as magazines and libraries about financial procedures and the history of Chinese financial markets before the opening to get a rough idea of what has led to the sanctions between China and the US. Other issues came up that are not exactly mentioned in this study’s main title such as sanctions on Hong Kong over National security law. Details of this findings will be found in the next chapter of findings.

3.7: Ethical considerations

This study was submitted for approval through the Ethics and risk assessments procedure forms filled as required by the relevant officer. The data to be collected is publicly available so there were no many ethical issues to be looked into for this specific study. The forms submitted were approved and the study commenced without any technical hitch. Information gathered is from trusted sources and credible to be used to make findings, discussions, conclusions and recommendations on the area of study. This information can also be used by other experts in the field who seek to see a different point of view to the discussed areas and the concepts that came up.

CHAPTER FOUR: FINDINGS AND DISCUSSION

This chapter presents the analysis, presentation and interpretation of the findings from the secondary sources of data and information. The findings in this chapter were collected and derived from the research instruments mentioned in the above chapter three. This study includes opinions from exclusive experts’ interviewed by journalists in the field of research as well as those that are interested in emerging issues of world economics and politics.

4.1: Chinese banking trends in New York

4.1.1: Retail banking

The china retail banking is a trend that is growing tremendously in New York. Study show that mobile banking has enabled Chinese banks to grow and follow up on this trend especially among Chinese banks in New York that has forced local banks to embrace the new trend of retail banking whose main strength is customer satisfaction as shown in the figure below.

Figure 4.1: Retail banking



This figure shows the customer satisfaction level that has come out of Chinese retail banking trends of Chinese banks in New York. The secret behind such popularity as seen in the literature review is the growing need for convenience and speed especially among people of the older Gen Z and millenials who are the leading sources of industrialization in the current age. That is simply to mean that millenials have become the biggest earners of the current economic times due to their industrious nature and the need to be successful both career wise and in business , tech and innovation. With that in mind then it’s important to note that the banking sector specifically in New York has been experiencing trends through the Chinese banking trends such as retail banking which has been made possible by mobile banking. Sources show that in 2017 mobile banking had witnessed a surge of usage among people in China. Research has shown that millennials and Older Gen Z population in New York are higher than any other age group which confirms where the need of speed and convenience in banking has been derived.

Retail banking amongst Chinese banks is set to become the world’s largest in the next three to four years due to the growing need of banks to serve the general customer rather than to remain focused on corporate organizations and companies. In New York the retail banking trend has spiraled since the Chinese banks started to adopt that trend and getting a huge market share out of it. American banks in New York have started to embrace the change in banking trends with retail banking being one of them. Banks in this region both Chinese and local banks have been compelled to seek fresh and alternate sources of income to support this trend which intends to serve more consumers from the general public than before. Other trends have come up as a result of this trend that will enable efficiency when it comes to customer service. The above diagram shows how banks are competing to satisfy their customers in maintain the trend of retail banking to hold on or even expand their retail market share which is turning out to be an opportunity to grow business. With the growth of retail banking, mobile banking has become one of the requirements for financial institutions planning to retain their customers. Many banks have resulted into taking advantage of the current digital migration and use digital banking to their advantage. Retail banking needs digital banking for convenience, speed and efficiency.

4.1.2: Mobile banking

Many banks in the world are adopting retail bank as an emerging banking trend. Chinese banks based in New York have not been left behind in new dawn of the banking industry. With retail banking the delivery of services is an important factor to observe even as banks seek to grow their market share for retail customers. Technological innovations in the banking industry such as mobile banking have become a necessity for banks aiming at capturing a larger audience to their retail banking services therefore making mobile banking more of a necessity than an advantage. This study sought to find out other factors in the general population that make the use of mobile banking services a necessity in the New York general public. Banks want to compete with other tech start- ups in service delivery. Payment methods in stores and shopping malls have also advance with the digital transformation that has hit all economic sectors in the 21st century. At first the effect was small but with time by the year 2017 use of mobile apps to make payments had grown to around 79% in New York. This implies that many people were likely to open accounts in banks that offered the mobile banking service. The current population of New York as shown in the table below indicates that more than half the population fall in the age bracket of 18-54. This is the age bracket that also forms most of the work force in New York. That implies that people in that age bracket are the biggest earners. They are also the people that belong to millennial generation and the Older Gen Z. This two generations have become the dominant players in the economy of New York due to their industrious nature and ability to work long hours and in the end earn more. This are also the minds behind the most successful innovations of the present day and age.

Table 4.1 New York state population by Age

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| --- | --- |
| Age | Approximate population in figures |
| Age 1-9 | 2,319,777 |
| Age 10-17 | 2,005,152 |
| Age 18-29 | 3,363,694 |
| Age 30-44 | 3,889,177 |
| Age 45-54 | 2,878,691 |
| Age 55 and above | 4,921,611 |

Existing research has shown that the millenials and Gen Z are using mobile apps for banking services more than any other generation. According to the business insider research conducted in the tear 2018, 89% of the respondents in the research sai8d they use mobile banking which was an increase from 2017 which was 83%. This data was further broken down into generations showing that 97% of millennials use mobile banking services. This means that almost every person between the ages of 24-45 was using mobile banking. The research continues to indicate that many of this mobile banking users approximately 64% said that before they used a banks mobile services, they would research on the capabilities before even opening an account. 61% of millennials indicate that they will change their banking company if their mobile banking experience was poor in terms of speed and options available. At this point and time a bank having a mobile app is not enough for it to attract and retain its retail customers. The additional features and tools should also be unique. That observation implies that banks not only need to offer faster services but also a variety of services to attract more customers. Mobile banking is not the only trend that retail banking depends on. The customers need another way to interact with their banks along mobile banking. The other way is online banking.

4.1.3: Online banking

Many people in the current economic times do not want to go to the physical branch to be served. The alternative presented by internet and technology has enabled Chinese banks in New York to shift from traditional banking to emerging banking trends such as online banking which has become prominent with the digital transformation. Banks are serving more individual customers in the US now more than even hence with the demand for efficiency and speed banks have created online banking platforms where consumers are able to manage and monitor their accounts from their computers and even phones with good internet connection. Even so, some other people still prefer to visit physical branches but for limited purposes. The larger percentage of the population which is mostly millenials and part of Gen Z will prefer online banking which is simpler for them an faster to access as compared to making long queues in the banking halls with delays at times due to the general human liability. Online banking uses AI systems to run the bank accounts and offer banking products and services that customers may need without necessarily having to visit the physical branch. There has been a surge in this past decade of internet users around the world. In the US 51% of adults reported to have been frequent users of the internet which indicates the working age basically uses internet on a daily basis. Other findings according to Pew research center indicate that 61% of internet users in America bank online. This research shows clearly that with time more people are trusting online transactions than the way it was 10 years ago. Many people are becoming more familiar with banking online due to the changing trends in how we purchase goods and services. In the present day for example it’s become a norm for people to purchase goods and services from online platforms such as Amazon. The mode of payment also happens online for such transactions and that’s where the use of online banking comes. Both online banking and mobile banking are on the rise and almost the same rate due to the change in trends of purchase and even order for service and products. The figure below shows how the usage of online banking increase betwee the year 2000 to 2003 in the US.

Figure 4.2: % of people who use digital banking trend

The figure above also indicates that not all adults use online banking services. Research further indicates that only 26% of people above 65 years of age use online banking which is lower as compared to the people below that age. There are gaps in internet access among age groups as well as other demographics. However the bottom line is that most people in the present age and digital age prefer online banking over physical banking because of various reasons as described in the review of this literature. Young adults are the leading among online banking users in New York according to other surveys conducted. IPSOS public affairs for the American bankers association in their survey conducted say in 2012 39% of Adults in the US said they prefer to bank online. Adults between the ages of 18-34 are seen to be the key drivers of the growth of online and mobile banking. Studies in other internet sources have also shown that 91% of adults in New York own a cell phone and 35% of that transact businesses with banks using cell phones both online and mobile banking go in handy with one another. Most bank are therefore using both strategies to maintain and satisfy their customers. The table below show how internet users access their banks and banking information.

Figure 4.3: The use of internet to access banking services



4.2: Historical opening of Chinese financial markets to foreigners

The growing popularity of the Chinese economy at the international level has been caused several changes in China’s financial markets that were restricted to foreigners since time memorial. Chinese banking trends in New York have been changed and affected mainly by the US China trade wars that have been ongoing for some time up to date. This happens even as the Chinese opened up their financial markets to foreigners for the very first time ever. International media stations have also covered events that have since happened since the Chinese agreed to open up their financial markets for the first time in the history of their country. Many media stations both local and international termed the opening as historic due to the opportunities presented in investing in Chinese stock markets. The Chinese stock market is the second largest in the world after the largest economic giant and Chinese rivals USA. This study will seek to understand what led to the historic opening and how the global financial market has changed ever since the move to open happened.

The decision for China to open up its financial markets according to an interview held at CCTV a Chinese public service broadcaster comes with a lot of responsibility for Chinese companies and for the financial institutions in China since they have to compete with other international companies in making profits and growing their market share. The international investors have to look into the opportunities that have been presented by the move by China to open its financial markets. China’s economic prominence in the global economic atmosphere allows companies to venture into more trade. Many investors however may be laying back to observe how the market grows as it prepares for competition from other global economic giants. The opening up of financial markets according to CCTV means banking, securities and asset management among others will be open to the foreign investors. Global counterparts in the financial industry will now compete directly with Chinese industry which for years had restrictions. Some experts used to view the restrictions as unfair advantage for the Chinese financial institutions. The questions that many will ask are what happens to the real estate market and what happens to talent enhancement in China.

4.2.1: Implications of China’s move to open its financial markets

According to the financial times China opening its financial market could have a mixed effect on China. First the opening could help stabilize the county’s deficit of payments that were high sine most of its financial institutions were controlled by the government making them vulnerable to domestic debt, depreciation of currency which may cause Chinese investors to flee. The government needs to set up some crucial measures that will enable free trade in the market. The measurement are such as removing restrictions on foreign banks and fund management firms which could help them achieve greatly from the move to open up financial markets to the world. The Chinese government should also look into how they can simplify the process by which foreign investors can gain access to Chinese banks. The figure below shows the ratio of inflow and outflows of China’s foreign direct investments.

Figure 4.4: China’s inflow and outflows in terms of foreign direct investment



Second the foreign investments will help boost the financial resources needed to the private sector and businesses so that they should rely so much on the public sector which has been the main source of economic success of the Chinese people. In the past the public sector has supported greatly the private sector but through the foreign investment both sectors can be independent and help to expand the private sector financial capability. China’s banking system is very vulnerable especially with the restrictions that were in place. The move to open will help in reforming the banking system which has been in crisis for several years.

The move will help reform the Chinese financial sector which for years has endured a series of failure when trying to reform. Internationalizing China’s financial markets will go a long way in smoothening and forcing the reforms to take place. This is simply because when there are external forces the government officials will have no alternative than to push for effective banking reforms. However the move to open financial markets by the Chinese government does not guarantee success. Experts tend to think that it is a dangerous way fixing an unstable banking system. The regulators were certain that as much as the markets were closed, China would unlikely get into a financial crisis. The problem is that now the financial sector may be in debts that exceed the amount of assets then that means the funding is likely to collapse due to the uncertainty of opening up. Reports show that once China opens up its domestic financial markets to international capital it will be more difficult to guarantee the stability that was there before opening.

The main problem lies in the fact that China’s economy has always relied on the government protecting investors by ordering major banks in China to inject capital back to the economy and assume operations. It is one thing to order banks that are state owned and another thing to control foreign investors and financial institutions. The foreign capital may bring more liquidity which is going to cause a vulnerability in the economy when foreigners start to dominate Chinese stocks and bonds. This move might start to roll down the consequence of an unstable banking system on the Chinese people.

On another front other international investors especially from Europe, USA and Japan have an advantage to tap into the opportunities presented by opening up domestic financial markets to international investors. This will also have an effect on other businesses and financial institutions waiting to reap greatly from this golden opportunity to venture into the Chinese financial market.

In other findings China has taken further steps to opening its financial markets to foreign investors. The Chinese while taking this bold step also put up measures at a time when the US is trying to curb Chinese companies from entering the US financial market. The tensions between the two largest economic giants continues to spiral as china accuses the US of trying to prevent them from rising into world economic power. This has been followed by US sanctioning companies that allegedly fail to comply with US financial system.

4.3: US sanctions on banks that do not comply with US financial system.

Tension between the two world’s largest economies continue to be intense at a time where international banks are preparing and focusing their efforts towards the historical opening of the Chinese financial market. Recently the US treasury sanctioned the Hong Kong leader and ten other government leaders for allegedly undermining the autonomous nature of Hong Kong. Such a decision implies that the individuals sanctioned cannot access their U.S assets as well as transacting with US persons and providing funds to institutions and or individuals. This announcement sounds ‘awkward’ according to Michael Hirson a practice head of a consulting firm in China and North West Asia. This sanctions have attracted a huge media attention even as international journalist seek to here different opinions from experts and both parties involved that is the US side and the China side. Even so, many people still seem to be unaware the implications of such moves and what it means for international trade and especially trade between China and the US. This specific chapter seeks to the questions that are relevant and critical this study dissertation.

The increase in Chinas economic power in recent decades which comes at a time where the US share in global production and international trade has declined significantly especially at the beginning of the 21st century has caused a lot of change in world politics and emergence of a heated trade war between US and China. The dispute between the two greatest economies in the world has resulted into enforcement of tariffs on goods worth hundreds of billion dollars between the US and China. Leaders from both sides have come out to defend their own actions according to international media outlets and television channels for international news. The trade war has gained popularity and as expert claim it poses an existential threat to international trade and trade between the two countries which could see a downfall in the world’s supply chain. The US president Donald Trump insists that China has been practicing unfair trade and further accuses the Chinese of intellectual property theft. On the other hand the Chinese accuse the US of trying to curb and undermine their global success and rising interests in the global economic power.

Studies show that China in the year 2015 became the leading commodity exporters and has since become a dominant player in international trade. Sources show that China’s GDP reached USD 14 092 million which translates to 16.1% on the worlds GDP. That position comes in second place after their counterparts the US with a GDP of USD 20 412 million which implies a share of 23.3% in the world’s GDP. The difference is seen when it comes to the absolute GDP by purchasing power where China takes the lead with USD 23 159 million as compared to the US with USD 19 390 million. Evaluation according to Chinese scientists shows that in the year 2014 China had surpassed the US in the national economic power. This has been made possible by the increasing low-cost manufacturing of the Chinese and becoming an export-oriented global technology hub. The influence of China’s economy has significantly increased as compared to the past decades and that has proven to be a threat to US economic power. However, the US still continues to be the leader in stock, credit, energy and commodity markets eventually indicating the US has remained the leader of global economy despite China’s rising prominence in the global economic sector.

The vision US had in dominating world economy is the reason that brings conflict since China has increase its competitiveness in almost all sectors of international trade leaving the US looking over their shoulders with reports showing with the Chinese trend they could soon be the world dominant player in all most if not all sectors of the global economy. The US president has since violated various international laws and multinational agreements in pursuit of US national interests. The US has yet again flexed its “Ego” and protectionist trade policy which are just a simplified way of looking into their selfish national interests. This has been noted when the US has imposed sanctions on banks that do not comply with the US financial system forcing banks and other financial system to choose between China and the US. The US has neglected the idea of free trade, the concepts that operated well before their conflict with their main rivals the Chinese so as to maintain its status as global leader. This has various effects on globalization that will result into regional trade wars since no country can withstand the American protectionism without allies. The US is clearly protecting its own interests as global and international economy deteriorates. The table below shows factors that are in play in the trade war between China and the US and the milestones.

Table 4.2: Trade war milestones

|  |  |  |
| --- | --- | --- |
| Time period | US actions | China’s actions |
| April – May 2017Top-level negotiations to resolve trade misbalances; 100-day plan for trade talks | Investigation on steel and aluminum imports is initiated.The US allows China to sell cooked poultry to the US | US companies get greater access to China’s agriculture, energy, and financial markets |
| February – April 2018Investigation into China’s acts, policies and practices relating to technology transfer, intellectual property and innovation.The US initiates a WTO case against China for discriminatory licensing.The US releases the official statement (May 2018) | Global safeguard tariffs:30% on solar panels;20% on washing machines;25% on steel imports;10% on aluminium imports.Measures targeting China: restricting investment in key technology sectors; imposing import tariffs on aerospace, IT, communication and machinery; including ZTE in the Entity Lis | 15-25% tariffs on 128 product categories including fruit, wine, seamless steel pipes, pork and recycled aluminium.178.6% antidumping duties on sorghum imports from the US |
| July 2018Ongoing negotiations; internal discussion of the new lists of restrictions | 25% tariff on 818 products (imports worth $34 billion) | 25% tariff on 545 products (imports worth $34 billion), including agricultural products, autos and aquatic products |
| August 2018The parties exchange preliminary lists.China files WTO claim and complain against the US | 25% tariff on 279 goods (imports worth $16 billion) including: semiconductors, chemicals, plastics, motorbikes and electric scooters | 25% tariffs on 333 goods (imports worth $16 billion) including: coal, copper scrap, fuel, buses and medical equipment |
| September 2018China cancels the trade negotiations and releases the White Paper stating the official position | 10% tariff (announced subject to further increase up to 25% in 2019) on $200 billion worth imports from China | 5% and 10% tariffs on $60 billion worth imports |
| December 2018G20 summit in Buenos Aires. The US and China agree not to increase tariffs for 90 days | The US announces that the new list of tariffs will be delayed | China increases import of agricultural and energy products, and lowers tariffs on cars and auto products from 25% to standard 15% |
| May – June 2019Ongoing trade negotiations before the G20 summit | 25% tariff (increase from 10%) on $200 billion worth imports.Huawei and five other companies of China are added to the Entity List | 25%-20%-10% tariffs introduced for $60 billion worth of imports (increased from 10%-10%-5% correspondingly) |
| June 2019G20 summit in Osaka.The parties agree to avoid increasing tariffs | The ban on deals with Huawei is reconsidered. 110 products are excluded from the 25%-tariffs | China announces its plans to increase import of agricultural products |

According to the research by experts in the field of international trade, there are four main causes of the trade war between China and the US that has led to retaliation by both parties in form of sanctions and financial restrictions.