



This project has received funding from the European Union's Seventh Framework Programme for research, technological development and demonstration under grant agreement no 266800



# **FESSUD**

FINANCIALISATION, ECONOMY, SOCIETY AND SUSTAINABLE DEVELOPMENT

## **Working Paper Series**

**No 118**

Internationalization of banks and its influence on economic development and stability

Paweł Marszałek

ISSN 2052-8035

# Internationalization of banks and its influence on economic development and stability

**Author** Paweł Marszałek

## **Affiliations of author:**

The Poznań University of Economics

Department of Money and Banking

## **Abstract**

Financialization process was accompanied by many phenomena and processes occurring in individual domestic economies, as well as on the supranational level. Some of them reinforced additionally financialization tendencies whereas the other were stimulated and aggravated by those very tendencies. Precise evaluation of causality is hardly possible here, nevertheless, one may point at most strict connection between financialization – its development, dynamics or scale – and such processes like, for instance, globalization, deregulation, liberalization, changes of forms and types of money and internationalization of financial institutions

The aim of the paper is to characterize, also in the context of the Global Financial Crisis of 2007, features and consequences of banking systems internationalization and to draw some insights on its potential influence on stability of financial systems and economic performance. First, there are presented definitions and main features of internationalization processes. Then, chronology of internationalization, with reference to progress in globalization and financialization, is described. After that there is presented survey of existing studies on internationalization and its consequences for different agents involved, as well as for whole economies – both the home countries of multinational banks and economies of host countries .



This project has received funding from the European Union's Seventh Framework Programme for research, technological development and demonstration under grant agreement no 266800



**Key words:** internationalization, multinational banks, financialization, banking systems

**Date of publication as FESSUD Working Paper:** September, 2015

**Journal of Economic Literature classification** F33, G18, G21

**Contact details:**

Paweł Marszałek

Department of Money and Banking

Al. Niepodległości 10,

61-875 Poznań, Poland

e-mail: pawel.marszalek@ue.poznan.pl

**Acknowledgments:**

The research leading to these results has received funding from the European Union Seventh Framework Programme (FP7/2007-2013) under grant agreement n° 266800.

**Website:** [www.fessud.eu](http://www.fessud.eu)

## 1. Introduction

Financialization process was accompanied by many phenomena and processes occurring in individual domestic economies, as well as on the supranational level. Some of them reinforced additionally financialization tendencies whereas the other were stimulated and aggravated by those very tendencies. Precise evaluation of causality is hardly possible here, nevertheless, one may point at most strict connection between financialization – its development, dynamics or scale – and such processes like, for instance, globalization, deregulation, liberalization, changes of forms and types of money and internationalization of financial institutions (mainly banks).<sup>1</sup> [Krippner 2005, Palley 2012].

Origins of those phenomena were diverse. Some of them resulted from intrinsic market processes, while the others constituted the aftermath of specific decisions and actions made by politicians, policymakers and supervisors. The mentioned processes had, however, some similar patterns and consequences. Among them, one may list decreasing role of the government, growing linkages between domestic economies and their financial markets (connected with greater risk and scale of so-called contagion effects), slackening supervision of the latter ones and, finally, emancipation of financial markets and institutions.<sup>2</sup> Moreover, their influence was not only strictly economic, but had also clear social and cultural dimensions. [Kose et al 2006, Kowalski 2013, Scholte 2006].

---

<sup>1</sup> It must be noticed that dynamics of those processes and their impact would not have been so significant without technological progress. Of special importance were here rapid progress in computer sciences, the popularization of the Internet and new technics of communications (together with their decreasing costs). All those factors allowed to increase tremendously possibilities of gathering and computing information. Actually, banks themselves were among pioneers of using computers for the purposes of business activity.

<sup>2</sup> What interesting those processes intensified after 1978, i. e. after formal abandonment of gold convertibility – the last officially existing relic of commodity money. Since then, money has entirely fiduciary character.

This multidimensionality constitutes only one among many debatable issues with description and evaluation of those processes. Another problem is linked with their different intensity and different frequency. Not surprisingly, their magnitude was the biggest in developed countries with mature market economy and sophisticated financial system. By nature, dynamics of those processes was rather low or even negligible in countries with relatively closed economy, not playing (from various reasons) significant role in international trade and capital flows (like Poland or, more generally, majority of so called “new members” of the EU). Apart differences between individual countries, even at the domestic level various social groups, branches of the economy, stakeholders or even individual households and enterprises benefited in some periods from globalization or deregulation, whereas the others – suffered.

Thus, it is very hard, or even impossible, to make explicit, unambiguous assessment of considered processes and their consequences. Such assessment are additionally hampered by ideological issues, connected with given perception of, for instance, globalization or liberalization by politicians or economists representing different political options. Still, thorough characteristics is very desirable and useful for better understanding influence and conduct of financialization process, as well as for identification of potential flaws in contemporary market and regulatory frameworks.

The aim of the paper is to characterize, also in the context of the Global Financial Crisis of 2007, features and consequences of banking systems internationalization and to draw some insights on its potential influence on stability of financial systems and economic performance. First, we present definitions and main features of internationalization processes. Then, we describe chronology of internationalization, with reference to progress in globalization and financialization. After that we present survey of existing studies on internationalization and its consequences for different agents involved, as well as for whole economies – both home countries of multinational banks and economies of host countries .

## **2. Definition, types and subjects of bank internationalization**

Internationalization of banking systems is already established and well known phenomenon within financial systems. It had started already in the XIX century, accelerating significantly during 1960s. Internationalization, intertwined strictly with globalization processes contributed to profound changes in banking systems of individual countries, especially developing ones. Banking institutions which took part in the process transformed into large multinational banks, conducting their businesses globally.

Internationalization of banking systems may be considered from many points of view and with taking into account various aspects of this phenomenon. Thus, giving its precise and clear-cut definition is not a simple task. According to Solarz and Wyczański [1997], internationalization of banking systems may be understood in two ways: as a process of expanding activities by a domestic bank through expansion on foreign markets or as a process of entering foreign investors into domestic banks. The authors add simultaneously that under such circumstances foreign banks are treated as an institutional form of transmitting worldwide tendencies into the domestic banking sector. Bearing in mind that definition, the degree of banking system internationalization might be measured here by the share of foreign shareholders and creditors in liabilities of the consolidated domestic banking system.

Lewis and Davis [1987] emphasize different aspect of internationalization. They argue that the process manifests itself in establishing (or buying) banks in the distant regions of the world and conducting banking businesses by owners of different nationalities.

Internationalization of banking systems has two dimensions: internal and external. The former can be measured by number of branches and subsidiaries which foreign banks open in a given country and/or value of their assets compared to total assets of the consolidated banking system. By analogy, as the measures of the latter are considered the number of branches and subsidiaries opened by domestic banks abroad and value of their assets also compared to total assets of the consolidated banking balance sheet [ECB 1999, Solarz, Wyczański 1997].

Internationalization of banking systems, as it was already mentioned, is strictly connected with globalization of banks. As Paluszak [2001] stresses, in the area of banking both

concepts are quite similar. There are no significant differences between them, since globalization of banking systems may be linked with such factors as global unification of banking technology, creation of products and services dedicated for global financial markets and deepening interdependencies between functioning of the domestic banking systems [Frąckowiak and Szambelańczyk 2000, Mullineaux 2006].

Generally, within the economic mainstream as the main outcome of internationalization is perceived as a positive phenomenon. It is argued that the process increases competition [Padoa-Schioppa 2001]. It occurs due to two reasons. First, internationalization makes number of financial institutions which seek clients favors larger. Second, larger becomes the very market, on which banks may run their operations. Additionally, international scope of banks' activity enforces improvements in safety net and supervisory frameworks. Moreover, through its interdependencies with deregulation, internationalization contributes in a way to international cooperation between supervisors from individual countries. That cooperation, in turn, is conducive to consistency of regulatory frameworks worldwide [Frąckowiak and Szambelańczyk 2000, Heffernan 2005, Krugman and Obstfeld 2007].

Banks participating in the process of internationalization are called "multinational" or "international" banks. Sometimes both terms are treated as synonyms. Their content, however, varies. An international bank may be singled out by its functions. Any of those institutions is making transactions with non-residents, which are denominated in the domestic currency. Those transactions are aimed at financing the foreign trade and carrying other foreign operations. Moreover, international banks, as the active members of the euromarket, are also making transactions denominated in foreign currencies. Such type of transactions may be carried out with the both residents and non-residents. [Lewis and Davis 1987].

Both types of currency transactions may be conducted also by multinational banks. However, it cannot be necessary the case. Distinctive of multinational banks is the fact that they constitute specific type of multinational enterprise. The main feature of such enterprise is that it is conducting its businesses in many countries. Thus, an multinational bank has its units in more than only one country [Curry, Fung and Harper 2003].

In the process of internationalization the most involved are just multinational banks. According to Steuber [1997], before the age of internationalization in banking, a domestic bank that had tried to expand its operations abroad, had first to find so called “correspondent – any foreign bank willing to cooperate. Just after the internationalization started, direct presence of a given domestic banks on foreign markets turned to be feasible.

The multinational banks make choice of institutional form for the future foreign unit on the basis of economic and legal conditions (both internal – domestic – and external ones). Other factors taken into consideration here are issues from the area of bank management, first and foremost the strategy of a given bank. Types of units which an international bank may create are described in the Table 1.

[please insert Table 1 here]

Organization and methods of functioning adopted by units of the multinational banks are subject to continuous modifications. It is connected with the transition from international banking towards global banking, as well as with ongoing and rapid, mentioned already, progress of information and communication technologies. Multinational banks are striving to create a single, unified network in place of heterogeneous groups of independent units, located in different countries, only coordinating by the headquarters in the home country. Such changes may be expressed in creating of homogenous, identical products and services offered by the bank, which are subsequently modified and adjusted in order to fulfill specific needs of clients from a given region. Possible – and in some cases even desirable – is also segmentation of bank clients from all its units and then, on that basis, preparation of products and services addressed to specific groups of clients worldwide [Curry, Fung and Harper 2003]

However, it was not always like that. Originally, the scope of financial services offered by the multinational banks on their home market and abroad differed significantly. The basic incentive for banks to go abroad was then the opportunity of conducting activities not allowed



in the domestic banking system. Such limitations resulted from asymmetry in legal frameworks regulating activity of banks in individual countries. As a result of deregulation tendencies, such discrepancies have been eliminated systematically, with all – good or bad – consequences of that process.

Internationalization, intertwined with globalization, brought many profound changes in functioning of the banking systems. After 1989 the process occurred also in the post communists countries from Central and Eastern Europe (CEEs), among them – also in Poland. It caused there vivid debate about benefits and disadvantages of entering foreign investors into newly created (or drastically restructured) banking systems of those countries.<sup>3</sup> But then process of internationalization was quite mature. Discussed tendencies reshaped already banking systems of almost all developed countries. Dynamics of those events will be presented in the next section of the paper.

### 3. Chronology of internationalization processes

In the process of banks internationalization one may distinguish three phases. It is assumed that so-called first stage of internationalization started after 1830 in Great Britain. The main factor that stood behind the beginning of going abroad by banks were attempts to improve financing of trade between Great Britain and its colonies. British banks opened their representative office in Australia, North America and in the Caribbean. During the years 1817-1913 already 72 units of British banks were established abroad [Tschoegl 1987]. Those institutions were subsequently followed by banks from other colonial powers. Among them were Belgian, French, German and Japanese banks [Curry, Fung and Harper 2003; de Paula 2002, Heffernan 2005].

Transformation of banks from the colonial countries into the multinational institutions was stopped by the First World War. Significant acceleration of internationalization process

---

<sup>3</sup>The scale of the opposite process, namely expansion of banks from CEEs on foreign markets, was, from obvious reasons, negligible.

took place just in the 1960s, when foreign expansion of banks from the United States accelerated violently.<sup>4</sup> This tendency, identified usually with the beginning of the second stage of internationalization, resulted from several reasons.

First of all, in the 1960s specific regulations came into force in the United States. They were aimed at restoring stability in the balance of payment and boosting the American economy. They limited to a large degree opportunities to run banking activity (e.g. they not allowed to lend US dollars to finance foreign direct investments by US multinational enterprises) as well as discouraged foreigners from issuing bonds in the United States. Particularly, in 1965 so-called program of voluntary limitation of loans was introduced. This program constituted a part of the broader package. The package, intended at regulating overall banking activity in the USA, included also acts on taxation of incomes from deposits and foreign assets and act that forbade export of capital [Bimmer and Dahl, 1975]. Moreover, in 1966 the scope of the so-called Regulation Q was expanded.<sup>5</sup> The modified regulation prohibited banks from paying interest on demand deposits and imposed maximum rates of interest on various other types of bank deposit. The right to set those ceilings was given to the Board of the FRS.

Changes in law provoked rapid reaction of the non-residents. Due to unfavorable conditions created by the new regulations and in fear of blocking their deposits, the foreigners withdrew them and moved money to the European banks.<sup>6</sup> Meanwhile, the residents, discouraged with low interests offered by banks, switched from deposit to treasury bills and commercial papers.

---

<sup>4</sup> Banks from this state were also very active in the interwar period. In 1916 banks headquartered in the USA had 26 foreign units, while in 1920 it rose already to 121 branches and offices. The American banks expanded mainly in Austria and Germany. By 1931, 40% of all US short-term claims on foreigners were German. [Heffernan 2005].

<sup>5</sup> Regulation Q was Title 12, part 217 of the US Code of Federal Regulations. It came into force in 1933 and in 2011 was repealed.

<sup>6</sup> Deposits of particularly great value was withdrawn from the US banks by the USRR. The state was afraid of blocking them by the US government [Mishkin 2000].

Under such circumstances, the US banks, attempting to stop decrease in their incomes, started to open branches abroad. According to Brimmer and Dahl [1975], on December 31, 1973, 125 of the American banks had foreign units which total number amounted 699. On December, 31, 1960 only 8 such banks had foreign units (just 131). The most units were opened in the countries of western Europe (especially in the Great Britain), in the countries of the Caribbean (particularly in the Bahamas and Cayman Islands), in Asian countries, like Singapore, Bahrain and Hong-Kong and, finally, in Central and South America. In 1984 total number of foreign branches, established by the US banks amounted to 905 [Darby 1986].

Such activity was supported by the American law regulating functioning of the banks overseas. Scope of permissible operations could be there even higher than on the domestic market.<sup>7</sup> As a result, foreign branches of the US banks became active participants of the Eurodollar market [Bimmer and Dahl 1975].

It must be noticed here that enforcement of restrictions in the export of capital from the USA contributed to development of the so-called Euromarket. Operating in Europe subsidiary companies of the American enterprises lacked working capital and funds for investments. Thus, they demanded more and more dollar loans. [Rutkowski 1969]. Under such conditions, European banks and foreign branches of the US banks started to accept dollar deposits and then offered loans in this currency. With time, banks in London and other financial centers used to accept deposits and make loans also in other currencies – British pounds, Swiss francs and French francs. In that way so called Eurocurrency market or, in other words, just the Euromarket, emerged. With time, it spread also over non-European countries, in particular Japan, Canada and countries of the Caribbean [Rączkowski 1987].

---

<sup>7</sup>Opening units abroad was possible due to Federal Reserve Act of 1931. Moreover, in 1966 American banks were allowed to purchase directly shares in the foreign banks. It must be stressed, however, that establishment of the foreign unit and any investment in shares of a foreign banks was permissible only with the special approval of the SRF Board [Bimmer and Dahl 1975].

Development of the Euromarket enabled also the European banks to participate in this second stage of internationalization. Conducive factor here turned also to be external convertibility of the currencies of West European countries, established in 1958. Positive influence on the internationalization of the European banks had also political and economic integration in Europe and establishment of many holdings and multinational enterprise. In order to finance their activities, international bank holdings, international syndicates issuing bonds and shares, as well as international institutional bank associations (then labeled as banking conglomerates) were created [Paluszak 2001].

In the 1970s the internationalization process was additionally sped out by so-called oil shocks. In such situation several states-exporters of oil started to locate excessive currency reserves (mainly dollar ones) in the form of deposit at multinational banks operating on the Euromarket. In response for those phenomena there occurred further increase of banks' foreign units. They were established in many countries, by banks not only from the United States [Darby 1986, Hirtle, 1991].

It has to be stressed that the second wave of internationalization was influenced not only by political and economic factors, but also by development of new technologies, especially from the IT sector. Implementation of new solutions and devices from this area into banking business caused significant decrease of its costs and strengthened competitive position of banks from industrial countries. Thus, conducting banking activity in less developed countries became much more profitable [Curry, Fung and Harper 2003].

There were substantial differences between two first stages of banking systems internationalization. They concerned many aspects. First, for the US banks, the main reason of going international was willingness to raise funds from the Euromarket. Thus, their main goal differed from the one that had tried to achieve the British banks in the first stage of internationalization. As was mentioned, those institutions focused then on financing foreign trade. The American banks, followed by banks from other countries expanded their business in the developed countries, where were able to use their competitive advantage. Moreover, while foreign branches of the British banks, which led multinational banks during the first stage of the process under discussion, were focused mainly on retail banking and financing

trade, foreign units of the US banks concentrated rather on foreign exchange transactions on the Euromarket and providing support and service for institutional clients [Curry, Fung and Harper 2003, de Paula 2002].

One may indicate also the third stage of internationalization. It begun in the 1990s. Banks involved here are mainly from Europe, with special attention paid to the institutions form Spain. Expansion of the latter ones in Latin America constitutes the main strain of the third stage. As a result, Spanish banks, focused on retail banking, have become the most important players in this region [Sebastian and Hernansanz 2002; Small 2004].

However, the third wave of internationalization encompasses not only Spanish banks and not only in Latin America. Apart this region, multinational banks participating in this stage of internationalization develop network of their units also in countries of South Asia and Central and Eastern Europe. Then, one may observe that – unlike the second stage of internationalization – banks which take place in the third one, are keen to conduct retail banking also in developing countries. [Guillen, Tschoegl 1999, de Paula 2002]. It is also worth noticing that this third wave was accompanied by deregulation and liberalization of capital flows, characteristic of economic life and intellectual climate of (neo)liberalism during the 1990s. It is conducive to unification of banking services and makes so-called universal banks dominant organizational form on the financial market [Janc 2008].

#### **4. Incentives to internationalize banking activity**

Internationalization has been positively influenced not only by political and economic factors. Important and positive impact have also had formulated theories. Their authors attempted, among other things, to identify incentives of domestic banks to transform into multinational ones. This section describes synthetically the most important theories, explaining motives and conditions of those decisions.

As the first complex attempt to build a theory that could explain the phenomenon of banking systems internationalization is usually perceived the research of Aliber [1975a, 1975b, 1984]. The author tried to explain the process of internationalization already in the

1970s. He put emphasis on so-called internalization of banking, understood as implementation of solutions and procedures developed by a given bank on the domestic market also in the units functioning abroad.

Aliber recognized that in the developed countries a crucial factor in decisions on going abroad by the banks are differences in the interest rates on individual financial markets. According to him, the most effective banks would face the strongest incentives to open their units in other countries, since they would have significant competitive advantage. Elaborating this idea, Aliber assumed that banks, confronted with liberalization of both capital and good flows, would lend to those enterprises, which would be prone to accept even the least favorable conditions of acquiring funds. On the other hand, the enterprises would tend to borrow from those banks which offer would be the most beneficial. In consequence, interest rates in individual countries will tend to converge. Such phenomenon will not occur only in situation of legal barriers, preventing foreign banks from entering a given domestic market. Such barriers might be, and usually are, effect of specific regulatory policy of the government [Peinado 2001, Williams 1999].

Aliber's theory gave rise to discussion on the motives for expanding banks' activities beyond the borders of their home country. During the discussion variety of conceptions was formulated. They are also located in the strain of internalization, as the initial theory of Aliber. According to them, the main reason behind internationalization of banks are their attempts to use competitive advantage. This, in turn, makes diversification of products and services easier, allows benefiting from economies of scale and enables banks to apply more effective management methods and techniques. All these concepts are presented in the table 2. It must be, however stressed that there also theories of internationalization not referring to the concept of internalization. Those theories form the second, separate strain in the studies of banking systems internationalization, describing as "eclectic" theory of internationalization. Concepts counted to this strain also will be presented in this section. First, however, in more details will be discussed theories from the strain internalization

[please insert table 2 here]

Among them the most popular is, as it was already mentioned, competitive advantage theory, put forward by Aliber [1976]. It constitutes a specific application of traditional neo-classical Heckscher-Ohlin trade theory to multinational banking. According to this theory, as was briefly indicated, decision on expanding activity abroad will be taken only by those banks, which have competitive advantage and thus are able to offer loans and accept deposits on more favorable conditions than the domestic banks.<sup>8</sup>

The banks with a comparative advantage in offering bank products and services will gain access to the world capital markets on increasingly favorable terms due to their higher relative profits. This – due to lower costs – will accelerate their increased market share, and as a result, further increase their profits. Moreover, due to market imperfections, the multinational bank will not sell its advantage and will instead internalize it via various forms of representation overseas. In the result, banks with a comparative advantage in producing and offering bank products and services will tend to dominate the world banking market. [Curry, Fung and Harper 2003, Williams 1997].

It is worth mentioning yet that bank without competitive advantage can obtain it through purchase of any foreign bank that has such advantage. The actual aim of transforming into the multinational bank will be then obtaining of innovative technology or solutions/devices from the purchased bank. They will be subsequently used in activity of the multinational bank on its home market, as well as in foreign branches and subsidiaries [Curry, Fung and Harper 2003, Williams 1977].

Similar point of view was adopted by authors of the surplus entrepreneurship theory.<sup>9</sup> They argue that the multinational banks apply entrepreneurial skills such as technology, management expertise and techniques or *know how* to overseas markets at low or even zero

---

<sup>8</sup> In this approach interest rates (price) are the primary factor in choosing a bank product.

<sup>9</sup> According to Williams [1997], the theory is the application of Kindleberger's (1969) surplus entrepreneurship approach to multinational retail banking.

marginal costs. By applying these skills on the foreign markets, the bank has chosen to internalize its advantage rather than sell it on the market [Curry, Fung and Harper 2003, Grubel 1977].

According to the authors of the defensive expansion theory (also called “follow the clients” motivation), internationalization of bank’s operation is, in a sense, its defensive reaction to changes in its close environment. Namely, the domestic banks transform into the multinational institutions under the influence of legal restrictions.<sup>10</sup> The latter significantly limit scope of activities allowed on the domestic market.

The second cause of going overseas is in this theory pressure of banks’ clients. Banks have to respond to the expansion of their clients abroad to defend their client-bank relationship. If the banks do not follow their client abroad, it is very likely that the client will establish a new banking relationship that could expand to supplant existing domestic arrangements. Apart from loss of the client, banks loses also potential opportunities. It is so because relationship with client present and active abroad generates a flow of information for a bank. This information enables the bank to assess any new loan proposal at low marginal cost, as most of the assessment has occurred previously. This lower marginal cost gives a foreign unit of the bank a competitive advantage over its competitors. Moreover, like in the competitive advantage theory, this information – due to market imperfections – cannot be traded or priced within the market. Thus, must be exploited by the owning bank. It is, of course very useful – knowledge of market conditions and access to funds supplied easily by the parent company, allows the foreign branch of the bank to offer much more attractive conditions than its local rivals. It refers to both active (loans) and passive (deposits) operations [Callier 1986, Curry, Fung and Harper 2003, Williams 1999].

Besides those two motives of internationalization indicated within the entrepreneurship surplus theory, it must be stressed that banks’ decisions of going overseas may be influenced also by changes in level of exchange rate. The multinational banks should track

---

<sup>10</sup> As it was described, such factors were crucial for expansion of the US banks during the second stage of internationalization



both the exchange rate of their national currency and the exchange rate of the currency from the country they are intended to invest in. Without any doubts, changes in the levels of those exchange rates will influence profitability of planned investment [Curry, Fung and Harper 2003].

The horizontal and vertical integration theory combines incentives presented in the both competitive advantage and entrepreneurship surplus theories. Authors, identified with this concept, seek the causes of banking systems internationalization in benefits which the multinational banks derive from horizontal and vertical integration. Explaining this, they refer often to economies of scale and economies of scope.

As Lewis and Davis [1987] argue, the horizontal integration provides a mechanism for the allocation of technology and knowledge to new locations at low marginal costs,. With reference to the multinational banks, horizontal integration may be considered as the creation of self-contained domestic banking operations in different countries [Casson 1990]. Therefore, it consists in using on different national markets technological devices, knowledge, experience and management techniques developed on the domestic market, similarly to assumptions of the entrepreneurship surplus theory.

On the other side, vertical integration provides the multinational bank the opportunities to internalize the process of production and providing banking products and services.<sup>11</sup> The final result of such actions will be their unification on all the markets where a given bank is present. [Curry, Fung and Harper 2003, Peinado 2001].

The vertical integration is very advantageous to the multinational bank. According to Lewis and Davis [1987] and Williams [1997] gains from this activity are especially visible in foreign exchange trading, trade finance and risk management. With reference to the first of

---

<sup>11</sup> The desire to internalize may be the result of many factors. Among other things, the multinational bank may want to control the upstream quality control process, to benefit from economies of scale, to exercise market power, to control product innovation and thus to control the underlying technology. The bank may also desire to minimize (or even avoid) taxes [Williams, 1997]

listed areas, the authors argue that, the multinational bank, when trading foreign exchange, is able, by using its global banking network to internalizes the alternative arrangement (that of correspondent banking). This reduces transactions costs due to increased interest from the interbank float, reduced transactions processing charges and the use of netting exposures amongst all the branch network. As far as trade finance is considered, a well-developed foreign network of branches and subsidiaries allows the multinational bank to provide trade finance at both ends of the transaction and thus – to internalize the fees from the transaction. It also allows to manage any exposures across time zones and allows the bank netting and possible arbitrages when making a market in risk management products.

Implementing both types of integration, the multinational bank will be able to provide foreign clients with better conditions than the local banks. Unlike them, it has broad access to sources of funds. It can freely and at a lower cost refinance at its parent bank.

Theories of oligopolistic competition combine elements of all presented so far conceptions. Authors of those theories stress that multinational banks have to compete within domestic banking markets which are often oligopolistic in nature. These oligopolies are often the outcome of barriers to entry, imposed by the government in the form of licensing restrictions. However, this market imperfection may be also exploited by the multinational bank when it already will be allowed to operate behind the barriers to entry, generated by the oligopoly. In other words, it becomes the member of that structure.<sup>12</sup>

Nevertheless, it must be noticed that existence of oligopolies in domestic banking markets, besides opportunities it provides, constitutes also the obstacle to the multinational banks' expansion. It is especially apparent in the very beginning of entering the domestic market. In the first stage, the situation of the multinational bank is much worse than its domestic competitors. However, if this institution will manage to overcome all legal barriers, to get all required permissions and, finally, to start its activity, it will be able to compete

---

<sup>12</sup>Obviously, with every foreign bank that starts to operate in a given domestic banking system, the oligopolistic structure of the industry will be weakened.

effectively with local rivals. Its advantage may stem from innovative technologies, better procedures and more efficient organization. As these factors were developed and tested on the home market, its implementation overseas will be relatively cheap. First of all, however, the multinational bank may compete with the oligopolistic banks with its price policy. It can easily offer higher interest rates for accepted deposits and lower – from loans. [Peinado 2001, Williams 1997].

In the theories of international investment and multinational wholesale banking the emphasis is put on profitability of banks and issues of risk management. Namely, operating in many countries makes diversification of risk and its reduction easier. According to the conceptions situated within this stream of theory, banks with greater risk aversion will rather open their branches and offices in countries similar to their home country with regard to culture, language and institutions [Curry, Fung and Harper 2003, Williams 1999].

On the other hand, spreading activity on foreign markets may generate significant profits due to lower cost of raising funds on the Euromarkets. According to Grubel [1977], these markets have been created and exist solely because of narrower interest margin spreads. He listed three sources of this narrowness. First, intrinsic service value is associated with certain key currencies such as the US dollar. Second reason is the lack of government enforced externalities in the Euromarkets and the third – the comparative advantage generated by products offered on those markets.

Apart theories exploiting the idea of internalization there is also another theory that tries to explain the process of banking systems internationalization. It is so called eclectic theory. The concept is based on the multinational corporations theory, formulated by Dunning in the second half of the 1970s. This theory enriched significantly studies on internationalization, being, in a sense, complementary to internalization theories.

According to the eclectic approach, there are three main groups of benefits which multinational banks can derive from internationalization. The first one results from internalization of a bank. Cho [1985] list here five specific advantages: (1) availability and cost of fund transfers within the multinational banks, (2) efficient customer contacts, (3) transfer pricing

manipulation, (4) improved networks for information gathering, and (5) potentially reduced earning variability.

The second group – so called location advantages – is connected with the foreign network of bank units. It encompasses, among others, advantages from differences in national and foreign legislation, access to skilled personnel and managerial resources, favorable financial sources, knowledge and experience in multinational operations, expertise in servicing a particular customer type, and differentiation of banking products and services [Williams 1997].

The last group includes so called ownership advantages. They stem from the fact that customers prefer to transact with bank incorporated in the country of origin of the transaction currency due to that bank's established mechanisms for those transactions. It gives special advantages to multinational banks from those countries which have stable and popular currency. These banks are able to differentiate easily their products and services. For instance they can offer innovative financial instruments, based on their domestic currency. Moreover, their competitive advantage increases with their reputation as subjects which can create such innovations. [Peinado 2001, Williams 1999 Yannopoulos 1983]. According to Cho [1985], however, these advantages are rather transitory.

Thus, one may notice some similarities between the both discussed theories. The most important difference between the eclectic theory and theories from the internalization strain comes down to perceiving costs connected with expanding bank's activity overseas. Adherents of the eclectic theory argue that these costs should not be treated as a part of the global costs, incurred by the whole multinational bank, but should be treated separately. On the other hand, supporters of internalization theories consider the costs of building competitive position abroad only as a component of the costs of global operations. The decision to invest in the other country is not made on the basis of "local" costs versus "local" benefits, but rather on the basis of comparison their total values, for the whole bank [Casson 1987, 1990; Williams 1997].

However, as Williams [1997] stresses, the choice between internalization theory and eclectic theory is not one of which theory yields a superior forecast of the multinational banks

activities, but rather, which of these two theories will enable the researcher to consider the institutions involved into internationalization process with the greatest degree of internal consistency. According to this author, at the level of abstraction represented by the two theories, it is not possible yet to generate empirically testable hypotheses.<sup>13</sup>

Summarizing discussion on incentives of internationalization, one may find that there are many different reasons and motives why banks try to expand their operations overseas. Moreover, how Tschoegl [1987] argues, an impulse to transform of the domestic bank into the multinational financial institutions, often was just accident or the desire to exploit favorable conditions in a specific country – often with culture, language and institutional structure similar to the home country. Internationalization was also positively influenced by the growth of the banks themselves and their higher capacities, liberalization and deregulation and supportive role of the banks' client. By providing necessary information, they facilitate recognition of local arrangements and conditions. Thus, in turn, contributes to better and more accurate decisions taken by the multinational bank.

## 5. Consequences of internationalization

By no means, multinational banks have played a key role in the financial integration of global financial markets and the economic integration of individual countries. They have also been important actors in financialization process. Assessment of the consequences carried by internationalization appears, however, ambiguous. They can be also considered on many levels and in different sections. Moreover, these consequences likely to shape differently when one takes into account the perspective of multinational bank itself and its home country (usually a developed one) and perspective of the host country, especially when the latter one is classified as a developing one. Such situation, as was already presented, was rather common – countries being frequent destination of the multinational banks were emerging markets from Latin and South America and post-communist countries from Central and Eastern Europe.

---

<sup>13</sup> This issue is elaborated more thoroughly by Buckley [1988].

Considering benefits (advantages) of internationalization one may take into account gains acquired by individual banks and the banking system as a whole, clients of banks, as well as economies of individual countries. Those benefits may be short-term or more profound, expressing in permanent changes of a domestic banking (and financial) system. All identified advantages of internationalization are synthetically described in the Table 3.

With reference to the banking institutions, such gains are in literature evaluated with reference to the presented incentives (premises) of going abroad. In details, it is proved that multinational banks gained from their competitive power in the markets of host countries (especially those with underdeveloped financial and banking market), allowing them to mobilize more funds from deposits, conducting “cherry picking” strategy and maintain wider net interest margin. All such actions contributed to high profitability of overseas activity. An additional benefit for the multinational banks was linked with possibility of supporting by them enterprises from home countries, operating abroad.

At the same time internationalization is perceived as beneficial to the whole banking system of country in which multinational banks had started its activity, as well as to the home banking system of the bank. The former, as research has shown, benefitted from high profits, while the latter had possibility to overcome problems connected with lack of domestic capital, to recapitalize local banks. Multinational banks constituted also factor driving modernization and increasing competition in the whole sector. Their activity was also for domestic sector better solution than cross border lending, as such banks, with a local presence on the ground, were more stable providers of credit).

Concerning clients and their gains from banks' internationalization in the literature are usually listed such factors as: broader and more diverse offer, spread of financial innovation (especially with reference to corporate sector) and lower than local banks' profit margins, enforcing more efficiency of local banks that translates into lower-cost of financial services

Finally, among macroeconomic benefits individual economies may draw from internationalization, it is assumed by some authors that multinational banks operating in different

regions of the world have helped transfer capital to countries and regions that previously had difficulty attracting funds.

[insert Table 3 here]

From this point of view, this phenomenon appears to be quite positive. There is also, however, the other side of the coin. Some negative consequences of internationalization are also indicated. There are two main strains of the critique. The first one is connected with a kind of asymmetry and in many cases harmful influence of internationalization on the economy of developing countries. The second, more intensified and visible in the last years, line of argument against internationalization considers the phenomenon under discussion as one of financial crises triggers.

Pro-crisis influence of internationalization is in the literature discussed mainly with reference to the crises in Latin and South America countries in the 1990s and 2000s and the subprime crisis of 2007 in the US and being aftermath of it the Global Financial Crisis. Because of poor risk and liquidity management, the banks are supposed to played a central role in the 2008–2009 financial crisis and following it contagion processes.

In details, multinational banks contributed to emergence, proliferation and transmission of financial innovations and highly risk prone operators. All activities of those institutions connected with spreading and distributing products of financial engineering on individual domestic markets (often offered to agents with lack of sufficient knowledge) contributed to greater risk (political, operational, etc.) in the individual markets as well as to great instability of the overall financial system (for more details see table 4)

[insert Table 4 here]

Thus internationalization contributed to the crisis. On the other hand, according to Buch et al [2013], the crisis ended unprecedented period of expansion of banks' international

financial assets and liabilities. The authors stress that in response to the crisis, banks decreased their international activities as – due to regulatory restrictions – they had to shrink their balance sheets. They discuss the case of German banks. While total international assets of those institutions grew, on average, by 8% per within the years 2002-2007, they dropped by almost 20% in just 2008. These adjustments occurred mainly due to changing risk perceptions, changing regulations, and changes in the sensitivity towards financial frictions. In the end, German banks withdrew from foreign markets, both along the extensive and the intensive margin. The withdrawal was relatively stronger for activities of foreign subsidiaries compared to direct cross-border assets or assets held through branches.

As a result crisis spread from the US market to other countries. Multinational banks may be perceived as important channel of transmitting crisis tendencies. They also contributed to instability by theory own activity.

## 6. References

- Aliber, R.Z., 1987, *Financial Innovation and the Boundaries of Banking*, “Managerial and Decision Economics”, no. 1.
- Aliber, R.Z., *International Banking: A Survey*, “Journal of Money, Credit and Banking” 1984, no 4.
- Bimmer, A.F., Dahl, F.R., 1975, *Growth of American International Banking: Implications for Public Policy*, “Journal of Finance”, no. 2.
- Buch, C.M., Neugebauer, K., Schroder, C., 2013, *Changing forces of gravity: how the crisis affected international banking*, Deutsche Bundesbank Discussion Paper, no. 48,
- Callier, P., 1986, “*Professional Trading*”, *Exchange Rate Risk and the Growth of International Banking: A Note*, “Banca Nazionale del Lavoro Quarterly Review”, no. 159.
- Curry E.A., Fung J.G., Harper I.R., 2003, *Multinational banking: historical, empirical and case perspectives*, in: *Handbook of International Banking*, A.W. Mullineux, V. Murinde (eds.), Edward Elgar, Northampton.
- De Haas, R., and N. Van Horen, 2011, *Running for the Exit: International Banks and Crisis Transmission*, EBRD, London. Mimeo.
- De Nicolo, G., Bartholomew, P., Zaman, J., Zephirin, M., 2003, *Bank Consolidation, Internationalization and Conglomeration: Trends and Implications for Financial Risk*, “IMF Working Papers”, no. WP/03/158.



de Paula, L.F., 2002, *Banking Internationalisation and the Expansion Strategies of European Banks to Brazil during the 1990s*, Société Universitaire Européenne de Recherches Financières Studies, no. 18, Vienna.

ECB, 1999, *Possible Effects of EMU on the EU Banking Systems in the Medium to Long Term*, Frankfurt.

Guillen, M.F., Tschoegl, A.E., 1999, *At Last the Internationalization of Retail Banking? The Case of the Spanish Banks in Latin America*, The Wharton School, University of Pennsylvania Working Papers 1999, no. 99-41.

Heinekel, R.L., Levi M.D., 1992, *The structure of international banking*, "Journal of International Money and Finance" 1992, no. 3.

Janc A., 2004, *Bank and its place in the financial system during economic transformation in Poland*, Twigger, Warsaw.

Kose, M.A., Prasad, E., Rogoff, K., Wei, S.J., 2006, *Financial Globalization: A Reappraisal*, IMF Working Paper, no. 189.

Kowalski, T., 2013, *Globalization and Transformation in Central European Countries: the Case of Poland*, Poznań University of Economics Press, Poznań.

Krippner, G, 2005, *The financialization of the American economy*, Socio-Economic Review, no. 3.

Krugman, P.R. Obstfeld, M., 2007, *International Economics*, Addison –Wesley, Boston.

Lewis, M.K., Davis K.T., *Domestic and International Banking*, Philip Alan, Hemel Hemstead 1987.

Padoa-Schioppa, T., 2001, *Bank Competition: A Changing Paradigm*, "European Finance Review", no. 5.

Palley, T., 2012, *From Financial crisis to stagnation*, Cambridge University Press, New York.

Palley, T., Peinado E.S., 2001, *Internationalisation Process of Spanish Banks: A New Stage After the Mergers*, Department of "Dirección de Empresas. Juan José Renau Piqueras" Faculty of Economics, University of Valencia, Valencia 2001.

Paluszak, G., 2001, *Systemy bankowe w procesie europejskiej integracji walutowej [Banking systems in the proces of the European Monetary Integration]*, Wydawnictwo AE, Poznań.

Sebastian, M., Hernansanz, C., 2000, *The Spanish Banks' Strategy in Latin America*, "SUERF Studies", no. 9.

Small, D., 2004, *Empire Strikes Back: Spanish Banks Recolonize Ibero-America*, "EIR Economics", July.

- Steuber, U., 1977, *International Cooperation and Competition among Banks in Europe, w: The Development of Financial Institution in Europe 1956-1976*, J.E. Wadsworth, J.S.G. Wilson, H. Fournier, A.W. Stijthoff-Leyden (eds.), Lejda 1977.
- Tee, O. Ch., 2010, *The international banking crisis: effects and some key lessons*, "BIS Papers", no. 54.
- Tschoegl, A.E., 1987, *Multinational Retail Banking as a Strategy: An Assessment*, "Journal of International Business Studies", no. 2.
- Williams, B., 1999, *Positive Theories of Multinational Banking: Eclectic Theory Versus Internationalisation Theory*, "Journal of Economic Surveys", no. 11.
- Green, Ch., Murinde, V., Nikolov, I., 2004, *The efficiency of foreign and domestic banks in Central and Eastern Europe: evidence on economies of scale and scope*, "Journal of Emerging Markets Finance", vol. 3, No. 2,
- Jeon, B.N., Olivero, M., Wu J., 2010, *Do foreign banks increase competition? Evidence from emerging Asian and Latin American banking markets*, "Journal of Banking & Finance", no.35.
- Minda, A., 2007, *The entry of foreign banks into Latin America: a source of stability or financial fragility?*, "Problemas del desarrollo. Revista latinoamericana de economía", vol. 38, No. 150.
- Yildirim, S., Philippatos, G., 2007, *Restructuring, consolidation and competition in Latin American banking markets*, "Journal of Banking and Finance", vol. 31, no. 3.
- Claessens, S., Laeven, L., 2004, *What drives bank competition? Some international evidence*, Journal of Money, Credit and Banking, vol. 36, no. 3.
- Claessens, S., A. Demirgüç-Kunt, H. Huizinga, 1998, *How does foreign entry affect domestic banking markets?*, Policy Research 138, Economic Commission for Latin America and the Caribbean (ECLAC) Working Paper, No. 1918, Washington, D.C.,
- Hübler, O., Menkhoff, L. and Suwanaporn, C., 2008, *Financial Liberalisation in Emerging Markets: How Does Bank Lending Change?*, "World Economy", no. 31.



This project has received funding from the European Union's Seventh Framework Programme for research, technological development and demonstration under grant agreement no 266800



Kalemli-Ozcan, S, Papaionnau, E., Perri, F., 2012, *Global Banks and Crisis Transmission*, “Journal of International Economics”, vol 89 (2).

Table 1. Organizational forms of multinational banks

Organizational form	Scope of activity
representative of-fice	<ul style="list-style-type: none"> <li>▪ the most limited form; only supportive role in operations of a multinational bank,</li> <li>▪ loan and deposit activity not allowed, as the representative of a multinational bank it can make some settlements and arrange loans to foreign customers</li> </ul>
foreign agency	<ul style="list-style-type: none"> <li>▪ arranges lending and transfers funds; in some cases it is also allowed to make loans to institutional clients</li> <li>▪ it is not allowed to accept deposits, thus it has to obtain funds from the parent bank or to acquire them from the foreign interbank market</li> <li>▪ supports financing of the foreign trade, by opening and/or guaranteeing letters of credit and by accepting bills of importers</li> </ul>
subsidiary	<ul style="list-style-type: none"> <li>▪ a kind of enterprise dependent on parent bank; the only difference between subsidiary and local banks is that the former is controlled by the foreign bank</li> <li>▪ comes under the same legal basis as local banks, but it has not to comply home regulations</li> <li>▪ established for direct competition of a multinational bank with local banks or other multinational banks</li> </ul>
branch	<ul style="list-style-type: none"> <li>▪ conducts activity identical to local bank and usually on the same legal basis, but with respects also to home regulations</li> <li>▪ often established to gain from differences in home and foreign regulations</li> <li>▪ its main goal is to make loans to institutional clients from the country in which the branch had been established, as well as from other markets; it also can finance trade between home country and foreign countries</li> <li>▪ acquires funds on international capital and money markets</li> </ul>

Source: authors' work.

Table 2. Theories of banking systems internationalization from the internalization strain

Theory	Main reasons of internationalization
Internalization theory (basic theory)	<ul style="list-style-type: none"> <li>▪ differences in the levels of interest rates on individual markets</li> <li>▪ competitive advantage over foreign banks</li> <li>▪ exploiting economies of scale</li> </ul>
Competitive advantage theory	<ul style="list-style-type: none"> <li>▪ competitive advantage over foreign banks on the banking market</li> <li>▪ possibility of taking competitive advantage through purchase of foreign bank that has such advantage</li> <li>▪ lower costs and perspective of rapid increase of incomes</li> </ul>
Surplus entrepreneurship theory	<ul style="list-style-type: none"> <li>▪ cheaper implementation of devices and procedures (innovations, technology, management techniques, know-how) developed on the home market</li> <li>▪ competitive advantage over foreign banks</li> </ul>
Defensive expansion theory	<ul style="list-style-type: none"> <li>▪ defense of a bank against changes in its immediate environment</li> <li>▪ changes of regulations and limited scope of activity on the home market</li> <li>▪ following clients conducting operations overseas (so-called attraction effect)</li> </ul>
Vertical and horizontal integration theory	<ul style="list-style-type: none"> <li>▪ economies of scale, resulting from the horizontal integration: implementation of devices and procedures (innovations, technology, management techniques, know-how) developed on the home market</li> <li>▪ economies of scale, resulting from the vertical integration: internationalization of “production” of products and services, leading to their unification on every market the bank operates.</li> </ul>
Oligopolistic competition theory	<ul style="list-style-type: none"> <li>▪ competitive advantage over foreign banks, forming (due to given policy of the government) ineffective oligopoly; those banks do not want or are not able to compete with multinational banks</li> <li>▪ opportunity for rapid increase of the market share at low cost</li> </ul>



<p>Multinational wholesale banking theory</p>	<ul style="list-style-type: none"> <li>▪ internalization advantages</li> <li>▪ ownership advantages</li> <li>▪ location advantages</li> </ul>
<p>International investments theory</p>	<ul style="list-style-type: none"> <li>▪ attempts to non-systematic risk diversification of bank's portfolio on an international scale</li> </ul>

Source: authors' work.

Table 3. Advantages from internationalization – conclusions from literature review

	Developed countries	Developing countries
Banks	<ul style="list-style-type: none"> <li>- high profitability of foreign activity</li> <li>- greater competitive power on the foreign markets, providing more flexibility</li> <li>- mobilizing more funds from depositors</li> <li>- support for enterprises from home country</li> <li>- risk diversification</li> </ul>	<ul style="list-style-type: none"> <li>- transfer of capital, technology and management expertise</li> <li>- support of large international institution as the main investor</li> <li>- more efficient corporate governance</li> </ul>
Banking system	<ul style="list-style-type: none"> <li>- additional source of profits</li> </ul>	<ul style="list-style-type: none"> <li>- overcoming of problems connected with lack of domestic capital</li> <li>- possibility to recapitalize local banks</li> <li>- factor driving modernization and increasing competition in the whole sector</li> <li>- better solution than cross border lending (international banks with a local presence on the ground are more stable providers of credit) cross-border component of bank lending.</li> </ul>
Customers		<ul style="list-style-type: none"> <li>- broader and more diverse offer</li> <li>- spread of financial innovation</li> <li>- lower local banks' profit margins</li> <li>- enforcing more efficiency of local banks that translates into lower-cost of financial services</li> </ul>
Economy		<ul style="list-style-type: none"> <li>- integration with global economy</li> <li>-</li> </ul>

Source: Claessens and Laeven 2004, Claessens et al 1998, Green et al 2004, Hübler et al 2008, Jeon et al 2010, Kalemli-Ozcan et al 2012, Minda 2007, Yildirim and Philippatos 2007.

Table 4. Disadvantages from internationalization – conclusions from literature review

	Developed countries	Developing countries
Banks		<ul style="list-style-type: none"> <li>- higher competition</li> <li>- multinational banks edge out local banks by luring their best (lowest-risk) clients away. This forces local banks to provide services to higher-risk clients, which makes them less profitable, less efficient and less competitive</li> </ul>
Banking systems	<ul style="list-style-type: none"> <li>- proliferation and transmission of financial innovations and highly risk-prone operators</li> <li>- strong and robust negative effect of geographical distance on lending stability; distant borrowers more difficult to screen and monitor in general and their creditworthiness particularly difficult to assess</li> <li>- risk (political, operational, etc.) of operating abroad</li> </ul>	<ul style="list-style-type: none"> <li>- higher idiosyncratic risk due to maturity and currency mismatches</li> <li>- foreign banks may boost capital outflows</li> <li>- proliferation and transmission of complex financial innovations and highly risk-prone operators</li> <li>- strong and robust negative effect of geographical distance on lending stability; distant borrowers more difficult to screen and monitor in general, and their creditworthiness particularly difficult to assess</li> </ul>
Customers		<ul style="list-style-type: none"> <li>- foreign banks usually use wider net interest-rate spreads than local ones do and behave like rentier capitalists</li> <li>- lending supply in emerging markets affected through a contraction in cross-border lending by foreign banks; a contraction in local lending by foreign banks' affiliates; and a contraction in lending by domestic banks due to a funding shock to their balance-sheet</li> </ul>
Economy	<ul style="list-style-type: none"> <li>- susceptibility to financial crises</li> <li>- contagion effects</li> </ul>	<ul style="list-style-type: none"> <li>- susceptibility to financial crises</li> <li>- contagion effects</li> </ul>





		<ul style="list-style-type: none"> <li>- problems of local banks caused by problems of their foreign partners</li> <li>- credit crunch</li> </ul>
--	--	---

Source: Claessens and Laeven 2004, Claessens et al 1998, Green et al 2004, Hübler et al 2008, Jeon et al 2010, Kalemli-Ozcan et al 2012, Minda 2007, Yildirim and Philippatos 2007.

Financialisation, Economy, Society and Sustainable Development (FESSUD) is a 10 million euro project largely funded by a near 8 million euro grant from the European Commission under Framework Programme 7 (contract number : 266800). The University of Leeds is the lead co-ordinator for the research project with a budget of over 2 million euros.

## **THE ABSTRACT OF THE PROJECT IS:**

The research programme will integrate diverse levels, methods and disciplinary traditions with the aim of developing a comprehensive policy agenda for changing the role of the financial system to help achieve a future which is sustainable in environmental, social and economic terms. The programme involves an integrated and balanced consortium involving partners from 14 countries that has unsurpassed experience of deploying diverse perspectives both within economics and across disciplines inclusive of economics. The programme is distinctively pluralistic, and aims to forge alliances across the social sciences, so as to understand how finance can better serve economic, social and environmental needs. The central issues addressed are the ways in which the growth and performance of economies in the last 30 years have been dependent on the characteristics of the processes of financialisation; how has financialisation impacted on the achievement of specific economic, social, and environmental objectives?; the nature of the relationship between financialisation and the sustainability of the financial system, economic development and the environment?; the lessons to be drawn from the crisis about the nature and impacts of financialisation? ; what are the requisites of a financial system able to support a process of sustainable development, broadly conceived?'

## THE PARTNERS IN THE CONSORTIUM ARE:

Participant Number	Participant organisation name	Country
1 (Coordinator)	University of Leeds	UK
2	University of Siena	Italy
3	School of Oriental and African Studies	UK
4	Fondation Nationale des Sciences Politiques	France
5	Pour la Solidarite, Brussels	Belgium
6	Poznan University of Economics	Poland
7	Tallin University of Technology	Estonia
8	Berlin School of Economics and Law	Germany
9	Centre for Social Studies, University of Coimbra	Portugal
10	University of Pannonia, Veszprem	Hungary
11	National and Kapodistrian University of Athens	Greece
12	Middle East Technical University, Ankara	Turkey
13	Lund University	Sweden
14	University of Witwatersrand	South Africa
15	University of the Basque Country, Bilbao	Spain

The views expressed during the execution of the FESSUD project, in whatever form and or by whatever medium, are the sole responsibility of the authors. The European Union is not liable for any use that may be made of the information contained therein.

Published in Leeds, U.K. on behalf of the FESSUD project.