

The Comparison of the Chinese Banking System and US Banking System--- Taking Monetary Policy as Example

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Abstract:

Banking systems play a crucial role in any economy, supporting financial intermediation and facilitating economic growth. As globalization continues to reshape the world, comprehending the similarities and distinctions between these banking systems becomes increasingly crucial. The Chinese banking system operates within centralized governance and state control, with state-owned banks dominating. In contrast, the banking system in the US is characterized by a more decentralized approach and a mix of privately owned banks, including a substantial number of commercial banks. By exploring these differences and similarities, this essay aims to provide insights into the distinctive features of the Chinese and American banking systems and their implications for economic growth and stability in these global economic powerhouses.

Keywords: Banking Systems, Financial Intermediation, People Bank of China (PBC), Financial regulation, The Federal Reserve System.

1. Introduction

The Chinese banking system has undergone significant transformations over the past few decades, reflecting the country's emergence as a global economic force. State-owned banks dominate the landscape, and government influence remains prominent, guiding the system toward development priorities and ensuring stability amidst economic and social reforms. On the other hand, the United States boasts a well-established and diverse banking sector comprising commercial banks, investment banks, and regulatory institutions, emphasizing market-based mechanisms and influenced by an intricate web of regulations. This essay highlights the Chinese and US banking systems' key characteristics, similarities, and differences. By examining their regulatory frameworks, ownership structures, risk management practices, and the level of government intervention, we will gain insights into the strengths and weaknesses of each system and consider potential lessons that can be learned. Understanding these two contrasting banking systems is crucial for policymakers and economists and investors and businesses operating in both countries [1]. As the economic relationships between China and the United States continue to deepen, comprehending their banking systems' operational and structural disparities can help navigate the challenges and opportunities within a globalized financial landscape. Through this comparative analysis, we aim to contribute to the ongoing discussion on the role of national banking systems in supporting economic development and resilience. By evaluating

the Chinese and US banking systems, we can better understand the factors influencing the efficiency, stability, and overall performance of financial intermediation in these two distinct economic environments.

2. The China Banking System

2.1 The Overview of the Banking System

The Chinese banking system is a significant entity in the global financial landscape, characterized by its hierarchical structure and dominated by key players, notably the "Big Four" state-owned banks: the Industrial and Commercial Bank of China (ICBC), the Bank of China (BOC), the China Construction Bank (CCB), and the Agricultural Bank of China (ABC). These colossal institutions hold a considerable portion of the country's financial assets and play influential roles in shaping China's economic terrain [2,3]. A unique characteristic of the Chinese banking system is the heavy government influence, which extends beyond mere ownership to influence policies, sculpt lending paradigms, and direct investments towards sectors deemed nationally or strategically significant. The Chinese model is also distinguished by its stringent capital controls, meticulously engineered to monitor and manage cross-border capital movements. It enables Beijing to stabilize the yuan and prevent large-scale capital exodus, particularly during economic uncertainties. In recent years, the Chinese banking system has reached the threshold of significant transformation. Faced with the dual objective of aligning with global benchmarks while bolstering domestic financial resilience, several

reforms have been implemented. These include a noticeable openness towards foreign banking entities, a robust push towards integrating fintech innovations, and a steadfast stance against the expanding shadow banking sector. Furthermore, a deliberate effort to synchronize its financial governance with global standards, as evidenced by initiatives addressing distressed assets and enhancing systemic transparency, underlines Beijing's progressive vision.

2.2 The Center Bank of China

Central to the Chinese banking system and its monetary policy is the People's Bank of China (PBOC), which plays a crucial role in the nation's economic stability. The PBOC is responsible for regulating the money supply, controlling interest rates, and ensuring the financial system's stability. However, the unique characteristics of China's banking infrastructure, notably the significant government influence and stringent capital controls, pose distinctive challenges and responsibilities to the PBOC. As China cautiously moves towards a more open, market-centric banking ethos, the PBOC faces the monumental task of balancing global integration with domestic stability. This challenge will undoubtedly shape the future trajectory of China's economic landscape, as the PBOC's approach to monetary policy remains a key determinant in this transformative journey.

In conclusion, the Chinese banking system, marked by its hierarchical structure, dominant state-owned banks, heavy government influence, and stringent capital controls, is undergoing a significant metamorphosis. The PBOC, at the forefront of this transformation, is tasked with aligning China's financial governance with global standards while maintaining domestic stability. This delicate balancing act will be pivotal in shaping the future of China's economic landscape and its position in the global financial arena.

3. The US Banking System

3.1 The Development of US Banking System

1. Creation of the Federal Reserve System (1913): The Federal Reserve System was created by the Federal Reserve Act to provide stability and regulation of the banking industry. The system consists of the Federal Reserve Bank, which oversees the money supply, interest rate policy, and the financial system's stability [3].

2. President Roosevelt's Gold Purchase (1933): With the onset of the Great Depression, President Franklin D. Roosevelt ordered all privately held gold to be purchased by the government. The move aimed to regulate the gold market in response to the financial crisis.

3. Establishment of the Bretton Woods System (1944): At

an international monetary conference in Bretton Woods, New Hampshire, a set of rules for the financial system was developed. Under this agreement, the US dollar is identified as the reserve currency for international trade, while other countries' currencies are pegged to the US dollar. This system lasted until 1971.

4. President Nixon announces the abolition of the direct convertibility of the Dollar to Gold (1971): With the United States facing economic difficulties, President Richard Nixon announces the abolition of the fixed exchange rate system between the dollar and gold, completely removing the dollar from the gold standard. This decision led to major changes in the international monetary system, allowing currency exchange rates to float freely [4].

5. The Consumer Price Index (CPI) (1983): The US government introduced the CPI as an indicator of the level of inflation. The CPI is calculated based on changes in the prices of a basket of goods and services used in the economy and reflects changes in consumers' purchasing power.

6. Missouri State Banking Crisis (1980s): In the early 1980s, the United States banking industry suffered a series of crises, the most notable of which was the crisis of the Missouri State Bank. The crisis exposed flaws in bank regulation as systemic savings and loan associations failed and prompted calls for bank regulation and reform. Certainly! The central bank of the United States is called the Federal Reserve System, often referred to as the Federal Reserve or simply the Fed. It is the country's central bank responsible for monetary policy and maintaining the stability and integrity of the financial system.

7. The Federal Reserve was established in 1913 through the Federal Reserve Act in response to financial panics and the need for a more stable and effective banking system. Its primary mandate is to promote maximum employment, stable prices, and moderate long-term interest rates, commonly known as the dual mandate.

The Federal Reserve operates independently from other branches of the US government to ensure its ability to make decisions based on economic analysis and expert judgment, free from political interference. It comprises several key components, including the Board of Governors, regional Federal Reserve Banks, and the Federal Open Market Committee (FOMC)[5,6].

3.2 Monetary Policy Tool in Financial Crisis

The US banking system has undergone significant developments and reforms in recent years. Some of the key ones include:

3.3 Dodd-Frank Act

In response to the 2008 financial crisis, the Dodd-Frank Wall Street Reform and Consumer Protection Act was passed in 2010. This reform aimed to enhance financial stability and regulate the activities of financial institutions. It established the Financial Stability Oversight Council (FSOC) to monitor systemic risks, created the Consumer Financial Protection Bureau (CFPB) to protect consumers, and introduced regulations to reduce risky practices and improve transparency.

3.4 Volcker Rule

As a part of the Dodd-Frank Act, the Volcker Rule was implemented to restrict proprietary trading by commercial banks. This rule prohibits certain types of speculative trading activities that could put banks and their customers at risk. Stress Tests and Capital Requirements: The Federal Reserve conducts annual stress tests on large banks to assess their ability to withstand adverse economic conditions. These tests evaluate banks' capital adequacy and ensure they have sufficient capital buffers to absorb losses in times of stress.

3.5 Regulatory Relief

In 2018, the Economic Growth, Regulatory Relief, and Consumer Protection Act (EGRRCPA) was enacted to provide regulatory relief to smaller and community banks. This legislation raised the threshold at which banks face enhanced regulatory requirements, allowing smaller banks to operate with fewer compliance burdens.

3.6 Technology and Innovation

Technology and innovation have significantly impacted the banking system in the United States, transforming the way financial services are delivered and revolutionizing the industry. The US banking system has witnessed financial technology (fintech) and innovation advancements. Digital banking services, mobile payments, and online lending platforms have gained prominence, transforming how customers interact with banks and access financial services. These developments continue to shape the industry, with ongoing efforts to leverage emerging technologies and improve operational efficiency while maintaining regulatory compliance and addressing potential risks.

4. The Difference of Monetary Policy

This section will discuss the differences in the banking systems in China and the United States. First is monetary policy, which is a method that changes interest rates or credit criteria to adjust inflation to be stable and low to keep economics healthy. China's main monetary policy

target depends on different period targets via adjusting the funds supply to meet different aims. On the other hand, the monetary policy is edited by FRS in the US; the main target of monetary policy in the US is to keep full employment and stability of market value to create a stable economic circumstance.

In implementing the monetary policy, the United States uses finance tools frequently to decrease the interest rate and the quantity of loans. The main difference in China's monetary policy is that "It differs from that of many other countries in its use of multiple policy instruments" [7]. By comparison, the United States uses finance tools frequently. The target of monetary policy is also different. The target in China is to keep the price of goods stable and economic growth. On the other hand, the target in the United States is to keep full employment and maintain the stability of market value.

Secondly is the structure of the bank. In China, the bank structure is divided into these parts. PBC (The People's Bank of China) is the most important part of the bank structure. This is the central bank in China, and it plays a crucial role in China's banking system [8]. The monetary policy, funds market, etc., are managed by PBC. The second part is CBRC (China Banking and Insurance Regulatory Commission). The task is to monitor the commercial banks in China and statistics the data of the commercial banks, etc. The third part of this structure is the CBA (China Banking Association). This is a union to help Chinese commercial banks protect their rights and keep the order of the bank market.

On the other hand, the US banks' structure is divided into two parts. The first part of it is FRS (The Federal Reserve System). The role of it is the same as the PBC, which is to manage the main factors of the market. The second part of it is commercial banks. However, there is a major difference in the bank structure between China and the US; the difference is the way of management; for example, a part of US banks is managed by federal banks, and other banks are managed by the state where it registered. In contrast, all the banks in China are managed by PBC and monitored by CBRC.

While the Chinese and US banking systems operate under different political and regulatory environments, they have several noteworthy similarities. Both banking systems have a strong reliance on technology, which has been a pivotal force in shaping the financial landscape of the two largest economies in the world. In the United States, technology has played a key role in enhancing the efficiency and accessibility of financial services, with a host of fintech companies, online banks, and digital payment platforms emerging over the past decade. Similarly, technology-driven innovations in China have

led to the rise of giant fintech companies like Ant Group and Tencent, revolutionizing how people manage their finances, make payments, and invest. Moreover, both countries have recognized the importance of adopting international standards to ensure the stability and resilience of their banking systems. For instance, China and the US have implemented the Basel III framework, which sets higher capital requirements and introduces new regulatory requirements on bank liquidity and leverage.

Global financial trends and influences have played a significant role in shaping these similarities. The 2008 financial crisis highlighted the vulnerabilities of the global banking system and led to a comprehensive overhaul of banking regulations worldwide. This prompted both China and the US to strengthen their regulatory frameworks and adopt the Basel III standards to enhance the stability of their banking systems. Additionally, the rapid advancement of technology and the growing interconnectedness of the global economy have accelerated the digitization of banking services in both countries. The rise of e-commerce, online banking, and mobile payments has necessitated investments in technology infrastructure and cybersecurity, leading to a convergence in the technological landscape of the Chinese and US banking systems. Lastly, the role of commercial banking remains crucial in both economies, as commercial banks are the primary providers of credit to individuals and businesses, supporting economic growth and development.

In conclusion, despite their differences, the Chinese and US banking systems share several key similarities, such as a strong reliance on technology, the adoption of international standards, and the crucial role of commercial banking. These similarities have been shaped by global financial trends and influences, such as the aftermath of the 2008 financial crisis, the rapid advancement of technology, and the growing interconnectedness of the global economy. As the world continues to evolve, it will be interesting to see how these trends further shape the banking systems of China and the US in the years to come.

5. Conclusion

In conclusion, comparing the Chinese banking system with its counterpart in the United States reveals distinct characteristics and approaches shaped by different economic, political, and regulatory environments. While the Chinese system emphasizes state control, stability, and development priorities, the US system emphasizes market mechanisms, diversity, and regulatory oversight. These differing approaches have resulted in unique strengths

and weaknesses for each system. The Chinese banking system's emphasis on state control and government influence has contributed to its ability to direct financial resources toward strategic sectors and support economic growth. However, it also raises concerns about potential inefficiencies, moral hazard, and lack of transparency.

Conversely, the US banking system's market-based approach has fostered innovation, competition, and diverse financial services. However, this diversity and complexity also challenge regulatory oversight and systemic risk management. Furthermore, both systems face their own set of challenges. The Chinese banking system must continue to balance economic growth and stability with the need for reform and improved risk management practices. Efforts to enhance transparency, strengthen corporate governance, and promote market mechanisms will be pivotal in ensuring its long-term sustainability.

On the other hand, the US banking system must grapple with the growing complexity of the financial landscape, addressing issues of regulatory capture and maintaining stability in an interconnected global market. As the Chinese and US economies remain deeply intertwined, policymakers and stakeholders must continue fostering dialogue and collaboration to promote a more harmonized and resilient global banking system. Lessons can be learned from each system's strengths and weaknesses, providing opportunities to enhance financial regulations, risk management practices, and governance structures. By understanding the key characteristics and differences between the Chinese and US banking systems, we gain valuable insights into the broader implications for global financial stability, economic development, and international cooperation. As we navigate an increasingly interconnected world, it is imperative to recognize and appreciate the diverse approaches to banking and financial regulation, seeking opportunities for collaboration and learning from each other's experiences.

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