

1

The Puzzle

Peripheral Developing Countries Implementing International Banking Standards

Emily Jones

On 19 January 2016, three days after economic sanctions were lifted, Iran's central bank governor announced that he would move quickly to implement the latest set of international banking standards. Companies across the world had been lining up to explore opportunities in Iran and the government was keen to attract them, but Iran's banking sector was perceived as a critical weakness. By implementing international regulatory standards, the governor sought to reassure the international community that Iranian banks were soundly (Bozorgmehr, 2016; Financial Tribune, 2017; Saul and Arnold, 2016).

Iran is not alone: many countries around the world are implementing international banking standards. What is puzzling is that in most cases, governments are choosing to regulate a vital part of their economy on the basis of international standards over which they had no influence. International banking standards are designed behind closed doors by a select group of regulators from the world's largest financial centres who belong to the Basel Committee on Banking Supervision (hereafter Basel Committee), which takes its name from the small medieval town in Switzerland where the members meet. The standards are intended for the regulation of large, complex, risk-taking international banks with trillions of dollars in assets and operations across the globe. Yet these standards are being implemented by governments across the world, including in many countries with nascent financial markets and small banks that have yet to venture into international markets. Why is this?

In this book we focus on the responses of regulators in low- and lower-middle-income countries to the most recent, and most complex, iterations of international banking standards. These countries are the least likely to adopt the standards as their banks tend to be small and focused on the domestic market, and it is far from obvious that the standards are the best way to address the financial stability risks and challenges of financial sector development these countries face. Yet regulators in many of these countries are moving to implement the standards. What is going on?

Drawing on a wealth of primary evidence from eleven countries in Africa, Asia, and Latin America, we show how regulators' decisions over whether to adopt international standards are made not only in light of technocratic concerns about what regulation is optimal for the banks they oversee, but also based on political considerations. As in advanced economies, banking regulation in developing countries is very important and intensely political. It is important because bank failures are costly for firms, workers, and taxpayers. It is intensely political because how banks are regulated influences how credit is allocated in the economy, and this in turn affects which groups in society get to derive value from processes of economic growth.

What is striking about the politics of banking regulation in low- and lower-middle-income countries is that international considerations loom large. We show how the impetus to *converge* on international standards stems from large banks and regulators in these countries looking to bolster their reputation in the eyes of international investors and regulators in other jurisdictions; the flow of ideas from international policy circles; and politicians and banks on a quest to attract international capital and integration into global finance. Our first contribution, then, is to show the precise ways in which the decisions of regulators based in Washington, DC, London, Beijing, and the capitals of other major financial centres decisively shape the decisions of regulators based in Accra, Hanoi, Ouagadougou, and other developing countries on the periphery of the global financial system.

Yet recognizing the powerful impact of international factors does not mean we can simply dismiss regulators in peripheral developing countries as standard-takers, compelled by pressures from other governments, international organizations, and incentives generated by markets to implement the standards set by regulators from the world's most powerful countries (Drezner, 2008). Integration into global finance does expose peripheral developing countries to external pressures that constrain regulatory choices, but it also provides new opportunities for some domestic actors.

Our second contribution is to show that there is tremendous variation in the responses of regulators in peripheral developing countries to international standards, and to account for it. Very few regulators in peripheral developing countries have adopted these international standards *tout court*. Instead we see regulators responding in very different ways. Some regulators are ambitious in their adoption of international standards, keeping abreast of developments in the Basel Committee and adopting the major elements of international standards as they are issued. Other regulators are more cautious, taking a slower and highly selective approach, only adopting some elements and tailoring them to their local context. Some eschew the latest standards entirely, sticking with regulations based on the much simpler standards issued by the Basel Committee in the 1980s.

To explain cross-country variation in regulators' responses, we identify the incentives that they face to *diverge* from international standards. High among

these are concerns among politicians about a loss of control over the domestic financial system and the ability to direct credit in the economy; concerns on the part of regulators about the viability and desirability of implementing standards that are calibrated for more complex financial systems; and opposition from small domestic banks. As peripheral developing countries are embedded in the international financial system to different extents and in different ways, and their domestic politics and institutions vary, regulators face different mixes of incentives. Building from the existing literature and our case studies, we develop analytical framework that explains why it is that some configurations of domestic politics and forms of integration into global finance generate processes of convergence with international standards, while other configurations create processes of divergence.

While we focus on banking regulation, our findings speak to other scholarship exploring the ways in which decisions made by governments and firms in the core of the global economy powerfully shape, although do not determine, decisions made by their counterparts in the periphery (e.g. Phillips, 2017). More broadly, our work contributes to scholarship that seeks to understand the global economy from the vantage point of actors in the periphery, rather than the centre, which yields fresh insights into how the global economy functions as a system. Scholars of international political economy are increasingly researching the ways in which large emerging economies like China, Brazil, and Mexico interface with the global economy. Yet scant attention is paid to smaller countries, particularly small developing countries, and the ways in which actors in these countries navigate the global economy (Acharya, 2014).

Core–periphery dynamics in global finance

Following a dramatic increase in the globalization of markets for goods, services, capital, and information since the 1980s, national economies are more integrated than ever, generating an unprecedented level of economic interdependence.¹ Within this interdependent system, economic wealth and power is heavily concentrated in relatively few countries. As at 2017, the largest four countries (US, China, Japan, and Germany) accounted for half of the world's total economic output, while the largest twenty countries accounted for more than four-fifths.² With the fragmentation of production processes, economic power is increasingly

¹ The slow-down in cross-border flows of trade and finance after 2008 led some to speculate that globalization is in retreat, but dramatic increases in cross-border data and information flows suggest that it has simply entered a new digital phase (Lund et al., 2017).

² Author's calculations based on World Bank data for 200 countries. GDP and population data averaged over 2015–17. Data available at: <https://databank.worldbank.org>.

concentrated at the firm level too. The vast majority of international trade occurs in global value chains led by transnational corporations and these production systems generate one in five jobs worldwide (UNCTAD, 2013; ILO, 2015). Unsurprisingly, the world's largest firms are overwhelmingly based in the world's largest economies. As at 2013, there were 8,000 companies worldwide with a revenue of more than US\$1 billion and half were headquartered in the US, China, Japan, and Germany (Dobbs et al., 2013, p. 22). The global economy then is a hierarchical, interdependent system, with a distinct core and periphery, in which economic power is concentrated among relatively few countries and firms.

With attention in academic and policy circles focused on dynamics in countries in the core of the global economy, it is easy to overlook how many governments, firms, and citizens are located in countries on the periphery. It is conceptually and empirically challenging to precisely delineate between the core and periphery, as it is dynamic and evolving, as the recent experiences of East Asian countries like South Korea and China powerfully illustrate. These countries were peripheral to the global economy three decades ago but are now part of the core.

Yet even a cursory glance at the data indicates the magnitude of the periphery: 180 countries, home to 2.9 billion people, account for less than one-fifth of the world's economy.³ In more than one hundred countries, governments manage economies less than 1 per cent of the size of the US economy.⁴ While some of these peripheral countries have small populations and high incomes, like Malta and Iceland, the vast majority are low- and lower-middle-income developing countries, like Nicaragua and Zambia.

Nowhere is this concentration of wealth more pronounced than in international finance. The globalization of finance has taken a quantum leap since the 1980s, spurred on by the deregulation of banks and liberalization of cross-border capital flows. Financial flows reached dizzying heights by 2007, with US\$12.4 trillion moving between countries on the eve of the global financial crisis, equivalent to 23 per cent of global GDP (Lund et al., 2017). Although new financial centres are emerging, financial assets remain heavily concentrated in the US, and to a lesser extent the UK (Oatley et al., 2013), and, as in other sectors of the global economy, have seen the emergence of very large firms. Some banks are so large, complex, and interconnected that twenty-nine of them, including Citigroup and JP Morgan Chase, have been classified by regulators as 'systemically important' on a global level (FSB, 2016). In 2017, the world's ten largest banks had combined assets of more than US\$28 trillion, and thirty-seven of the world's largest one hundred banks were located in just three countries (the US, China, and Japan) (Mehmood and Chaudhry, 2018).

The flipside of this heavy concentration of global finance is that more than 150 countries account for less than 10 per cent of all liquid financial assets around the

³ Ibid.

⁴ Ibid.

world.⁵ These peripheral countries are integrated into this hierarchical system of global finance to an ever-greater extent, a trend that is particularly pronounced in developing countries. Following waves of privatization and liberalization in the 1980s and 1990s, foreign bank presence increased and by 2007 accounted for more than half of the market share in sixty-three developing countries (Claessens and van Horen, 2012). In the wake of the global financial crisis, many European and some US banks have retrenched, closing their operations in peripheral countries. However, this has not reduced the amount of foreign bank presence, as the space they left has been filled by banks from China, Canada, and Japan, as well as rapidly expanding regional banks (Enoch et al., 2015; Lund et al., 2017).

As a result of these changes, developing countries now have a higher level of foreign bank presence than industrialized countries, making them particularly vulnerable to financial crises and regulatory changes in other jurisdictions. This heightened interconnectedness was powerfully illustrated during the 2007–8 global financial crisis which, unlike previous crises, affected all types of countries around the world (Claessens, 2017). Although there are exceptions and regional differences, few peripheral countries have been left out of this trend of increasing financial integration.

Concentrations of power and wealth in the financial system generate distinct core–periphery dynamics (Bauerle Danzman et al., 2017; Ghosh, 2007). As financial globalization has intensified, market movements in the financial core have had ever-increasing effects on financial markets on the periphery (e.g. Aizenman et al., 2015; Akyuz, 2010; Reddy, 2010; Rey, 2015). This was illustrated by the ‘taper tantrum’ in 2013 as moves by the US Federal Reserve to normalize interest rates led to an outflow of capital from emerging economies. In general, a reduction in demand for capital in the core generates capital inflow bonanzas in the periphery, and banking crises when increased demand in the core leads these flows to reverse (Bauerle Danzman et al., 2017; Rey, 2015).

Similarly, as core countries are home to the world’s largest banks and other financial market actors, regulatory decisions in the core shape the worldwide behaviour of these actors, affecting financial markets in the periphery. For instance, changes in the regulatory and enforcement landscape in core countries have significantly contributed to a reduction of correspondent banking relations, particularly in Europe and Central Asia, the Caribbean, Africa, and the Pacific (IMF, 2017).

Low-income countries are positioned particularly precariously in global finance. Increased levels of integrated into the global economy have left low-income

⁵ Author’s calculations. Data on liquid liabilities in millions USD (2000 constant) for 178 countries, calculated as a five-year average (2013–17) extracted from the World Bank’s Global Financial Development Database: <http://www.worldbank.org/en/publication/gfdr/data/global-financial-development-database>.

countries more exposed and vulnerable to international shocks. However, as they have resource-constrained governments and many economically vulnerable citizens, they have the least resources to cope with them (IMF, 2011).

While dynamics in the core have major impacts on the periphery, dramatic changes in the periphery rarely impact the core. A banking crisis in a country in the core reverberates throughout the system because countries in the core are intimately connected to many other countries and hold many of their financial assets. Conversely, because peripheral countries are connected to only a few other countries and any one peripheral country holds a relatively small proportion of the assets of core countries, a banking crisis in a peripheral country has a limited impact on other countries (Oatley et al., 2013).

Peripheral countries: excluded from global financial governance

The fortunes of peripheral countries are increasingly shaped by market dynamics and regulatory decisions in the core of the global economy, but peripheral countries are chronically under-represented in many of the international bodies set up to govern the global economy. Again, this is particularly true in global financial governance, and most pronounced for low- and lower-middle-income countries (Griffith-Jones and Persaud, 2008; Jones and Knaack, 2019).

In the 1970s, in response to growing financial interdependence and the heightened risk of cross-border financial contagion, central bank governors from the world's largest financial centres came together to form the Basel Committee. They came together to agree minimum regulatory and supervisory standards for internationally active banks. As financial globalization intensified, other standard-setting bodies were created, including for securities (the International Organization of Securities Commissions), insurance (the International Association of Insurance Supervisors), and accounting (the International Accounting Standards Board). At the end of the 1990s, leaders of the G7 countries created the Financial Stability Forum (the forerunner of the Financial Stability Board) to bring these disparate standard-setting bodies together in a bid to improve cooperation and international financial stability.

By design, peripheral developing countries found themselves at the margins of these standard-setting bodies. The remit of these bodies was to promote financial stability in the core of the global financial system and membership has been restricted to regulators from the world's largest financial centres. Much of the regulation flowing from the Bank of International Settlements, the Financial Stability Board, the Financial Action Task Force, and other standard-setting bodies is designed to regulate the world's largest international banks.

Membership of the Basel Committee was expanded to incorporate ten emerging market economies following the global financial crisis.⁶ However, even among Basel members, regulators from emerging and developing countries are less engaged in Basel Committee proceedings than their counterparts from industrialised countries. In global regulatory politics, institutional capacity and regulatory expertise are important sources of power (Slaughter, 2004; Baker, 2009; Posner, 2010; Seabrooke and Tsingou, 2009). In Basel Committee proceedings, an incumbent network of well-resourced regulators from industrialized countries continues to dominate the regulatory debate (Chey, 2016; Walter, 2016).

The vast majority of developing countries are not members of the Basel Committee, and have minimal input in the standard-setting processes. Only two of the world's eighty-four low- and lower-middle income countries have a seat at the standard-setting table: India and Indonesia. Although the Basel Committee has a long-standing Basel Consultative Group that is designed to promote dialogue between members and non-members, it is dominated by developed countries.

Thus, as Pistor (2013) notes, through the prowess of the financial institutions they house and their control over the key decision-making processes, regulators from the world's largest economies determine the rules of the game when it comes to global finance.

International banking standards: 'best practice' for peripheral developing countries?

Perhaps unsurprisingly, the under-representation of peripheral developing countries in standard-setting processes results in standards that are ill-suited for regulating banks in many developing countries, particularly those with nascent financial markets, resource-constrained regulators, and relatively small banks. There is consensus in academic and policy circles that in financial regulation 'one size does not fit all'. International banking standards are the product of technical discussions and political compromises among regulators from countries in the core of the financial system. Even for these countries, there is a divergence between international standards and the *sui generis* regulations that would be most appropriate to each jurisdiction's industry structure, pre-existing financial

⁶ After the global financial crisis regulators from the world's largest developing countries (those belonging to the G20) were invited to join the Financial Stability Board and related committees. The Basel Committee now covers twenty-eight jurisdictions, including regulators from several large developing countries: Argentina, Brazil, China, India, Indonesia, Mexico, and South Africa. The current membership comprises forty-five members from twenty-eight jurisdictions, including the G20 countries. See: <http://www.bis.org/bcbs/membership.htm>.

regulation, and political preferences (e.g. Barth, Caprio, and Levine, 2006; The Warwick Commission, 2009). The gap between international standards and the regulations that would be optimal at the national level is greatest for developing countries, particularly low-income developing countries, as the continued dominance of developed countries in decision-making results in standards that are poorly calibrated for their financial sectors and regulatory capacities.

Should banking regulators in countries in peripheral developing countries base their regulations on international standards? The answer is not obvious. An effectively regulated banking sector is of vital importance for peripheral developing countries, and effective regulation has become even more important as integration into global finance has intensified. Banking crises have high costs in terms of lost economic growth, unemployment, and the fiscal costs of bailouts (Amaglobeli et al., 2015). Opening up the financial sector exacerbates the risks of banking crisis and sharpens the need for sound regulation (Reinhart and Rogoff, 2013).

The general argument in support of modelling national regulations on ‘international best practices’ is that effective regulations are costly to design. Rather than spend precious resources designing their own *sui generis* regulations, resource-constrained governments can save time and effort by adopting the tried-and-tested practices of regulators in other countries. Yet practices that have been effective in one context will not necessarily be effective when transposed into a different one (Andrews et al., 2013). Financial systems differ greatly even among advanced industrialized countries (e.g. Haber and Calomiris, 2015; Zysman, 1984) and regulations need to be carefully calibrated to reflect local economic and institutional contexts if they are to be effective (Barth et al., 2006; Barth and Caprio, 2018).

The mismatch between international standards and the regulatory needs of peripheral developing countries has grown wider with time, as international standards have become increasingly complex and targeted at reducing specific forms of risk-taking that are most prevalent in large international banks. The first set of international banking standards (Basel I) were agreed by the Basel Committee in 1988 and, along with the accompanying Basel Core Principles, they were relatively simple and straightforward to use. They were widely adopted across the world and are still used by many Basel member countries for the regulation of smaller domestic banks (Hohl et al., 2018).

As international banks grew in size and developed increasingly sophisticated financial products, the Basel Committee responded with increasingly complex regulatory standards. Basel II (agreed in 2004) and III (agreed in stages between 2010 and 2017) were designed for regulating internationally active banking groups with complex business models that are subject to a variety of risks, including the ones posed by their own operational complexity (Restoy, 2018). Under Basel I, the regulatory capital a bank needed to hold could be calculated ‘on the back of a small envelope by a competent clerk’, but ascertaining the capital requirements

for a large bank under Basel II can easily require over 200 million calculations (Haldane, 2013, pp. 3–4).

Basel standards have been widely criticized for failing to effectively regulate banks in the core of the global economy, so it is unclear that they are ‘best practice’ even for regulating the world’s largest banks. Critics point out that Basel II espoused a regulatory approach that ceded too much discretion to banks and ultimately contributed to the global financial crisis (e.g. Admati, 2016; Bayoumi, 2017; Haldane, 2013; Lall, 2012; Persaud, 2013; Romano, 2014; Tarullo, 2008; Underhill and Zhang, 2008). Substantial reforms were made following the global financial crisis, embodied in the Basel III standards. While experts agree that Basel III is an improvement on Basel II, the overall level of capital that banks are required to hold remains far too low to ensure stability and banks are still allowed to use complex, potentially flawed, and gameable internal models (e.g. Admati, 2016; Admati and Hellwig, 2014; Haldane, 2013; Hoenig, 2013; Lall, 2012; Romano, 2014).

In addition to these broad criticisms of the Basel approach, regulators in developing countries face particular challenges when they look to implement the standards. These are not a consequence of the regulatory stringency demanded by Basel II and III standards, as pre-existing capital and liquidity requirements in developing countries are often higher than the minimums stipulated. Instead implementation challenges arise from the excessive complexity of the standards, and the fact they are not designed with less developed financial markets in mind. Although the Basel standards do offer a menu of options to regulators, the full range of options proposed by the Basel Committee is not properly thought through for low-income countries, resulting in their adoption of overly complex regulations for the level of economic development and complexity of their financial system (World Bank, 2012).

Overall, the available evidence, which we review in detail in Chapter 2, suggests that while there are strong arguments for strengthening the regulation and supervision of banks in peripheral developing countries, it is far from clear that the Basel standards and accompanying Basel Core Principles are the most effective approach (Barth and Caprio, 2018). The Basel Core Principles and the simplest set of international standards (Basel I) are widely regarded as useful for low- and lower-middle-income countries, but many experts question the appropriateness of the more complex Basel II and III standards, arguing that financial stability may be achieved through simpler regulatory approaches. Indeed, many question the appropriateness of Basel II and III for smaller banks even in the core of the financial system (Buckley, 2016). It is striking that, while regulators in many developing countries are moving to implement Basel II and III standards across their commercial banks, many regulators from Basel Committee countries only subject their largest banks, typically those with balance sheets of US\$20–30 billion, to the full suite of international banking standards (Castro Carvalho et al., 2017).

The puzzling response of peripheral developing countries to Basel standards

Given the concerns outlined above, the international policy advice to regulators in developing countries, particularly in smaller, low-income developing countries, is to proceed cautiously with Basel II and III. The World Bank, IMF, and Financial Stability Board advise developing countries with less internationally integrated financial systems and/or with substantial supervisory capacity constraints to ‘first focus on reforms to ensure compliance with the Basel Core Principles and *only move to the more advanced capital standards at a pace tailored to their circumstances*’ [emphasis added] (FSB, IMF, WB, 2011, p. 14). Yet, peripheral developing countries are moving ahead to implement Basel II and III to a greater extent and at a faster pace than this policy advice appears to warrant.

Data on the implementation of international standards in countries outside of the Basel Committee is patchy, but the evidence we have suggests that Basel standards are being widely implemented, including in many developing countries (Hohl et al., 2018).

Data on implementation of Basel standards in forty-five low- and lower-income countries reveals substantial variation (Figure 1.1). In practice Basel standards are compendia of different regulations, and regulators can choose how many of the different components to implement. As at 2015, out of a possible total of twenty-two components of the latest and more complex international standards (Basel II, II.5, and III), regulators in nineteen of the forty-five countries were not implementing any, preferring to stay with simpler Basel I or *sui generis* standards. Regulators in a further twenty-one countries had implemented between one and nine components, while regulators in five countries had implemented between ten and thirteen. Thus, while many regulators in low- and lower-middle-income countries on the periphery are engaging with the latest international standards, they are doing so in very different ways.

Strikingly, there is substantial variation even among countries in the same geographic region. For instance, among countries in Eastern Africa, regulators in Kenya were implementing nine components in 2015, including aspects of the very latest Basel III standards, while neighbouring Tanzania, Rwanda, and Ethiopia were implementing the much simpler Basel I standard. Similarly, in West Africa, Nigeria, Liberia, and Guinea had adopted components of Basel II and/or III, but Ghana, Gambia, and the eight francophone countries in the West African Economic and Monetary Union (WAEMU) had not.

What explains these patterns of convergence and divergence? Why is it that governments in some peripheral developing countries opt to converge on international standards, while governments in other countries opt to maintain divergent standards? This is the question at the heart of this book.

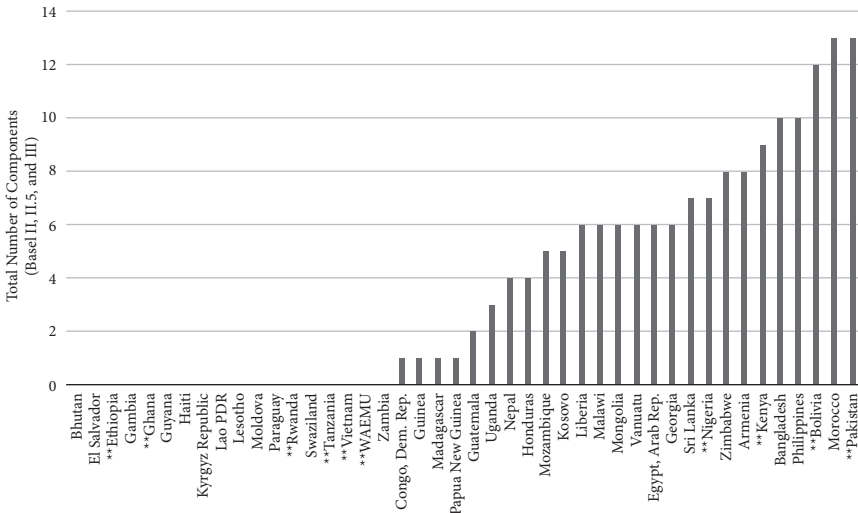


Figure 1.1 Implementation of international banking standards in low- and lower-middle-income countries.

Note: ** denotes a country that is studied in this volume

Source: Data from FSI Survey 2015 covering one hundred jurisdictions outside of the Basel Committee, supplemented with data from case studies in this volume. Income categories are according to World Bank classifications for the same year

Our argument in a nutshell

We examine the political economy of banking regulation in eleven peripheral developing countries and regions, four of which are classified as low income (Ethiopia, Rwanda, Tanzania, and WAEMU) and seven as lower-middle income (Angola, Bolivia, Ghana, Kenya, Nigeria, Pakistan, and Vietnam).⁷ Low- and lower-middle-income countries are in many ways the least likely to adopt the latest and most complex international standards (Basel II and III). They have nascent and relatively small financial sectors and their regulatory institutions are particularly resource-constrained.

Drawing on a wealth of primary evidence, including interviews with more than 200 regulators, bank employees, and experts, we trace the responses of each of these countries and regions to international banking standards since the late 1990s. We find that regulators in our case study countries and regions have

⁷ The eight countries belonging to the WAEMU follow harmonized banking regulations and we study them as a single case. Seven of the eight countries are low income. As at 2019, the World Bank defines low-income economies as those with a GNI per capita, calculated using the World Bank Atlas method, of \$995 or less in 2017; lower-middle-income economies are those with a GNI per capita between \$996 and \$3,895.

responded in very different ways to international banking standards, with their level of engagement increasing over time. At the start of our research project in 2015, only three of the eleven jurisdictions had implemented any components of Basel II and III (Pakistan, Kenya, and Nigeria). By January 2019, Ethiopia was the only country that had not implemented at least one component (Figure 1.2).

Of course, implementation on paper may not lead to substantive compliance in practice. Regulatory authorities may issue regulations that are in line with international standards, but they may be intentionally lax in their enforcement, exercising regulatory forbearance. Scholars have labelled such situations as forms of ‘cosmetic’ or ‘mock compliance’ (Chey, 2016, 2006; Walter, 2008). Alternatively, regulatory authorities may be diligent in their supervision but lack the resources to properly monitor and enforce regulations. For their part, banks may comply with the regulations and bring their behaviour into line with regulatory requirements, they may endeavour to comply but fail because the regulations are too complex or cumbersome, or they may intentionally act to circumvent the regulations. Such practices have been documented among Basel Committee members, prompting scholars to question whether the standards change regulatory behaviour in meaningful ways.⁸

In this book we are careful to distinguish between the implementation of international standards and substantive compliance with them. We use the terms ‘adoption’ and ‘implementation’ interchangeably, to refer to the incorporation of international standards into domestic regulations through enabling domestic legislation, the issuance of domestic regulations, and guidance. We use the term ‘compliance’ to refer to the enforcement of these regulations by the relevant authorities and behavioural changes by banks. Empirically it is relatively straightforward to identify the extent to which a country is implementing international standards, as domestic regulations can be compared to international standards. It is much harder to gauge the level of substantive compliance. We focus on the former, seeking to understand why regulators in peripheral developing countries are adopting international standards, but also draw on a range of qualitative evidence to gauge levels of enforcement and substantive compliance.

Drawing on the rich empirical material from our case studies, we develop an analytical framework which sets out the political economy conditions under

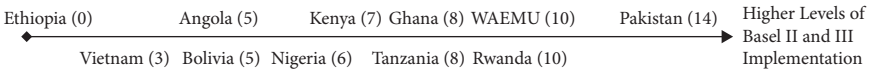


Figure 1.2 Implementation of international banking standards in case study countries (January 2019).

⁸ On Basel I implementation by Basel Committee members see (Chey, 2014; Quillin, 2008). On the failure of the US and EU to implement Basel II and III, respectively, see (Quaglia, 2019).

which we expect to see trajectories of convergence, divergence, or subversion in countries on the financial periphery. These are briefly set out below, and fully elaborated in Chapter 3.

Incentives to converge

We identify four factors that provide strong incentives for regulators in peripheral developing countries to *converge* on international banking standards, above and beyond concerns about mitigating financial risk. Indeed, we find that concern about mitigating financial risk is rarely the main driver of convergence.

The first originates from politicians pursuing a development strategy that identifies integrating into global finance as a major aspect of their country's economic development strategy. In much the same way as politicians in the past sought to emulate East Asia's tiger economies by creating national champions in the manufacturing sector to reap gains from international trade, a new generation of politicians is looking to position their countries as international financial centres like Singapore and Mauritius in order to reap gains from global finance. Politicians promote the implementation of the latest international banking standards in a bid to signal to potential international investors that their country's financial services sector is world-class.

The second stems from large, internationally oriented domestic banks that are seeking to expand into new international markets. As newcomers to international markets, banks from peripheral developing countries face a reputational deficit, and international third parties do not have sufficient information to readily ascertain whether they are soundly regulated. The adoption of international standards is a mechanism for banks to signal to regulators in host countries that they are soundly regulated. Regulators face strong incentives to adopt international standards in order to facilitate the international expansion of large domestic banks.

The third incentive stems from the engagement of regulators with their peers from other countries that are implementing international standards. The expansion of cross-border banking has been accompanied by the creation of transnational professional networks, through which bank regulators come together to exchange experiences and ideas about how best to regulate banks. Regulatory authorities also engage with each other through home–host supervisory relationships, as they work together to supervise international banks. We explain why regular interactions with peers who are implementing international standards generate strong incentives for regulators to follow suit.

Finally, regular interactions with international financial institutions like the IMF and World Bank can provide strong incentives for regulators to implement international standards. The IMF and World Bank provide extensive technical assistance and training, including in the area of bank regulation and supervision.

While regulators often face strong incentives to follow the advice of these institutions, particularly when their country has an ongoing assistance programme, we find that the advice from these institutions is not consistent with regards to international standards, sometimes encouraging extensive adoption and sometimes advising against it.

Incentives to diverge

Working in opposition to these incentives are four factors that generate incentives for regulators to *diverge* from international standards. The first of these originates from politicians pursuing interventionist financial policies, where the state plays an important role in allocating credit. The Basel framework is premised on market-based allocation of credit, with the government only stepping in to address market failures. Policy-directed lending and the general use of financial intermediaries as instruments of government policy are identified under the Basel framework as distorting market signals and impeding effective supervision. Thus, in countries where the government relies extensively on policy-directed lending, the Basel framework is unlikely to be an attractive basis for regulation.

Second, where politicians used their control over banks to allocate credit to political allies, or when powerful economic elites use banks to allocate credit to their own businesses and curry favour with politicians, these groups are likely to oppose the implementation and enforcement of international banking standards.

Third, regulators may be sceptical about the applicability of Basel standards for their local context, particularly the more complex elements of Basel II and III. Fourth, banks with business models focused exclusively on the domestic market in peripheral developing countries are likely to oppose the implementation of complex regulations because of the additional compliance costs this generates. Opposition is likely to be strongest from small, weak banks, for whom the costs of compliance are highest.

Dynamics of convergence and divergence

As the political, economic, and institutional environment differs across peripheral developing countries, regulators experience incentives to converge and diverge through different channels and with varying levels of intensity, prompting them to respond differently to international standards. We explain why the dynamics of convergence and divergence are likely to differ depending on which actors champion implementation and their relative power in domestic regulatory

politics. We distinguish between different pathways to convergence, divergence, and mock compliance, and identify the salient features of these pathways.

Our analytical framework focuses on three main actors: the regulator (usually situated within the central bank), large banks, and incumbent politicians. Regulatory outcomes are the product of the relative power position of these three actors and are shaped by the wider domestic and international context in which they are embedded. A striking feature of our empirical findings is that convergence and divergence dynamics in peripheral developing countries are driven mainly by politicians and regulators. In stark contrast to their counterparts in industrialised countries, banks are rarely the most dominant actor in regulatory politics, particularly in the low- and lower-middle-income countries we focus on. While there are some exceptions, the underdeveloped nature of the formal economy and relatively small size of the banking sector leave individual banks, and the banking sector as a whole, with much less power to shape regulatory outcomes than in many advanced economies. Yet this does not mean that financial market players have little purchase on regulators' decisions. Far from it. Operating in a context of capital scarcity, regulators and politicians in peripheral developing countries are particularly attuned to the ways in which international regulators, banks, and investors will react to their decisions. As we explain below, international finance has an outsized impact on regulatory outcomes (see also Mosley (2003a)).

It is this dynamic that sets regulatory harmonization between the core and periphery apart from regulatory harmonization among core countries. In explanations of regulatory harmonization among core countries, the interests of large domestic banks loom large. For instance, in his seminal work, Singer (2007) argues that regulators face a dilemma of increasing regulatory requirements in order to mitigate the risk of financial crisis, or easing those requirements and enhancing the international competitiveness of the domestic financial sector (Singer, 2007, p. 19). In this chapter we show how regulators in the periphery face a different dilemma, namely that of implementing overly complex and costly international standards in a bid to attract international finance and help their banks expand abroad, or eschewing those standards to focus on regulations better attuned to supporting their financial sector development.

Strikingly, and in contrast to our initial expectations, we find that the presence of foreign banks does not provide regulators in peripheral developing countries with strong incentives to converge on international standards. Rather than lobby for the adoption of complex and costly global standards to gain a competitive edge over domestic banks, we explain why foreign banks typically adapt their business models to the local context, adopting a similar stance to domestic banks when it comes to regulation in their host jurisdiction.

Contribution to scholarship

Our primary contribution is to develop a new framework that specifies the channels of regulatory interdependence between countries in the core and on the periphery of the global financial system, and to probe its explanatory power through in-depth analysis in eleven countries in Africa, Asia, and Latin America.

We draw on, and contribute to, the literature on the diffusion of global norms. Our comparative country case studies that reveal how international regulatory norms interact with the domestic politics of regulation in a variety of developing country contexts. We parse out the specific ways that cross-border relationships between regulators, politicians, and banks in peripheral developing countries and a variety of international actors generate incentives to converge on international standards. In complementary work, we draw on these insights and use spatial econometrics to reveal how these cross-border relationships help explain patterns of regulatory convergence in the global economy (Jones and Zeitz 2019).

Scholars have previously drawn attention to the ways in which international organizations like the IMF and World Bank have promulgated international standards and the development of financial markets (Lavelle, 2004; Mosley, 2010, 2003b; Wilf, 2017); highlighted the incentives that markets generate to converge on international standards (Simmons, 2001); revealed the ways in which other states harness the reputational dynamics in global markets to pressure convergence (Sharman, 2009, 2008); and the ways in which transnational networks generate processes of learning and emulation that drive convergence (Dobbin et al., 2007; Porter, 2005).

This literature is important in identifying the mechanisms through which international standards spread from the core to the periphery, but tells us little about how actors in peripheral countries engage with these processes and why these mechanisms generate convergence in some peripheral countries but not others. In Jones and Zeitz (2017) we show that there is a correlation between level of financial sector development and the extent of Basel adoption, which suggests that regulators' decisions are strongly influenced by the suitability of the Basel standards to their country's level of financial sector development, but this doesn't explain why countries with similar levels of development respond differently to international standards.

We also contribute to a substantial literature on the politics of financial regulation in developing countries and emerging economies. This literature helped us identify the ways in which domestic politics and institutions are likely to shape responses to international standards. A few scholars have looked specifically at how individual developing countries respond to international financial standards and shown how reformist coalitions can drive the adoption of international standards, often in the face of entrenched vested interests (Walter 2008 and Chey 2007, 2014). Haggard and Maxfield (1996) and Martinez-Diaz (2009)

examine the politics surrounding capital account liberalization and bank ownership, respectively, and highlight the role that financial crises have in reconfiguring domestic politics and generating reforms. Others show how varying distribution of power among firms, banks, and governments shapes regulatory outcomes (Haggard and Lee, 1995) and how political economy dynamics help account for variation in the strength of regulatory institutions (Hamilton-Hart, 2002). We contribute to this literature in showing the ways in which integration of sub-national actors into global finance and international policy networks influences the politics of financial regulation within developing countries.

Our approach is inspired by the new interdependence approach in international political economy, which draws attention to the global economy as a hierarchy of interdependent networks (Farrell and Newman, 2016, 2014; Oatley, 2016; Oatley et al., 2013; Quaglia and Spendzharova, 2017). This literature seeks to capture relations of interdependence in ways that have not been possible in the open economy approach that has dominated international political economy in recent years. We contribute to a strand of this literature that is starting to grapple with core-periphery dynamics in global finance (Bauerle Danzman et al., 2017).

Our second contribution is to draw attention to the politics of financial regulation in peripheral developing countries and, in doing so, link debates in international political economy to a set of countries that scholars rarely engage with, and shed light on a topic that is rarely examined by scholars in area studies.

There is a vast, and growing, literature on the politics of financial regulation within and among countries in the core of the global financial system (see for instance Botzem, 2014; Büthe and Mattli, 2011; Haber and Calomiris, 2015; Helleiner, 2014; Kapstein, 1989; Lall, 2012; Lavelle, 2013; Oatley and Nabors, 1998; Perry and Nölke, 2006; Porter, 2005; Quaglia, 2019, 2014; Singer, 2007; Tarullo, 2008; Underhill and Zhang, 2008; Young, 2012; Zysman, 1984). Scholarship on the politics of financial regulation in emerging economies and developing countries is equally insightful yet much less extensive and has tended to focus on the largest emerging and developing countries (Chey, 2014; Haggard and Lee, 1995; Hamilton-Hart, 2002; Hutchcroft, 1998; Knaack, 2017; Lavelle, 2004; Martinez-Diaz, 2009; Naqvi, 2019; Walter, 2008). This reflects a tendency among scholars of international political economy, and international relations more broadly, to focus on countries with the largest economies on the grounds that they exert systemic influence over the global economy and the way it is governed (Drezner, 2008). Yet, as Acharya (2014) forcefully argues, the result is that the discipline ‘does not reflect the voices, experiences, knowledge claims and contributions of the vast majority of societies and states in the world, and often marginalizes those outside of the core countries of the West’.

A particularly striking gap in the literature is the dearth of attention paid to the politics of financial regulation in African countries, and low- and lower-middle-income countries in other regions. Economists have studied the financial

regulation in these countries from various vantage points and sought to identify reforms that will support development, including Beck (2011), Murinde (2012), and Gottschalk and Griffith-Jones (2016). Yet few political scientists have examined the politics of financial regulation, despite the central role played by the financial sector in economic development. Notable exceptions include Boone (2005), who seeks to explain variation in financial sector reforms across African countries and attributes this to differences in the strength, diversity, and autonomy of private capital vis-à-vis the state. Lewis and Stein (1997) study the politics of financial reform in Nigeria and attribute failure to weaknesses in the capacity of state institutions and private banks. More recently, Dafe (2017) examines how sources of capital shape the policy stances of central banks in Nigeria, Kenya, and Uganda, while Soares de Oliveira and Ferreira (2018) analyse the evolution of banking in Angola. For almost all of our case study countries and regions, our chapters are the first attempt to systemically analyse the politics of financial regulation.

Policy implications

Our research has substantial policy implications. There is an emerging consensus among international policymakers that countries outside of the Basel Committee, particularly low-income and lower-middle income countries, should be cautious in their embrace of international standards and adopt a proportional approach (Barth and Caprio, 2018; Hohl et al., 2018; Restoy, 2018). Yet this well-intentioned advice overlooks the powerful reputational, competitive, and functional incentives generated by financial globalization. that, as we show, may lead regulators to adopt international standards even if they are ill suited to their local context. We show how, in today's world of globalized finance, regulators in peripheral developing countries cannot simply ignore international standards even when they are not appropriately designed for their jurisdiction, as this carries significant reputational risks. Financial regulators in peripheral developing countries face the challenge of harnessing the prudential, reputational, and competitive benefits of international banking standards, while avoiding the implementation risks and challenges associated with wholesale adoption.

Our research shows that there is room for manoeuvre at the national level. Regulators can take a selective approach to implementation, only implementing the components of the international standards that serve a useful regulatory purpose in their jurisdiction, and they can fine-tune these elements to suit the peculiarities of their local financial system. For example, the Central Bank of the Philippines has recalibrated the capital requirements associated with lending to small- and medium-sized enterprises to ensure that banks are not unduly dissuaded from lending to them.⁹ Given the high costs of retrofitting international

⁹ Discussion with senior regulator from the Philippines, via Skype, September 2018.

standards and acute resource-constraints that regulators in peripheral developing countries face, there is a strong rationale for greater sharing of information and experiences among peripheral regulators on the various ways to adapt international standards to better suit their needs.

Our research also provides a compelling argument for reforming international standard-setting processes so that international standards better reflect the interests of countries on the financial periphery. So far, the international standard-setting community has adopted a minimalist ‘do no harm’ approach when it comes to international banking standards, seeking to establish where there have been negative unintended consequences for developing countries and only then looking for remedies (e.g. FSB, 2012, 2014). Much more could and should be done at the design stage to ensure that international standards work for peripheral developing countries. While international experts are increasingly advising developing countries to take a proportional approach to the implementation of international standards (Hohl et al., 2018; Restoy, 2018), regulators in developing countries are left the onerous task of figuring out exactly how to modify international standards to suit their local context. Instead, proportionality could be built much more systematically into international standards at the design stage, so that this resource-intensive task adjusting standards is not left to the regulators with the least resources. Related to this, standard-setting processes could be opened up to more meaningful input from regulators from peripheral developing countries. While consultative mechanisms exist, they fall far short of providing peripheral developing countries with a voice in standard-setting processes (Jones and Knaack, 2019).

Structure of the book

This book is divided into three parts.

Part I: Introduction, cross-country variation, and analytical argument

Following this introduction, **Chapter 2** analyses in more detail the context for banking regulation in peripheral developing countries, the evidence on the merits and demerits of Basel standards for developing countries, and ways in which peripheral countries are, in practice, responding to Basel II and III. **Chapter 3** provides an analytical framework for understanding the political economy of implementing international standards in developing countries. It builds from the existing literature and the case studies in this volume to identify the conditions under which we can expect countries to converge on, diverge from, or subvert international standards.

Part II: Case studies

In **Chapters 4 to 14**, we present our eleven country case studies, using the analytical framework to guide our analysis. Each chapter follows the same format, to facilitate cross-case comparison. Each chapter starts by providing an analysis of the key features of the financial sector and salient political economy dynamics, noting any major shifts over time. It then assesses the extent to which the country has based its national regulations and supervisory practices on international standards, looking specifically at the adoption and implementation of Basel I, II, and III and compliance with the Basel Core Principles. The heart of each case study is a political economy explanation for these regulatory decisions, which engages with the analytical framework. Each case study concludes with a summary of the main insights.

We present our case studies according to the extent to which they have converged on international standards, starting with the highest adopters, and the specific pathway through which convergence and divergence occurred. This sequence is summarized in Table 1.1 and followed by short summaries of each case study.

Policy-driven convergence

In three cases, politicians championed convergence on international standards. In **Chapter 4**, Natalya Naqvi explores the politics of adoption in **Pakistan**, which has the highest level of implementation among our case study countries. The impetus for converging on international standards has come from different actors over time.

Table 1.1 Pathways to convergence and divergence among case study countries

Country	Pathway	Outcome (number of Basel II and Basel III components implemented out of max. 18)
Pakistan	Policy-driven convergence	Ambitious implementation (14)
Rwanda	Policy-driven convergence	Ambitious implementation (10)
Ghana	Policy-driven convergence	Ambitious implementation (8)
WAEMU	IFI-driven convergence	Ambitious implementation (10)
Tanzania	Regulator-driven convergence	Selective implementation (8)
Kenya	Regulator-driven convergence	Selective implementation (7)
Bolivia	Regulator-driven convergence	Selective implementation (5)
Nigeria	Regulator-driven mock compliance	Mock compliance (6)
Angola	Politically driven mock compliance	Mock compliance (5)
Vietnam	Politically driven mock compliance	Mock compliance (3)
Ethiopia	Policy-driven divergence	No implementation (0)

Notes: Ambitious implementation = includes at least one of the more complex components (internal models under Basel II and/or liquidity or macroprudential/liquidity standards under Basel III); Selective implementation = standardized approaches under Basel II and only microprudential capital requirements under Basel III; Mock compliance = on paper, not enforced.

The adoption of Basel I adoption in the 1980s was driven by the World Bank and IMF. In the 1990s and early 2000s, the adoption of Basel II was driven first by politicians promoting the expansion of financial services, and then by banking sector regulators. Most recently, as banks have internationalized, they have championed the implementation of Basel III. Pakistan is one of the few cases where all three major actors—politicians, regulators, and major banks—are now aligned behind the implementation of the standards, leading to a high and ambitious level of implementation.

As Prithish Behuria shows in **Chapter 5**, for many years, the **Rwandan** government showed little interest in moving beyond Basel I. However, in 2015, the government's stance changed and politicians made a formal commitment to the rapid adoption and implementation of Basel II and III. This exuberance for adopting global standards is puzzling given that Rwanda's financial sector remains largely underdeveloped and the government is aiming to become a developmental state. The motivations behind this policy shift are to reduce risk in the financial sector, encourage harmonization of financial sector regulation across the East African Community (EAC), and develop a service-based economy, including by making Kigali a financial hub. The adoption and implementation of the latest international banking standards has become a strategic policy priority for Rwanda's economic leadership.

In **Chapter 6**, Emily Jones explores the stop-start dynamics of Basel implementation in **Ghana**, a pattern that reflects party politics. Moves to implement Basel and other international standards have coincided with periods when the New Patriotic Party (NPP) has been in office. The NPP has a vision for positioning Ghana as a financial services hub for West Africa and strong ideological and material connections to international finance. In 2017 the NPP government embarked on a radical reform of the banking sector, implementing major elements of Basel II and III and catapulting Ghana to among the most ambitious implementers of Basel standards among our case study countries. In contrast, the National Democratic Congress (NDC) focused on directing finance to the productive sectors of the economy and supporting indigenous banks and the implementation of international standards was not a policy priority during their periods in office.

IFI-driven convergence

In **Chapter 7** Ousseni Illy and Seydou Ouedraogo examine the politics of implementation in the West African Economic and Monetary Union (WAEMU). As with Ghana and Rwanda, after implementing Basel I for many years, WAEMU moved to adopt Basel II and III standards in 2016 and began implementation in 2018. Given the weak development of the financial sector in the Union and its poor connectedness to the international financial system, this reform was unexpected. The adoption of Basel standards has been championed by the Central Bank of West African States (BCEAO), under the influence of the IMF, which has

strongly encouraged implementation. National governments and domestically oriented banks have not played an active role, complicating the implementation and enforcement of the new regulations. The Central Bank is embedded in regulatory peer networks, has close links with the IMF, and is insulated from domestic political pressure because of its supranational position.

Regulator-driven convergence

In Tanzania, Kenya and Bolivia, regulators have championed the implementation of international standards, although they have often been more circumspect and cautious than the politicians and policymakers that championed adoption in the first group of countries. **Tanzania** has been a slow and cautious adopter of Basel standards, as Hazel Gray explains in **Chapter 8**, although recent moves to implement the standards have led to a higher level of adoption. Tanzania only finished implementing risk-based supervision in 2009 and opted for selective implementation of Basel II and III standards beginning in 2017. From 1991 to 2008 Tanzania liberalized its financial sector under the influence of the IMF and World Bank, but a significant gap emerged between the formal commitment to adopting Basel standards and the actual pattern of implementation and enforcement. It was only from 2009 onwards that Basel implementation was prioritized. This was the result of a number of factors including the appointment of a new Governor at the Bank of Tanzania (BoT) with strong connections to the international policy community, and the influence of regional commitments to regulatory harmonization. The central bank adopted a selective and tailored approach to Basel adoption, with different regulatory requirements for development banks. Domestic and foreign banks initially showed little interest in implementation but their preferences have shifted because of pressures from parent banks and anti-money laundering concerns.

In **Chapter 9**, Radha Upadhyaya examines adoption in **Kenya**. The impetus for Basel implementation has come from the regulator, the Central Bank of Kenya (CBK), which is highly independent, has strong links to international policy networks, and is very receptive to international policy ideas. Since 2003, the incumbent politicians have also been keen to adopt the latest international standards in order to attract investment into Kenya's financial sector. Meanwhile, as the banking sector is relatively well capitalized, there has been little opposition from banks, with some international and large local banks being mildly in favour of Basel II and III adoption. In the Kenyan case the regulator has been the driving force for Basel adoption, supported by internationally oriented politicians and banks. Although they were early movers, Kenyan regulators have also taken a selective approach to implementation.

In **Chapter 10**, Peter Knaack explores why **Bolivia** had very ambitious plans to implement Basel standards, but these only partly came to fruition. A novel financial services law promulgated by the regulator in 2013 established the legal framework for a wholesale adoption of Basel II, including all advanced

internal-ratings based components, and elements of Basel III. It is puzzling to see such a wholehearted embrace of Basel standards by a domestically oriented left-wing government that follows a heterodox approach to economic policymaking. Basel adoption has been driven by a regulatory agency that is embedded in transnational technocratic regulators networks and actively seeks to implement international standards. Bolivian regulators wrote a wide range of Basel rules into the draft legislation. But Bolivian politicians, prioritizing the twin goals of financial stability and inclusive growth, grafted onto this legislation significant interventionist policies. Thus, Bolivia's Basel adoption is pulling in two directions: adherence to Basel Committee-style best practices and, concurrently, financial interventionism to stimulate economic growth and financial inclusion.

Regulator-driven mock compliance

In another three countries, Nigeria, Angola and Vietnam, we find evidence of mock compliance, where the standards are implemented on paper but not enforced in practice. In **Chapter 11**, Florence Dafe examines **Nigeria's** engagement with international standards where regulators have gradually adopted Basel I, II, and III, although implementation and enforcement has been slow. The impetus for Basel adoption has come primarily from regulators, who are embedded in international policy networks. They consider Basel II and III the most appropriate set of regulatory standards to stabilize and manage risk in Nigeria's large, internationalized banking sector. While Basel adoption was not a salient issue among Nigeria's politicians, Nigeria's large internationally active banks welcomed the implementation of Basel II as an important means to enhance their competitiveness and signal soundness to markets. However, implementation and enforcement has been slow as regulators have conflicting preferences: while promoting Basel II adoption, they are reluctant to move quickly to implement and enforce the new standards because it might trigger regulatory interventions in several fragile domestic banks. These banks play an important role in providing employment and access to finance for the private sector, and their resolution would meet with resistance from politicians and lead to a loss of confidence in Nigeria's banking sector.

Politically driven mock compliance

In **Chapter 12**, Rebecca Engebretsen and Ricardo Soares de Oliveira examine **Angola's** adoption of Basel standards. As in other resource-rich countries, the financial sector in Angola plays a key role in facilitating outgoing financial flows. The banking sector is also highly politicized, as loans are extended, often without collateral, and bank licences issued to political insiders. The political allocation of credit has been an important avenue for securing political support for the regime. The result has been strong opposition to the ratcheting up of bank regulation and supervision. Yet a balance-of-payments crisis in 2009, falling in oil prices from 2014, and changes in the global regulatory environment together meant that

divergence from international standards was no longer an option. For Angolan banks to maintain their links to the global financial market, the country needed to signal its readiness to regulate the sector in line with international standards. The result has been an upsurge in regulatory efforts since 2009, and especially since 2014. Yet, because the politicized nature of the banking sector has not changed, standards are either not implemented or are implemented but not enforced, leading to a situation of ‘mock compliance’.

In **Vietnam** the implementation of international banking standards has been the subject of contestation between reformist and conservative factions within the governing political party, as Que-Giang Tran-Thi and Tu-Anh Vu-Thanh explain in **Chapter 13**. In any given period, the speed of implementation has been affected by which of these factions dominates regulatory decision-making, as well as the health of the banking sector. The adoption and implementation of Basel standards in Vietnam has gone through three distinctive periods: from 1999–2006, the reformist faction pursued international regulations in order to discipline state-owned banks and improve the functioning of the financial sector. From 2006–13, the central bank (SBV) formally adopted Basel II but a domestic banking crisis effectively halted implementation. More recently there has been a return to pro-Basel preferences. However, interventionist financial policies, high implementation costs, the low internationalization level of the banking sector, and the lack of competent technocrats inside both the SBV and domestic private banks have all contributed to a high level of regulatory forbearance.

Policy-driven divergence

In **Chapter 14**, Toni Weis explains why **Ethiopia** has chosen to diverge from international standards and not to adopt any aspect of Basel II or III. Ethiopia has the least internationalized banking sector among our case countries. Despite significant exposure to the Basel standards through donors and the IMF, banking supervisors at the National Bank of Ethiopia (NBE) have little use for Basel II and III. Ethiopia’s decision to diverge from international the Basel framework results from a strong preference for political control over the financial sector. The Ethiopian government seeks to emulate the example of East Asian ‘tiger’ economies, for whom financial repression was a key tool in the pursuit of rapid industrialization. However, as Ethiopia’s domestic banks struggle to sustain transformative growth, pressures for greater financial openness (and, by extension, for increased regulatory convergence) are beginning to mount.

Part III: Conclusion

The book ends with a short **Conclusion** (**Chapter 15**) that distils comparative insights from across the case studies, identifies areas for future research, and

offers policy recommendations. It makes the case for reforming the key institutions of global financial governance to increase the voice and influence of actors from countries on the periphery.

References

- Acharya, A., 2014. Global international relations (IR) and regional worlds: A new agenda for international studies. *International Studies Quarterly* 58, 647–59. <https://doi.org/10.1111/isqu.12171>.
- Admati, A.R., 2016. The missed opportunity and challenge of capital regulation. *National Institute Economic Review* 235, R4–14. <https://doi.org/10.1177/002795011623500110>.
- Admati, A.R., Hellwig, M., 2014. *The Bankers' New Clothes: What's Wrong with Banking and What to Do about It*. Princeton Univ. Press, Princeton, NJ.
- Aizenman, J., Chinn, M.D., Ito, H., 2015. *Monetary policy spillovers and the trilemma in the new normal: Periphery country sensitivity to core country conditions* (Working Paper 21128). NBER.
- Akyuz, Y., 2010. The management of capital flows and financial vulnerability in Asia, in: Griffith-Jones, S., Ocampo, J.A., Stiglitz, J.E. (Eds.), *Time for a Visible Hand: Lessons from the 2008 World Financial Crisis*. Oxford University Press, New York, pp. 219–41.
- Amaglobeli, D., End, N., Jarmuzek, M., Palomba, G., 2015. *From Systemic Banking Crises to Fiscal Costs: Risk Factors*. International Monetary Fund, Washington, DC.
- Andrews, M., Pritchett, L., Woolcock, M., 2013. Escaping capability traps through problem driven iterative adaptation (PDIA). *World Development* 51, 234–44. <https://doi.org/10.1016/j.worlddev.2013.05.011>.
- Baker, A., 2009. Deliberative equality and the transgovernmental politics of the global financial architecture. *Global Governance: A Review of Multilateralism and International Organizations* 15, 195–218.
- Barth, J.R., Caprio, G., 2018. Regulation and supervision in financial development, in: Beck, T., Levine, R. (Eds.), *Handbook of Finance and Development*. Edward Elgar Publishing, Cheltenham, pp. 393–418. <https://doi.org/10.4337/9781785360510>.
- Barth, J.R., Caprio, G., Levine, R., 2006. *Rethinking Bank Regulation: Till Angels Govern*. Cambridge University Press, Cambridge; New York.
- Bauerle Danzman, S., Winecoff, W.K., Oatley, T., 2017. All crises are global: Capital cycles in an imbalanced international political economy. *International Studies Quarterly* 61, 907–23. <https://doi.org/10.1093/isq/sqx054>.
- Bayoumi, T., 2017. *Unfinished Business: The Unexplored Causes of the Financial Crisis and the Lessons Yet to Be Learned*. Yale University Press, New Haven, CT; London.
- Beck, T., 2011. *Financing Africa: Through the Crisis and Beyond*. World Bank, Washington, DC.

- Boone, C., 2005. State, capital, and the politics of banking reform in Sub-Saharan Africa. *Comparative Politics* 37, 401–20.
- Botzem, S., 2014. *The Politics of Accounting Regulation: Organizing Transnational Standard Setting in Financial Reporting*. Edward Elgar Publishing Ltd, Cheltenham.
- Borzogmehr, N., 2016. Iran's 'outdated' banks hamper efforts to rejoin global economy. *Financial Times*.
- Buckley, R.P., 2016. The changing nature of banking and why it matters, in: Buckley, R.P., Avgouleas, E., Arner, D.W. (Eds.), *Reconceptualising Global Finance and Its Regulation*. Cambridge University Press, Cambridge, pp. 9–27. <https://doi.org/10.1017/CBO9781316181553.002>.
- Büthe, T., Mattli, W., 2011. *The New Global Rulers: The Privatization of Regulation in the World Economy*. Princeton University Press, Oxford; Princeton, NJ.
- Castro Carvalho, A.P., Hohl, S., Raskopf, R., Ruhnau, S., 2017. *Proportionality in banking regulation: A cross-country comparison* (FSI Insights No. 1). Financial Stability Institute.
- Chey, H., 2014. *International Harmonization of Financial Regulation? The Politics of Global Diffusion of the Basel Capital Accord*. Routledge, New York.
- Chey, H., 2016. International financial standards and emerging economies since the global financial crisis, in: Henning, C.R., Walter, A. (Eds.), *Global Financial Governance Confronts the Rising Powers*. CIGI, Waterloo, pp. 211–36.
- Chey, H.-K., 2006. Explaining cosmetic compliance with international regulatory regimes: The implementation of the Basle Accord in Japan, 1998–2003. *New Political Economy* 11, 271–89. <https://doi.org/10.1080/13563460600655664>.
- Chey, H.-K., 2007. Do markets enhance convergence on international standards? The case of financial regulation. *Regulation & Governance* 1, 295–311.
- Claessens, S., 2017. Global banking: Recent developments and insights from research. *Review of Finance* 21, 1513–55.
- Claessens, S., van Horen, N., 2012. *Foreign banks: Trends, impact and financial stability* (No. WP/12/10), IMF Working Paper. IMF.
- Dafe, F., 2017. The politics of finance: How capital sways African central banks. *The Journal of Development Studies* 1–17. <https://doi.org/10.1080/00220388.2017.1380793>.
- Dobbin, F., Simmons, B., Garrett, G., 2007. The global diffusion of public policies: Social construction, coercion, competition, or learning? *Annual Review of Sociology* 33, 449–72. <https://doi.org/10.1146/annurev.soc.33.090106.142507>.
- Dobbs, R., Remes, J., Smit, S., Manyika, J., Woetzel, J., Agyenim-Boateng, Y., 2013. *Urban World: The Shifting Global Business Landscape*. McKinsey Global Institute, New York.
- Drezner, D.W., 2008. *All Politics Is Global: Explaining International Regulatory Regimes*. Princeton Univ. Press, Princeton, NJ.
- Enoch, C., Mathieu, P.H., Mecagni, M., Canales Kriljenko, J., 2015. *Pan-African Banks: Opportunities and Challenges for Cross-Border Oversight*. IMF, Washington, DC.

- Farrell, H., Newman, A., 2016. The new interdependence approach: Theoretical development and empirical demonstration. *Review of International Political Economy* 23, 713–36. <https://doi.org/10.1080/09692290.2016.1247009>.
- Farrell, H., Newman, A.L., 2010. Making global markets: Historical institutionalism in international political economy. *Review of International Political Economy* 17, 609–38.
- Farrell, H., Newman, A.L., 2014. Domestic Institutions beyond the nation-state: Charting the new interdependence approach. *World Politics* 66, 331–63. <https://doi.org/10.1017/S0043887114000057>.
- Ferreira, Caio; Nigel Jenkinson; Christopher Wilson 2019. *From Basel I to Basel III: Sequencing Implementation in Developing Economies* IMF Working Paper 19/127 IMF: Washington DC Available here: <https://www.imf.org/en/Publications/WP/Issues/2019/06/14/From-Basel-I-to-Basel-III-Sequencing-Implementation-in-Developing-Economies-46895>
- Financial Tribune, 2017. Banking system moving toward Basel III. *Financial Tribune*.
- FSB, 2012. *Identifying the effects of regulatory reforms on emerging markets and developing economies: A review of the potential unintended consequences*. Report to the G20 Finance Ministers and Central Bank Governors. Financial Stability Board.
- FSB, 2014. *Monitoring the effects of agreed regulatory reforms on emerging market and developing economies (EMDEs)*. Financial Stability Board.
- FSB, 2016. *2016 list of global systemically important banks (G-SIBs)*.
- FSB, IMF, WB, 2011. *Financial stability issues in emerging market and developing economies: Report to the G20 Finance Ministers and Central Bank Governors*. Financial Stability Board, International Monetary Fund, World Bank.
- Ghosh, J., 2007. Central bank ‘autonomy’ in the age of finance, in: Bagchi, A.K., Dymski, G. (Eds.), *Capture and Exclude: Developing Economies and the Poor in Global Finance*. Tulika Books, New Delhi, pp. 39–51.
- Griffith-Jones, S., Gottschalk, R. (Eds.), 2016. *Achieving Financial Stability and Growth in Africa*. Routledge Taylor & Francis Group, London.
- Griffith-Jones, S., Persaud, A., 2008. The pro-cyclical impact of Basel II on emerging markets and its political economy, in: Stiglitz, J.E., Ocampo, J.A. (Eds.), *Capital Market Liberalization and Development*. Oxford University Press, Oxford.
- Haber, S.H., Calomiris, C.W., 2015. *Fragile by Design: The Political Origins of Banking Crises and Scarce Credit*. Princeton University Press, Princeton, NJ.
- Haggard, S., Lee, C.H. (Eds.), 1995. *Financial Systems and Economic Policy in Developing Countries*. Cornell University Press, Ithaca, NY.
- Haggard, S., Maxfield, S., 1996. The political economy of financial internationalization in the developing world. *International Organization* 50, 35–68. <https://doi.org/10.1017/S0020818300001661>.
- Haldane, A., 2013. *Constraining discretion in bank regulation*. Speech given at the Federal Reserve Bank of Atlanta Conference on ‘Maintaining financial stability: holding

- a tiger by the tail(s); Federal Reserve Bank of Atlanta, Atlanta, 9 April 2013. <https://www.bis.org/review/r130606e.pdf>.
- Hamilton-Hart, N., 2002. *Asian States, Asian Bankers: Central Banking in Southeast Asia*. Cornell University Press, Ithaca, NY.
- Helleiner, E., 2014. *The Status Quo Crisis: Global Financial Governance After the 2008 Financial Meltdown*. Oxford University Press, New York.
- Hoenig, T., 2013. *Basel III capital: A well-intended illusion*. Speech given to International Association of Deposit Insurers 2013 Research Conference, Basel, Switzerland on 9 April 2013. <https://www.fdic.gov/news/news/speeches/spapr0913.pdf>.
- Hohl, S., Sison, M.C., Sastny, T., Zamil, R., 2018. *The Basel framework in 100 jurisdictions: Implementation status and proportionality practices*. Stefan Hohl, Maria Cynthia Sison, Tomas Stastny and Raihan Zamil (No. 11), FSI Insights on policy implementation. Bank for International Settlements.
- Hutchcroft, P.D., 1998. *Booty Capitalism: The Politics of Banking in the Philippines*. Cornell University Press, Ithaca, NY.
- ILO, 2015. *World Employment Social Outlook: The Changing Nature of Jobs*. Geneva.
- IMF, 2011. *Managing Volatility: A Vulnerability Exercise for Low-Income Countries*. IMF, Washington, DC.
- IMF, 2017. *Recent Trends in Correspondent Banking Relationships: Further Considerations*. IMF, Washington, DC.
- Jones, E., Knaack, P., 2019. Global financial regulation: Shortcomings and reform options. *Global Policy*. <https://doi.org/10.1111/1758-5899.12656>.
- Jones, E. and A. O. Zeitz 2019. Regulatory Convergence in the Financial Periphery: How Interdependence Shapes Regulators' Decisions *International Studies Quarterly*, <https://doi.org/10.1093/isq/sqz068>
- Jones, E., Zeitz, A.O., 2017. The limits of globalizing Basel banking standards. *Journal of Financial Regulation* 3, 89–124.
- Kapstein, E.B., 1989. Resolving the regulator's dilemma: International coordination of banking regulations. *International Organization* 43, 323–47.
- Knaack, P., 2017. An unlikely champion of global finance: Why is China exceeding global banking standards? *Journal of Current Chinese Affairs* 46, 41–79.
- Lall, R., 2012. From failure to failure: The politics of international banking regulation. *Review of International Political Economy* 19, 609–38.
- Lavelle, K.C., 2004. *The Politics of Equity Finance in Emerging Markets*. Oxford University Press, Oxford; New York.
- Lavelle, K.C., 2013. *Money and Banks in the American Political System*. Cambridge University Press, Cambridge; New York.
- Lewis, P., Stein, H., 1997. Shifting fortunes: The political economy of financial liberalization in Nigeria. *World Development* 25, 5–22. [https://doi.org/10.1016/S0305-750X\(96\)00085-X](https://doi.org/10.1016/S0305-750X(96)00085-X).

- Lund, S., Windhagen, E., Manyika, J., Härle, P., Woetzel, J., Goldshtein, D., 2017. *The New Dynamics of Financial Globalization*. McKinsey & Company, London.
- Martinez-Diaz, L., 2009. *Globalizing in Hard Times: The Politics of Banking-Sector Opening in the Emerging World*, *Cornell studies in political economy*. Cornell University Press, Ithaca, NY.
- Mehmood, J., Chaudhry, S., 2018. *Data Dispatch: The World's 100 Largest Banks*. S&P Global: Market Intelligence.
- Mosley, L., 2003a. *Global Capital and National Governments*. Cambridge University Press, Cambridge, UK.
- Mosley, L., 2003b. Attempting global standards: National governments, international finance, and the IMF's data regime. *Review of International Political Economy* 10, 331–62. <https://doi.org/10.1080/0969229032000063243>.
- Mosley, L., 2010. Regulating globally, implementing locally: The financial codes and standards effort. *Review of International Political Economy* 17, 724–61. <https://doi.org/10.1080/09692290903529817>.
- Murinde, V. (Ed.), 2012. *Bank regulatory reforms in Africa*. Palgrave Macmillan, Basingstoke.
- Naqvi, N. (2019). Manias, panics and crashes in emerging markets: an empirical investigation of the post-2008 crisis period. *New Political Economy* 24, 759–779.
- Oatley, T., 2016. It's a system, not a sample: Interdependence in the global political economy. *International Studies Quarterly Symposium*. URL <https://www.isanet.org/Publications/ISQ/Posts/ID/5326/Its-a-System-not-a-Sample-Interdependence-in-the-Global-Political-Economy>.
- Oatley, T., Nabors, R., 1998. Redistributive cooperation: Market failure, wealth transfers, and the Basel Accord. *International Organization* 52, 35–54.
- Oatley, T., Winecoff, W., Pennock, A., Danzman, S.B., 2013. The political economy of global finance: A network model. *Perspectives on Politics* 11, 133–53.
- Perry, J., Nölke, A., 2006. The political economy of International Accounting Standards. *Review of International Political Economy* 13, 559–86. <https://doi.org/10.1080/09692290600839790>.
- Persaud, A., 2013. *Reinventing financial regulation: A blueprint for overcoming systemic risk*. Apress, New York.
- Phillips, N., 2017. Power and inequality in the global political economy. *International Affairs* 93, 429–44. <https://doi.org/10.1093/ia/iix019>.
- Pistor, K., 2013. A legal theory of finance. *Journal of Comparative Economics* 41, 315–30.
- Porter, T., 2005. *Globalization and finance*. Polity, Cambridge; Malden, MA.
- Posner, E., 2010. Sequence as explanation: The international politics of accounting standards. *Review of International Political Economy* 17, 639–64.
- Quaglia, L., 2014. The European Union, the USA and international standard setting by regulatory fora in finance. *New Political Economy* 19, 427–44. <https://doi.org/10.1080/13563467.2013.796449>.

- Quaglia, L., 2019. The politics of state compliance with international 'soft law' in finance. *Governance* 32, 45–62. <https://doi.org/10.1111/gove.12344>.
- Quaglia, L., Spendzharova, A., 2017. Post-crisis reforms in banking: Regulators at the interface between domestic and international governance: Post-crisis reforms in banking. *Regulation & Governance* 11, 422–37. <https://doi.org/10.1111/rego.12157>.
- Quillin, B., 2008. *International Financial Co-Operation: Political Economics of Compliance with the 1988 Basel Accord*, Routledge International Studies in Money and Banking. Routledge, London; New York.
- Reddy, Y.V., 2010. Regulation of the financial sector in developing countries, in: Griffith-Jones, S., Ocampo, J.A., Stiglitz, J.E. (Eds.), *Time for a Visible Hand: Lessons from the 2008 World Financial Crisis*. Oxford University Press, Oxford, UK, pp. 242–52.
- Reinhart, C.M., Rogoff, K.S., 2013. Banking crises: An equal opportunity menace. *Journal of Banking & Finance* 37, 4557–73. <https://doi.org/10.1016/j.jbankfin.2013.03.005>.
- Restoy, F., 2018. *Proportionality in banking regulation*. Presented at the Westminster Business Forum Keynote Seminar: Building a resilient UK financial sector—next steps for prudential regulation, structural reform and mitigating risks, London.
- Rey, H., 2015. *Dilemma not trilemma: The global financial cycle and monetary policy independence* (No. w21162). National Bureau of Economic Research, Cambridge, MA. <https://doi.org/10.3386/w21162>.
- Romano, R., 2014. For diversity in the international regulation of financial institutions: Critiquing and recalibrating the Basel architecture. *Yale Journal on Regulation* 31.
- Saul, J., Arnold, T., 2016. Iran's banks will need to change to thrive after sanctions. *Reuters Business News*.
- Seabrooke, L., Tsingou, E., 2009. Power elites and everyday politics in international financial reform. *International Political Sociology* 3, 457–61.
- Sharman, J.C., 2008. Power and discourse in policy diffusion: Anti-money laundering in developing states. *International Studies Quarterly* 52, 635–56. <https://doi.org/10.2307/29734254>.
- Sharman, J.C., 2009. The bark is the bite: International organizations and blacklisting. *Review of International Political Economy* 16, 573–96. <https://doi.org/10.1080/09692290802403502>.
- Simmons, B.A., 2001. The international politics of harmonization: The case of capital market regulation. *International Organization* 55, 589–620.
- Singer, D.A., 2007. *Regulating Capital: Setting Standards for the International Financial System*. Cornell University Press, Ithaca, NY.
- Slaughter, A.-M., 2004. *A New World Order*. Princeton University Press, Princeton, NJ.
- Soares de Oliveira, R., Ferreira, M.E., 2018. The political economy of banking in Angola. *African Affairs*. <https://doi.org/10.1093/afraf/ady029>.
- Tarullo, D.K., 2008. *Banking on Basel: The Future of International Financial Regulation*. Peterson Institute for International Economics, Washington, DC.

- The Warwick Commission, 2009. *In Praise of Unlevel Playing Fields*. University of Warwick, Warwick.
- UNCTAD, 2013. *Global Value Chains and Development: Investment and Value-Added Trade in the Global Economy*. UNCTAD, Geneva.
- Underhill, G.R.D., Zhang, X., 2008. Setting the rules: Private power, political underpinning and legitimacy in global monetary and financial governance. *International Affairs* 84, 535–54.
- Walter, A., 2008. *Governing Finance: East Asia's Adoption of International Standards, Cornell Studies in Money*. Cornell University Press, Ithaca, NY.
- Walter, A., 2016. Emerging countries and Basel III: Why is engagement still low? in: Henning, C.R., Walter, A. (Eds.), *Global Financial Governance Confronts the Rising Powers*. CIGI, Waterloo, pp. 179–210.
- Wilf, M., 2017. *Market forces or international institutions? The under-emphasized role of IFIs in domestic bank regulatory adoption*. Presented at The Political Economy of International Organizations (PEIO) 2017.
- World Bank, 2012. *Global Financial Development Report 2013: Rethinking the Role of the State in Finance*. World Bank, Washington, DC.
- Young, K.L., 2012. Transnational regulatory capture? An empirical examination of the transnational lobbying of the Basel Committee on Banking Supervision. *Review of International Political Economy* 19, 663–88. <https://doi.org/10.1080/09692290.2011.624976>.
- Zysman, J., 1984. *Governments, Markets, and Growth: Financial Systems and the Politics of Industrial Change*. Cornell University Press, Ithaca, NY.