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Lending Tree: The Motives Behind and Implications of Chinese Bank Branch Growth in Foreign Markets

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Abstract:

China's four largest banks are setting up shop abroad. In 2020, these banks actively managed over 500 foreign brick-and-mortar locations, up from fewer than 100 in 2007. What is behind the international expansion of China's state-owned banks? What economic motives are driving these banks to "go out" and what, if any, role does geopolitics play in their overseas branch growth? Using an original dataset of foreign branches of China's "Big Four" banks, I find that these major state-backed financial institutions have opened more foreign branches in markets where China also has a larger presence in the development project space. Countries that are official participants in BRI, for example, have more Chinese bank branches. Similarly, as the number of Chinese development projects in a country grows, or as the size of the development project financial commitment increases, so too do the number of branches. Notably, a battery of geopolitical variables are not correlated with bank branch numbers, suggesting that—to date—bank expansion is primarily about executing China's foreign economic policy. However, in time, the presence of Chinese banks in these markets may play a role in improving Chinese resilience to economic pressure from the United States in the form of financial sanctions.

Policy Implications and Key Takeaways

- US policymakers should recognize that the Belt and Road Initiative and China's broader involvement in foreign development projects serve as a critical entry point for China's banks into foreign markets through the opening of branches and subsidiaries.

- Though their internationalization centers on serving Chinese firms operating abroad today in the development space, in time, these branches may deepen financial ties with local, host-country firms in other areas. Bank branches, then, may act as a beachhead for Beijing to develop closer financial ties between foreign firms and its financial institutions. Policymakers should support the robust funding for US-backed multilateral development banks so as not to cede the development lending space to Chinese state-owned banks.

- The growing number of Chinese firms operating abroad in the development space is in turn attracting Chinese banks to expand into these markets. US policymakers should consider steps to offset this. One way is to implement policies that incentivize American companies to bid on US-backed multilateral development contracts in foreign markets where Chinese firms are especially active. In turn, US banks will have incentives to "follow their customers" into these markets, countering the rising number of Chinese banks in these locations.

- Policymakers should consider the potential role of Chinese banks in providing cross-border financial services, like trade settlement, in China's currency (RMB). This might eventually enhance China's economic resiliency in the face of US financial sanctions.

Introduction

The US banking system is experiencing a moment of both tumult and consolidation. Tumult as several large regional banks, like Silicon Valley Bank, Signature Bank and First Republic Bank, failed in 2023 amid concerns about the value of their assets. Ultimately, large deposit withdrawals forced each institution to close its doors. It is also a moment of consolidation as the remaining assets and bank branches of these financial institutions were ultimately absorbed by larger American banks like First Citizens Bank, New York Community Bank, and JPMorgan Chase. As the number of American banks gets smaller, and remaining banks get larger, concerns about the concentration of the system in a few major banks often raises "too big to fail" fears among the public and regulators alike. American banks, it seems, are behemoths while the rest of the world's financial institutions are Lilliputians.

So, it might come as a surprise to some that the largest bank in the world is not an American financial institution. Nor is it a European multinational bank. Measured in terms of total assets and Tier 1 capital holdings, the world's largest bank is Industrial and Commercial Bank of China (ICBC), a Chinese state-owned lender. China is also home to the second, third, and forth largest banks in the world: China Construction Bank (CCB), Agricultural Bank of China (ABC), and Bank of China (BOC). It is not until the number five slot that an American bank, JPMorgan Chase, makes the list.[1] As a group, these banks form the "Big Four" institutions of China's financial system.

And yet, for all of their size, skeptics will point out that the Big Four's global impact is negligible. Their assets are mostly confined to the Chinese mainland as they operate within a financial system that remains largely closed to the outside world.

It is true that Chinese banks dominate the financial marketplace in their home country. Chinese banks, including the Big Four, hold about a 98 percent market share in the mainland's banking sector. Outside of China, their influence has historically been quite limited. But after a failed expansion effort in the early-2000s, China's big banks are again going out.

Foreign loans now make up about 10 percent of Chinese banks' balance sheet, and their share of global cross-border lending has increase from 5 percent in 2015 to 7 percent in 2020.[2] In 2000, foreign country debt to China totaled roughly $500 billion; by 2017, this had increased to $5 trillion.[3] Most of this lending went to developing and emerging market countries. In fact, today, China provides about two-thirds of all cross-border lending within emerging market economies—much of it through state-owned banks.[4]

These numbers are likely to grow in the future, especially as the economic shock of the COVID-19 pandemic continues to play out in China. Banks there are now flush with cash even as domestic demand for loans is falling.[5] Further pushing outward will be critical to the Big Four's business in the coming decade.

One potent symbol of these banks' growing global ambitions, displayed in Figure 1, is the change in the total number of foreign branches from 1990 through 2020. Since the 2008 global financial crisis, the total number of foreign branches increased from fewer than 100 to over 500. The number of countries in which the Big Four maintain a physical presence also increased. In 2005, 24 countries were host to at least one branch. In 2020, this had risen to 69. Figure 2 maps the geographic spread of Chinese bank branches over this period, with darker shades of gray indicating more branches in that location.

Bank branches are "brick-and-mortar" establishments that function as storefront locations for parent financial institutions. They provide face-to-face services for customers, from taking deposits to financing trade settlement. Though some observers have argued that branches are no longer necessary in an age of online banking, when banks have entered new markets in an exclusively digital format, results have been mixed. Businesses and consumers,

FIGURE 1. Overseas Branches of China's "Big Four" Banks

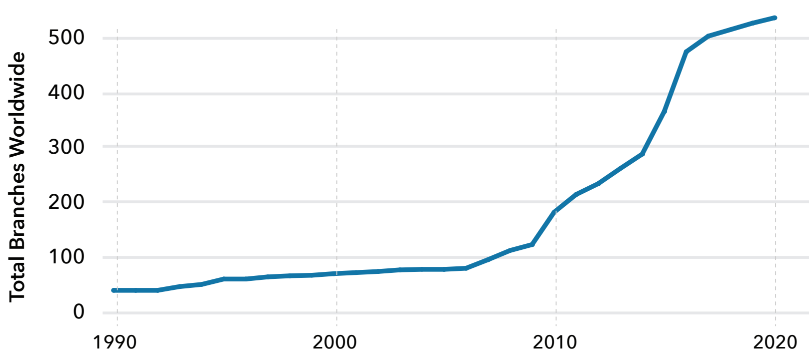
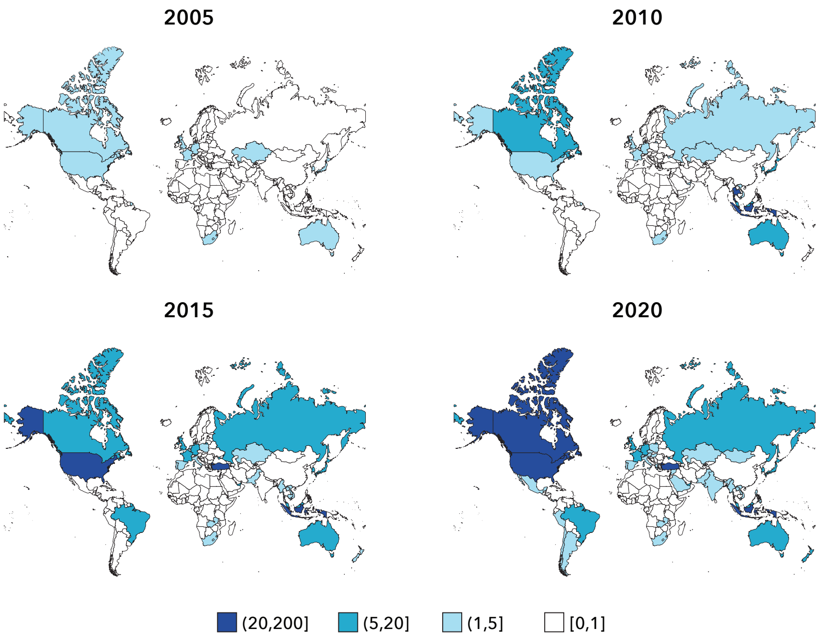


FIGURE 2. The Geographic Distribution of Chinese Bank Branches, 2005–2020



as it turns out, continue to say that having a branch nearby is important to them.[6] This is especially the case in developing countries with large rural areas and limited internet access where physical locations are essential for banks to establish new business and grow existing relationships. Bank branch growth remains very robust in developing markets.[7]

The proliferation of state-owned, Big Four bank branches abroad is an important indication of Beijing's commitment to growing its financial influence in foreign markets. Given the long-term strategic implications of these developments, this project seeks to develop a keener understanding of Beijing's "going out" strategy for its big financial institutions. This requires a better understanding of the variation in their commitment to different markets. Why are Big Four banks opening branches in these particular countries?

Chinese investment in infrastructure and related development ventures in a foreign market relies heavily on Chinese firms, especially state-owned enterprises (SOEs), to execute the projects. Foreign activity of Chinese SOEs, then, generates the need for financial services between the mainland and overseas investment locations, which should provide incentives for major Chinese banks—which operate as financial arms of the state—to expand into these same foreign markets. Statistical analysis of original data on the foreign proliferation of Big Four bank branches coheres to this expectation.

Notably, additional analysis does not find evidence linking geopolitical considerations to overseas branch locations. For example, Chinese banks are not more likely to open branches in countries with similar foreign policy preferences to Beijing or countries that have been sanctioned by the United States. Moreover, there is limited evidence that Chinese banks prefer to open brick-and-mortar locations in countries with democratic political institutions.

These results suggest that Chinese banks are expanding in a manner consistent with the behavior of their Western counterparts in previous eras. That is, Chinese banks are incentivized to open branches in foreign markets where their clients are developing new business. This suggests profit-seeking, "follow-your-customer" behavior. As profit opportunities on the Chinese mainland continue to diminish, this is entirely rational behavior. Foreign markets offer growth opportunities for SOEs and the banks that serve them.

However, what makes this a uniquely Chinese phenomenon is the fact that these overseas development projects, which attract bank branches, did not result from market decisions, but rather reflect China's centrally planned foreign lending initiatives. That is, Chinese SOEs and state-owned banks are expanding abroad in lock step with Beijing's foreign economic policy strategy. In that way, the increasing number of overseas Chinese bank branches is inherently political. It represents not only a challenge to Western banks international influence, but also the influence of US-backed multilateral development banks.

In the medium-term, the presence of Chinese branches in these markets could facilitate deeper ties between host-country businesses and China. More importantly for US interests, these branches could help facilitate cross-border payments in China's currency, the renminbi, diminishing the dollar's role in these markets and weakening Washington's capacity to use financial sanctions as a coercive tool.

Existing Studies on International Bank Expansion

European banks were the first to expand abroad during the "Golden Age" of globalization. Just prior to the First World War, there were roughly two-thousand overseas branches of British banks and about five-hundred foreign branches of French and German financial institutions.[8] The motives behind these early international forays of European banks were multifaceted, but studies on the topic generally focus on the growth of foreign trade as a key propellant. Increased cross-border commercial activity both requires and incentivizes the provision of financial services (such as letters of credit and other forms of trade-finance) abroad, and so banks opened foreign subsidiaries to take advantage of such opportunities. In turn, their presence in foreign markets provided the financial lubrication necessary for growth in international commercial relations.[9]

The outbreak of war in 1914 ushered in the end to the Golden Age of globalization, and with it, a curtailment of cross-border bank expansions. It was not until the 1960s that financial institutions again began to spread their influence, along with their branches, into foreign markets. Once again, banks international presence grew alongside a wave of global economic integration, and this time it was American banks that led the way, European and then Japanese banks soon followed suit.

Studies that consider the motives behind banks' foreign expansion in the latter half of the 20th century echo studies on the earlier period. Broadly, the literature identifies three "pull factors" that make a potential host country attractive as a branch location. First, analysis suggested banks were more likely to open branches in host countries that were important trade partners with the bank's home country.[10] Increased commercial ties generate increased demand for cross-border financial services between two countries, which propels banks to open operations in key partner country markets. Second, studies on the second wave of foreign bank branch growth also highlight the role of foreign direct investment (FDI) in incentivizing banks to open up shop abroad. The logic here is relatively straightforward: banks with established business relationships in their home country have an interest in following their customer into a foreign market where that firm decides to expand. Numerous studies find that outward direct investment (ODI) from the home country has a strong positive relationship with bank branch growth in overseas markets, implying that so-called "follow-the-client" strategies were behind a significant share of international bank expansion.[11] Finally, research identified a third feature—whether the host-country possesses an international finance center—as another pull factor. In this case, banks relocated not because of increased business opportunities between the home and host country, but rather because location in a financial center offered special access to capital markets.[12]

Because Chinese banks' international expansion is a relatively new phenomenon, we know little about whether they are opening branches abroad for similar reasons, or whether China's financial institutions march to the beat of their own drum.

Banking with Chinese Characteristics

China's financial system differs from those in the United States, Europe, and even Japan—markets that have historically been the main source of overseas bank branch expansion. Compared to these economies, China's financial system remains heavily bank dependent. A small number of large state-owned banks are the primary funders of other state-owned enterprises in China. They also finance big government infrastructure projects within China.[13] These examples illustrate a critical point: because China's largest lenders are not private enterprises, but rather appendages of the state, they operate somewhat differently from their private-sector counterparts. Indeed, the banking system in China was created explicitly "to serve the fiscal arm of the state."[14] State-owned enterprises in China get the lion's share of major bank credit and are able to borrow at lower rates than non-state-owned firms.[15]

Experts have described Chinese banks as being motivated by a mix of goals: while they do seek to be profitable, their lending decisions are also directed by the state's developmental objectives.[16] They are key players in executing the state's industrial policy, which means some decisions are influenced by policymakers' long-term development goals rather than by short-term profit maximizing considerations. This, scholars have noted, helps explain why Chinese banks tend to carry a larger share of non-performing loans than counterpart institutions in economies at similar levels of development.[17] Financial policy reforms have made the banking sector somewhat more competitive, and profit driven in recent years, which has marginally increased the independence of state-owned banks.[18] Nonetheless, state-owned banks in China are expected to move in-step with the state as it executes the financial arm of its industrial policy, at home, and (increasingly) abroad.

Chinese Development Projects and Overseas Branch Growth

The close links between the Chinese state and its major banks suggest that any analysis attempting to identify factors associated with the selection of host country destinations for branches of state-owned banks must take Beijing's own foreign policy goals into account. Over the course of the 2000s, the Chinese government's interest in foreign lending and investment grew in response to two key factors. First, large current account surpluses in China led to the accumulation of low-yielding foreign exchange reserves, tied up in assets like US government bonds. Attention to alternative overseas investment opportunities that would yield higher returns grew as a result. Second, Chinese state-owned banks were also facing the challenge of domestic overcapacity, especially in the area of infrastructure. Profitable investment opportunities in the space were becoming saturated and the share of non-performing loans on their books were growing.[19] Consequently, Beijing's interest grew in opportunities for venturing capital in overseas development projects to take the place of declining profitable investment opportunities on the mainland.[20]

The culmination of this thinking took the form of the BRI, Xi Jinping's major international development investment initiative launched in 2013. BRI participation quickly became a catalyst for Chinese outward direct investment—increasing investment flows into member countries by as much as 20 to 50 percent.[21] Though BRI is a critical pivot point, Chinese development investment spans beyond BRI member countries, and had been developing in the years prior to the initiative's launch. In sum, over the last two decades (but especially since 2013) Chinese outward investment in foreign development projects has become a central cog in Beijing's increasingly ambitious foreign economic policy.

Contracts for China's overseas development projects have flowed almost exclusively to Chinese companies with the lion's share going to state-owned enterprises (SOEs) in China.[22] Chinese companies—many of them SOEs—are building roads, bridges, airports, dams, as well as attendant amenities like shopping centers or other forms of property development in foreign countries. These firms need financial services from banks with ties to the mainland to pay for materials and supplies coming from China. Put differently, the growth in Chinese outward direct investment in developing and emerging economies through BRI partnerships and beyond should provide new business opportunities for big Chinese banks. Unsurprisingly, one study found that the foreign lending activities of two of the Big Four Chinese banks increased by 500 percent between 2013 and 2017; meanwhile, large development projects with price tags in excess of $500 million, tripled during the same period.[23]

In order to fully benefit from the overseas development project boom, Chinese banks should also look to set up shop abroad.[24] Just as European, American, and Japanese banks "follow their clients" to foreign markets by opening branches in those locations, major state-owned banks in China should be expected to do the same. Thus, a key determinant in where Big Four banks set up overseas branches should be the amount of Chinese overseas development investment projects and financial commitments in host countries. *I expect that participation in BRI and higher amounts of Chinese development-related investment should be associated with more Chinese bank branches in those markets.*

Other Factors Influencing Foreign Branch Locations

Chinese development projects ought to be a critical factor behind the expansion of Big Four bank branches abroad, but other considerations may factor into their decisions as well. As noted previously, numerous studies have found that banks, regardless of nationality, are more likely to open branches in countries that are major trading partners with their home country. Given the importance of trade in China's development model, commercial relations may also play a role in where Big Four banks set up shop abroad. Indeed, one study on cross-border flows of Chinese bank loans (rather than the location of branches) found a strong positive correlation between a country's trade with China and the amount of loans it receives from Chinese banks. Notably, in that study FDI was only loosely correlated with loan flows.[25]

Previous studies also indicate that banks are more inclined to open overseas branches in financial centers to improve access to capital markets. Chinese banks are likely to weigh similar considerations. For example, recent work has also highlighted how London and Luxembourg—major European financial centers—have attracted a large number of Chinese bank branches.[26]

Finally, any study on the expansion of Chinese economic influence abroad ought to consider the role of geopolitics in the geography of that growing influence. This is especially true in the arena of international finance, a space where foreign policy and grand strategy increasingly butt up against economic exchange and efficiency. The United States growing use of financial sanctions in the 21st century have raised concerns in China and in other foreign capitals about dollar dependence and vulnerability to US coercion.[27] On one hand, Chinese banks may view opening branches in countries facing US financial sanctions as a risky move, something that puts their reputations and business at risk. On the other, Chinese state-owned banks may view such markets as opportunities for growth if firms and actors cut off from the dollar view China's currency and its growing financial network as a potential lifeline. Beyond narrow sanctions risk, it may be the case that Big Four banks consider a country's general geopolitical relationship with China or its political institutions when weighing whether or not to expand into a market. One new study on the location of foreign branches of Chinese banks identifies geopolitical considerations as a factor in the selection process.[28]

Data and Methods

Turning to the empirical portion of this project, below I describe the data and methodological choices I use to test the link between Chinese investment and foreign bank branches.

Outcome Variable

The dependent variable in the study is the number of Big Four Chinese bank branches by country-year. Observations span twenty-two years,1999 through 2020, and 206 countries. The data collection methodology followed the followings steps, which relied on help from a research assistant. First, branch names, and the year of each branch's founding, were identified via Big Four bank websites. When all or some of these data were missing from the official bank websites, Google and Baidu were used to fill in the blanks. Searches often led to host country Chinese embassy websites which provided missing details, typically in the form of a press release highlighting the bank's arrival. Finally, searches of social media posts (e.g. Facebook, Twitter, Weibo) were used as a last effort to fill in missing observations.[29]

Explanatory Covariates

To capture Chinese overseas investment and development lending, I rely on two sets of variables. First, I employ a simple dichotomous variable that indicates whether a country in a given year has officially joined China's Belt and Road Initiative. For this, I rely on data published by the Council on Foreign Relations.[30] As of 2021, a total of 139 countries had joined the initiative. While BRI participation is a relevant indicator for this study, there are limitations to this measure as well. BRI membership may signal the potential for new business for Chinese banks, however, a simple dichotomous measure like this does not indicate the extent of actual Chinese involvement in the economy.

BRI membership does not always mean the same thing. As a recent Brookings Institution report noted, some countries join BRI via a Memorandum of Understanding (MOU) while others sign on via a cooperation agreement.[31] In this case, the MOUs tend to include details about specific development projects that will be launched with Chinese assistance while cooperation agreements typically express mutual interest in future collaboration. Thus, membership in BRI does not necessarily translate into Chinese investment opportunities in the development space. Some participants are more deeply engaged than others. Moreover, BRI was not officially launched until 2013, meaning it is not useful as a predictor of branch development prior to that year.

As a more nuanced alternative to the BRI membership indicator, I constructed two additional covariates drawing on data from a recent *AidData* report on Chinese overseas development projects.[32] First, I employ the annual number of new Chinese development projects announced in a given country for each year. An increasing number of Chinese development projects is one way to measure the extent of China's investment in that country, which has implications for Big Four banks expansion in that location. Because the data are heavily skewed to the left (e.g. most country-year observations have a small number of projects while a minority have many) I "bin" the variable into terciles representing low, medium, and high number of projects for that year.

Finally, I constructed a country-level variable that accounts for the total development finance commitment (in constant US dollars) pledged by China in each. I created the measure by summing project-level commitments, by country, in each calendar year.[33] A larger annual development commitment in a given country would indicate increased business opportunities for Big Four bank branches. Together, these two variables provide a more granular picture of the distribution of Chinese overseas development lending and investment at the country level, and extend back to the year 2000, offering improved time coverage.

Economic Control Covariates

There are a range of economic factors, outside of Chinese development lending and investment, that could influence bank branch expansion. First, given existing evidence that the likelihood a multinational bank opens a branch in a foreign market increases as commercial ties between the bank's home country and the host country increase, I control for level of trade between China and potential host countries. I rely on data from the UN Comtrade database, summing total exports and imports between China and each country in the sample.[34] Second, certain countries are home to major international financial centers. These destinations are likely to attract more foreign bank branches relative to non-financial centers. To control for this, I employ a dichotomous variable equal to 1 if a country is host to at least one of the top-20 financial centers according to the Global Financial Centres Index, zero otherwise.[35] Chinese banks may find fast growing economies more appealing locations for expansion, so I control for the annual GDP and GDP per capita growth rates. Finally, I control for GDP and GDP per capita to account for economic size and development. All macroeconomic indicators are from the World Bank's Word Development Indicators dataset.

Geopolitical Control Covariates

Given the heightened importance of geopolitical considerations in international economic integration, it is also worth exploring whether China's political relations with potential host countries, or host countries' own political characteristics, shape where Chinese state-owned banks choose to expand. First, the United States has been using financial sanctions against foreign governments with increasing frequency over the last two-decades, but especially since 2010. One possibly way that politics could shape bank branch expansion is if Chinese financial institutions view sanctioned economies as attractive business opportunities since actors in those states may be cut off from US banks and the dollar system. To account for this, I use a dichotomous variable which identifies countries that are targets under US financial sanctions program at US Treasury between 2000 and 2020.[36] It may also be the case that Chinese banks are more inclined to expand into markets that have more positive strategic relations with China. Such markets may be viewed as less exposed to geopolitical risk, or Beijing may be keen on cultivating closer financial and commercial ties between friendly countries to further entrench positive relations. To account for the similarity between China and each country's foreign policy preferences, I rely on widely used data estimating the ideal point distance in UN General Assembly votes, where higher values indicate greater foreign policy disagreement between China and the potential partner.[37] Finally, I rely on Polity IV data to account host country regime type, which may shape Chinese bank decisions.[38] On one hand, Chinese banks may prefer to operate in democracies which tend to have stronger rule of law and greater transparency; on the other, if Beijing is keen to strengthen economic ties with states that are not closely aligned with the United States, then Chinese banks may be more likely to expand into countries with poor democratic credentials.

Estimation Strategy

To assess the relationship between overseas Chinese development projects and foreign branches of Big Four banks, I fit a series of negative binomial regressions, appropriate for an outcome variable that expressed as "count" data.[39] I estimate separate models for each of the three main explanatory variables (BRI participant, project count, and development commitment) along with the battery of economic control covariates described above. All models include year and region fixed-effects.[40]

Results

As Table 1 reports, in all three models, the coefficients on the Chinese development investment variables are positive and statistically different from zero. This indicates that increased Chinese investment in a country's developmental space—whether measured as BRI participation, the annual number of Chinese development projects, or as the total annual financial commitment in Chinese development projects—the predicted number of Big Four bank branches also rises. The results, while not causal, confirm a strong relationship between overseas bank branch growth and official Chinese development activity.

To express the magnitude of the relationship between each of the three development investment variables on the outcome in question, I estimate the marginal effects of each variable on the number of foreign branches of Chinese banks by country. Turning first to BRI membership in Figure 3, the model predicts that the average non-BRI member will have 0.82 branches while the typical BRI participant will be host to 1.76 branches, or a difference of nearly one additional branch per BRI member.[41] Figure 4 reports the marginal effect of the annual project count variable, which has a less substantive impact on the number of branches than BRI membership. Moving from one standard deviation below the mean of that variable (zero projects) to one standard deviation above the mean (eleven projects) is associated with an estimated move from 0.62 branches to 1.32 branches, or an increase of about two-thirds of a branch. At two standard deviations above the mean (18 projects) the model predicts 2.41 branches, for an increase of nearly two branches. Finally, looking to the development commitment variable, Figure 5 reports that moving from the lowest tercile (countries in the lower third of Chinese development commitment in a given year) to the highest tercile (countries in the highest third) leads to a predicted change in the number of branches from 0.65 to 1.74, or more than an additional bank branch per country.

TABLE 1. Chinese Development Projects and Foreign Bank Branches, Main Results

	Model I	**Model II**	**Model III**
BRI participant	**0.769** **(-0.237)**		
Project count		**0.0752***** **(-0.011)**	
Development commitment (bins)			**0.492**** **(-0.0174)**
Total trade with China (log)	0.266 (-0.196)	0.336 (-0.204)	0.284 (-0.207)
Financial Center	0.181 (-0.367)	0.307 (-0.345)	0.460 (-0.359)
GDP (log)	0.590** (-0.200)	0.470* (-0.207)	0.512* (-0.206)
GDP per capita (log)	0.25 (-0.158)	0.447** (-0.171)	0.392* (-0.186)
GDP growth	0.0695 (-0.049)	0.0513 (-0.045)	0.094† (-0.049)
GDP per capital growth	-0.0568 (-0.0525)	-0.0248 (-0.047)	-0.068 (-0.051)
N	*3854*	*3146*	*3146*
pseudo R-sq	*0.355*	*0.372*	*0.364*
Year FEs	✓	✓	✓
Region FEs	✓	✓	✓

FIGURE 3. Predicted Marginal Effects of BRI Membership on Bank Branches

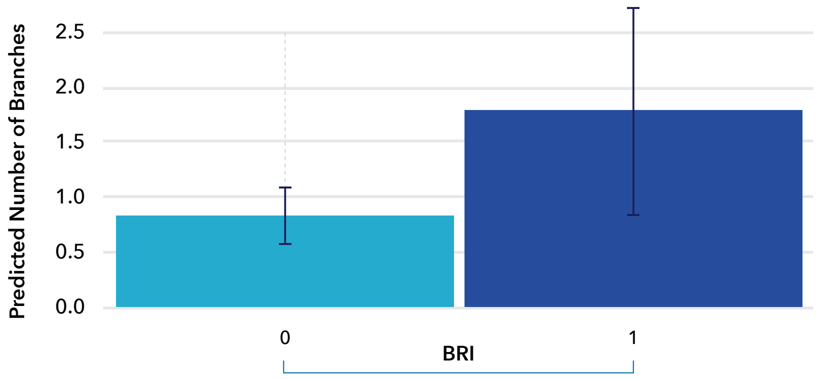


FIGURE 4. Predicted Marginal Effects of Chinese Development Projects on Bank Branches

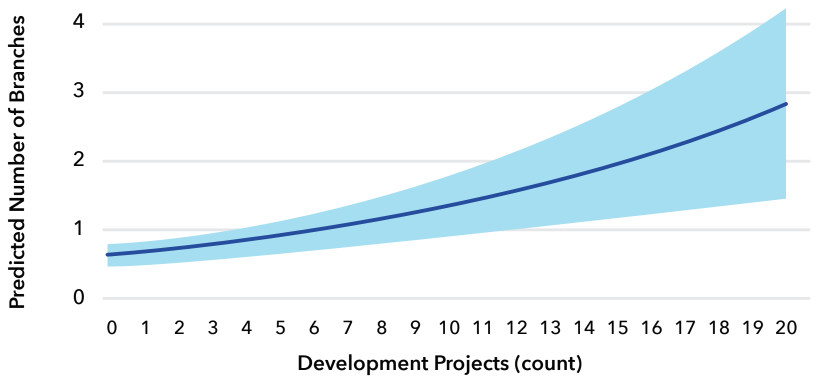
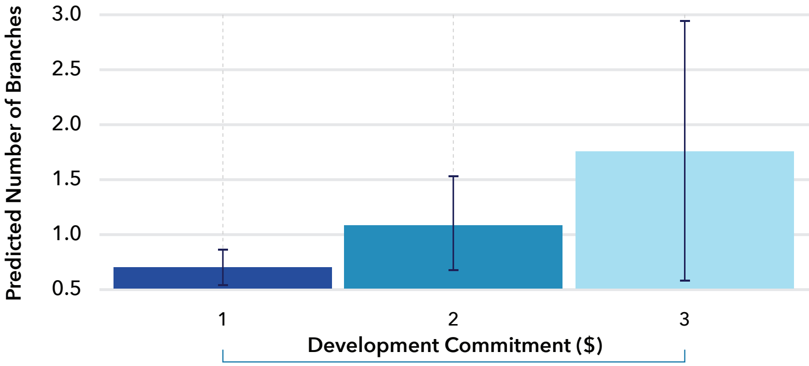


FIGURE 5. Predicted Marginal Effects of China's Financial Commitment to Development Projects on Bank Branches



Turning to models with additional geopolitical covariates, inclusion of these additional measures does not substantively change the underlying results on the Chinese development investment variables. In all three cases, coefficients remain positively signed and statistically different from zero, indicating that an increased role for China in the country's development space is associated with a higher number of bank branches.

Moreover, a survey of the geopolitical variables indicates that there is no evidence that China's strategic interests play a systematic role in bank branch growth abroad. Beginning with the dichotomous measure of US financial sanctions, in all three models the coefficient for this variable is negative, and in two cases the variable is statistically significant. This implies that countries facing US financial sanctions, on average, have fewer Chinese bank branches than countries that are not sanctioned by Washington. The notion that Chinese banks are setting up shop in economies blacklisted by US Treasury to help actors in those markets evade sanctions is not supported in the data.

There is also no evidence that Chinese banks prefer to expand into markets where governments have similar foreign policy preferences with Beijing, based on UNGA voting similarity. The UNGA ideal point distance variable is inconsistently signed and far from statistical significance in all three models. Finally, Chinese banks are not more likely to open branches in authoritarian countries. In fact, the coefficients for the Polity measure are positive in all cases, and significant in one, suggesting that if anything, Big Four banks are more inclined to expand in countries with stronger democratic credentials.

Discussion

China is home to the world's four largest banks. Increasingly, those state-owned institutions are opening branches in foreign markets—a trend that is reshaping cross-border financial flows and challenging traditionally dominant multinational banks from the US and Europe in developing and emerging markets. This study has considered the relationship between the "going out" strategy of Chinese banks and the country's ballooning portfolio of overseas development projects.

The evidence presented here suggests that these two trends cannot be understood apart from each other. The Big Four banks have opened foreign branches in order to serve the financial needs of Chinese SOEs that are overseeing development projects. Chinese outward direct investment into developing and emerging markets, via BRI and even outside of that initiative, would not have been possible without the financial services provided by Chinese banks. Such lending was facilitated by the opening of branches where Beijing's development investment was greatest. Conversely, Chinese banks, saddled with non-performing loans and a mainland landscape mired in overcapacity, needed overseas development projects to improve their profitability. The symbiosis between China's ambitious development investment initiatives and the global ambitious of its banks are two sides of the same coin.

Notably, geopolitical considerations do not appear to be a determining factor in overseas Chinese bank expansion. Rather, the Big Four banks appear to act—in many respects—much like American or European banks. That is, they go where the economic opportunities are, following their customers around the world. Yet, because the opportunities are the result of Beijing implementing its broader foreign economic policy agenda, there is an underlying element of politics at play here, even if the banks' incentives are primarily economic.

In time, the presence of Chinese bank branches in these locations may serve to create and then deepen financial ties between host country businesses

TABLE 2. Chinese Development Projects and Foreign Bank Branches, Supplementary Results

	Model IV	Model V	Model VI
BRI participant	**0.661** (0.231)**		
Project count		**0.0789*** (0.0130)**	
Development commitment (bins)			**0.536** (0.181)**
Total trade with China (log)	0.281 (0.188)	0.369† (0.194)	0.276 (0.204)
Financial Center	0.0941 (0.384)	0.347 (0.337)	0.537 (0.359)
GDP (log)	0.584** (0.189)	0.409* (0.185)	0.491* (0.192)
GDP per capita (log)	0.132 (0.165)	0.396* (0.176)	0.311 (0.189)
GDP growth	0.128* (0.064)	0.0884 (0.055)	0.133* (0.062)
GDP per capital growth	-0.127† (0.068)	-0.0650 (0.055)	-0.113† -0.113†
US sanctions	-0.182 (0.436)	**-1.320* (0.575)**	**-1.404* -1.404***
UN voting ideal point distance	-0.151 (0.395)	0.007 (0.351)	0.0843 (0.338)
Polity	0.0318 (0.030)	0.0495* (0.024)	0.0442 (0.031)
N	*2042*	*0.321*	*1605*
pseudo R-sq	*0.321*	*0.357*	*0.342*
Year FEs	✓	✓	✓
Region FEs	✓	✓	✓

and China. Given that banks are attracted to locations where Chinese development projects are ongoing, the United States would be best positioned to counter these trends by incentivizing US firms to bid on US-backed development projects in similar markets. This, in turn, would create incentives for US banks to open their own branches in these locations, rather than ceding the space to Chinese state-owned financial institutions.

This is especially important as the role of geopolitics in international economic matters looms larger over time. As talk of a US-China decoupling intensifies, and China's interest in internationalizing its own currency to enhance its financial resilience grows, the factors behind Chinese bank branch expansion in the next decade may become more explicitly strategic. But, for now at least, the story is one of economic incentives driving financial institution behavior; or, from a slightly different angle, a story where state-owned banks are playing their expected role in executing the Chinese government's foreign economic policy strategy.

The views expressed are the author's alone, and do not represent the views of the US Government, Carnegie Corporation of New York, or the Wilson Center.

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19. This is a challenge that Chinese banks continue to face. In 2020, non-performing loans on bank balance sheets hit the highest level since 2009. In March 2023, Moody's, a credit rating firm, maintained its negative outlook on Chinese banks as the aftereffects of zero-COVID continue to challenge the sector. See Reuters. "China's big banks brace for lagging COVID-19 risks as bad loans rise." August 30, 2020. https://www.reuters.com/article/china-banks/wrapup-1-chinas-big-banks-brace-for-lagging-covid-19-risks-as-bad-loans-rise-idUSL4N2FW07R and Evelyn Cheng. "Moody's retains 'negative' outlook on China's banks amid challenges of emerging from Covid-zero." CNBC. March 15, 2023. https://www.cnbc.com/2023/03/15/moodys-negative-outlook-on-china-banks-as-country-emerges-from-covid-zero.html
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24. One study points out that roughly 40 percent of cross-border lending, regardless of bank nationality, originates from outside of the home country. Similarly, a sizeable share of Chinese banks cross-border lending originates from branches and subsidiaries outside of China. This reinforces the point that for banks to seize a share of cross-border lending, they need foreign branches in critical markets. See Cerutti, Eugenio, Catherine Casanova, and Swapan-Kumar Pradhan. "Banking across borders: Are Chinese banks different?." IMF Working Paper. (2020).
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33. So, for example, if there are three projects announced in Afghanistan in 2015 with the first having a $1 million commitment, the second having a $3 million commitment, and the third having a $10 million commitment, then the value for this measure for Afghanistan in 2015 would equal $14 million.
34. I use the natural log of total trade to address skewness in the variable.
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39. Another common option for count data is Poisson regression, which is appropriate when the mean and variance of the outcome variable are roughly equal. In the case of my dependent variable, the variance is significantly larger than the mean. Thus, the negative binomial distribution is more appropriate as it incorporates an additional term to account for excess variance.
40. Region fixed-effects were used in place of country-fixed effects because the models would not converge when using the latter.
41. This amounts to one-fifth of a standard deviation in the outcome variable.