POLICY BRIEF
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CHINESE BANKS IN THE EU:
STRUCTURES, FUNCTIONS AND REGULATORY CHALLENGES

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Chinese Banks in the EU: Structures, Functions and Regulatory Challenges

Chinese banks have established themselves in the European Union as key players in financing trade, investment, and business activities between Europe and China. Their special institutional structure in the form of the 'branch-cum-subsidiary' model, often established in Luxembourg, allows for high financial flexibility, but also brings regulatory tensions. At the same time, new European regulations on banking supervision, investment control, and economic security are changing the framework of their activities within the union. This leads to challenges and new requirements for a balanced and reciprocal design of EU-China financial relations.

For many years, economic relations between the European Union and China have primarily been characterised by strong optimism and growth. This was marked by intensifying bilateral trade and investment flows, and economic interdependence was largely seen as a key component for stability and rapprochement. In recent years, however, this predominantly economic relationship has become increasingly entangled in a field of tension involving political, strategic, and security considerations. Reasons for this include geopolitical shifts, growing debates about dependency, and a changed approach to economic security, following China's rapid economic and political rise.

Today, relations between the European Union and China stand at a juncture where economic opportunities and strategic challenges need to be rebalanced. While both sides have benefited from enhanced economic integration over the past decades, a simultaneous political and regulatory shift has brought questions of resilience, market opening, and mutual transparency to the forefront. Especially the financial sector, in which Chinese banks have played a more visible role in recent years, signals a need to rebalance economic cooperation and regulatory interests.

At the heart of this debate lies the changing role of Chinese financial institutions within the EU. Their activities have become central to financing cross-border investments, trade, and economic cooperation between European and Chinese companies. At the same time, they reveal structural differences, expectations of reciprocity, and regulatory tensions that require careful policy management. These dynamics raise the question of how openness, competition, and financial autonomy can be reconciled in a way that serves the long-term interests of both partners.

By analysing the institutional structures, business activities, and regulatory environment of Chinese banks in Europe, this policy brief reveals in which areas tensions arise, so as to identify pragmatic solutions. The aim is to contribute to a more balanced and forward-looking discussion

on how Europe and China can maintain mutually beneficial financial relations without neglecting the strategic challenges of a changing global environment.

1. Operational Structures of Foreign Banks in the EU

1.1. The Structure of US, UK & Japanese Banks in Europe

Long before the emergence of newer players on the market like China, the European financial system had already been shaped by the extensive activities of US, UK, and Japanese banks. Today, they are generally present within the European Union through long-established and well-regulated structures. Big financial institutions like Goldman Sachs, the Hong Kong and Shanghai Banking Corporation (HSBC), or the Mitsubishi UFJ Financial Group (MUFG) have fully licensed subsidiaries in major financial centers within the EU, such as Dublin, Frankfurt, Paris, or Luxembourg. The Brexit has forced especially British and other foreign banks whose licences rested in the UK, to restructure their continental European operations in order to continue to engage in the EU internal market. These subsidiaries are legally European and thus subject to full European banking supervision and, even direct European Central Bank (ECB) supervision within the Single Supervisory Mechanism (SSM). This ensures a high level of regulatory control and transparency for the EU. Many of the banks additionally operate branches in other EU Member States to offer centralised services, but the central operating structures are still anchored in the subsidiaries. This ensures that their operations are legally and financially aligned with European rules. In the EU, they primarily operate through wholesale and investment-banking activities for corporate clients, whereas retail banking plays only a marginal role, if any at all.

1.2. The Structure of Chinese Banks in Europe

While the institutional architecture of Chinese banks active in the EU is not entirely different from other foreign banks, they pursue a significantly more fragmented and state-dominated presence structure, commonly arranged in the 'branch-cum-subsidiary' or 'branch-subsidiary' model. Broadly speaking, this refers to a hybrid organisational model in which a bank operates both a branch without its own legal personality and a subsidiary with full legal identity in the same country, with the two entities closely interconnected in terms of operations and staffing. In this capacity, it combines the legal and financial advantages of both, while it plays a key role in the promotion of Chinese foreign direct investments (FDI) in the EU. In particular, Luxembourg showcases a flagship model of 'branch-cum-subsidiary' for Chinese banks for various reasons. For instance, branches and subsidiaries are often housed in the same building and operated by

nearly identical teams. Moreover, Luxembourg's 'large exposure exemption' enables subsidiaries to extend credit beyond the usual regulatory limits, provided these exposures are guaranteed by the branch. This creates a degree of regulatory flexibility for the 'branch-cum-subsidiary' model that is far less common in other European countries.

In technical terms, branches are not independent legal entities but are legally a part of the parent bank in China. In Luxembourg, they fall under the supervision of Luxembourg's Financial Sector Supervisory Commission, the *Commission de Surveillance du Secteur Financier* (CSSF), and do not have EU-wide passporting rights that would allow them to distribute financial products across national borders. However, due to their connection to the parent bank, they can directly access their balance sheets and capital resources, providing them with a high financing capacity. Often, they also function as the guarantors and source of capital for the subsidiaries.

Contrarily, the subsidiaries are legally independent entities that have been established in the host country according to local laws and regulations. They have their own balance sheets and, within the Eurozone, are under the supervision of the European Central Bank (ECB) and the SSM framework. These subsidiaries take on the bank's governance functions for the entire EU-wide network, while still benefitting from the guarantees of the branches.

Nowadays, Luxembourg is the second most crucial location for Chinese bank headquarters and renminbi (RMB) business in Europe, after London. Despite Brexit, London remains a key location for the international business activities of Chinese financial institutions, but within the EU, Luxembourg represents the most crucial destination for the Chinese banking business. In 1979, the Bank of China became the first bank from the People's Republic to open a foreign subsidiary, choosing Luxembourg as its location. Since then, all of the remaining Big Four of Chinese State-Owned Commercial Banks (SOCBs), including the Industrial and Commercial Bank of China, the China Construction Bank, and the Agricultural Bank of China, have opened their main EU offices in the country. Additionally, the Joint-Stock Commercial Banks (JSCBs), the Bank of Communications, the China Merchants Bank, and the China Everbright Bank have also chosen Luxembourg as the center for their EU activities.

The reason reflects a combination of factors: the Duchy has long been an internationally oriented economic hub that actively seeks to attract foreign banks, offering a stable economic and political environment and favourable conditions for international capital flows. Its pragmatic, bank-friendly regulatory framework makes it easier for foreign institutions to establish branches and operate across borders, while its advantageous tax regime and access to European markets further enhance its appeal. Additionally, China and Luxembourg have long-standing, yielding diplomatic relations. In official Chinese government publications, the European country is frequently described as a cooperative and pragmatic partner, crucial for strengthening China-EU relations.

2. Business Operations of the Banks

The primary focus of Chinese banks in Europe is corporate and wholesale banking. The core business is the financing and support of large and corporate, as well as institutional clients. This includes both Chinese clients that are active in the European Union and European clients with business relations in China. One business sector falling under this category is project and M&A financing, where the banks support Chinese companies in acquisitions and investments in Europe.

Not all banks offer exactly the same services, and some have special roles and functions in the Chinese banking network abroad. The ICBC Luxembourg Branch, for instance, acts as the official RMB-Clearing Center for the People's Bank of China (PBoC)—China's central bank—for the Eurozone. Other financial services provided by Chinese banks in Europe include services in the fields of capital markets, asset management, custody and trust services, and, to a limited extent, private banking. Often, they act as facilitators for European companies investing in China and thus having to comply with local regulatory requirements there.

2.1. Chinese Banks and Chinese Businesses in the EU

The EU presence of Chinese banks is closely tied to the support of Chinese FDI in Europe. Their actions are strategically FDI-oriented, and this function also shapes their institutional and legal structure. Again, Luxembourg plays a vital role. About 40% of Chinese FDI flowing into Europe does so via the Duchy. Thanks to the 'large exposure exemption,' large volume financing—especially for mergers and acquisitions—is made possible from there. This model allows for efficient capital flows to be channeled between China and the EU, to avoid regulatory restrictions, and for credit flexibility to be expanded.

In recent years, the primary focus of investments by Chinese companies in Europe, and thus also their banks, has been increasingly shifting away from mergers and acquisitions towards greenfield investments. These are a form of FDI in which a company establishes operations in a foreign country from the ground up, to maintain the highest possible level of control over its foreign operations, avoid intermediary costs, and potentially benefit from local tax advantages and subsidies. Other advantages of this approach are that possible trade restrictions can be bypassed and that jobs are created in the foreign investment's host economy. However, it is also linked to high investment risks, market entry costs, and potential FDI government regulations. In Europe, Chinese greenfield investments are largely focused on the sectors of green energy and e-mobility. In 2023, roughly 70% of Chinese FDI investment in the EU was made along the electric car supply chain, including battery factories in Hungary, Germany, and France. These projects indicate a long-term strategic orientation, financially supported by the Chinese banks present in the EU.

Furthermore, many activities of Chinese banks in Europe are closely tied to China's Belt and Road Initiative (BRI). In recent years, a strong increase in the correlation between cross-border lending and Chinese FDI became especially clear in countries with BRI participation. Besides commercial banks, state-owned policy and development banks have contributed to the financing of these projects. A prominent example is the investment of the China Three Gorges Corporation in the Portuguese energy company EDP. Via a special purpose vehicle founded in Luxembourg, and a newly opened branch of the Bank of China in Portugal, 800 million EUR could be provided, topped off by the emission of a green bond at the green exchange in the Grand Duchy. Examples like this showcase how Chinese banks facilitate Chinese private and state investments in complex structural preconditions of the European market.

2.2. Chinese Banks and European Companies in Europe

Nowadays, Chinese banks in the EU no longer act only as financial service providers for Chinese companies and SOCs, but increasingly also as a strategic partner for European companies. In fact, 70% of Chinese lending in the EU is to big European companies. This makes them a crucial part of their customer circle in Europe. The rhetoric used by bank officials also tells a story of Chinese and European banking and business moving closer together in more ways than one through the Chinese banks' activities. Longjian Chen, the Deputy General Manager of the Bank of China Luxembourg, stated that they 'want to be a bridge between China and Europe from a business, culture, communication, and social aspect.'

In Europe, the business activities of Chinese banks focus on traditional corporate banking and large-scale loans, trade finance, and the processing of payments in RMB. Through the RMB clearing of the ICBC in Luxembourg, European companies can conduct trade transactions directly in RMB and thus avoid exchange rate risks.

Besides regular loans, Chinese banks also increasingly offer syndicated loans and capital market services. Through the establishment of investment funds such as European UCITS and Chinese RQFII funds, they grant European investors access to China's bond markets. Despite these structural advantages offered by Chinese banks, their market situation within the EU remains relatively weak. This is because they focus on wholesale and specialised financing and are hardly active in the retail segment, as well as due to challenges posed by geopolitical tensions and regulatory uncertainties.

2.3. Chinese Banks and European Companies in China

While Chinese banks cater more and more to European companies within Europe, they also act as facilitators for European companies for their market entry into Chinese markets. Besides their

RQFII fund activities, the EU headquarters of the banks support the companies by providing financing opportunities, explaining regulatory procedures, and acting as an institutional interface between European investors and Chinese authorities. Here, the most crucial services provided for the European clients are RMB accounts, trade finance, and investment advisory. The role of Chinese banks in providing European companies with access to financing in China and thus as a financial bridge from Europe to China is a crucial one, as the Chinese banking system retains complexities in its navigation for foreign players.

China's accession obligations when joining the WTO included that foreign entities would not be discriminated against on the Chinese market and within China's overall business environment. Yet, European companies still find themselves facing distinct regulatory disadvantages as compared to their local counterparts in China, a sentiment that is even being voiced more and more often in discussions with European business actors and practitioners, like chambers of commerce and business representatives. For instance, while state-owned Chinese companies receive preferential treatment for loans, licenses, and public contracts, private and foreign companies continue struggling to access financing. Difficult market entry remains another hurdle for European companies in China today. Further obstacles, such as ambiguous laws on data and information security, lead to many European companies acting cautiously and delaying or restricting investments in China. Due to this combination of limiting factors, European companies are structurally disadvantaged–despite the support of the Chinese banks.

In light of these limitations, Chinese and European institutions are actively working on creating more reciprocity. In the framework of the EU-China Working Group on Financial Regulatory Cooperation, talks are frequently held to harmonise regulatory and market entry conditions. Luxembourg has allowed multiple Chinese financial institutions to leverage a so-called 'EU-pass', enabling them to expand their operations to the EU internal market. This level of openness is not reciprocated for European institutions in China. This uneven openness of the financial markets shows that Chinese banks, although they act as key intermediaries in bilateral economic transactions, often operate within a framework that disadvantages European actors.

3. EU Regulations and Political Landscape for Chinese Banks and Investment

Chinese banks are subject to the same policies and regulations as other third-country branches active within the EU. As such, they have to comply with licensing and supervisory requirements of the EU, but also specific ESG and crypto regulations, to name a few. Yet, the special branch-cum-subsidiary set-up of various Chinese banks with their European headquarters in Luxembourg allows them to operate relatively flexibly within the broader European regulatory framework. Nevertheless, several regulatory measures and considerations are already making–or have the potential to make–conditions more challenging for Chinese investors and their financial institutions operating in Europe.

Firstly, the 6th EU Capital Requirements Directive (CRD VI) is set to impose far-reaching changes for third-country banks operating with the branch-cum-subsidiary model, especially from Luxembourg. By January 2027, this will mean stricter supervisory, capital, and reporting obligations to the EU. Furthermore, national authorities will be able to demand that systemically important branches be converted into independent subsidiaries. While the EU's goal in this is to minimise risk and introduce stricter and uniform rules and controls of non-EU banking institutions, it makes the branch-cum-subsidiary model considerably less attractive. This will likely affect the structure of Chinese banking operations in the EU.

Secondly, the European institutions are taking more and more decisive steps on stronger regulations of Chinese FDI within EU borders. On 11 June 2025, the Council of the European Union approved a negotiating mandate to revise the existing FDI-screening regulation of the EU and begin trilogue negotiations with the European Parliament and European Commission. A topic at these negotiations is an EU Commission draft from January 2024, which proposes mandatory mitigation measures, or conditioning FDI, in sensitive sectors, and giving the Commission the power to overrule FDI approval decisions of Member States. Although these proposals have not yet led to significant changes, the direction of the EU's third-country FDI policy is clear and is likely to make FDI operations more challenging for Chinese investors in the EU, consequently impacting one of the core areas of business for Chinese banks.

Thirdly, a majority of Chinese businesses in Europe are experiencing differential treatment because they are Chinese. Concretely, 64% of Chinese investors are concerned mostly about issues such as 'limited access to public procurement and markets, competition issues, reduced access to subsidies and incentives, lengthy approval processes, and limited channels of communication with local authorities.' Some Chinese investors further voice their feelings of having concerns over the EU's proclaimed focus on economic security and risk mitigation negatively impacting their business and politicising their activities.

4. Concluding Reflections and Future Outlook

Taking all factors into consideration, the developments show that the EU is in the process of reshaping its international financial and investment rules with the intention of reducing risks, strengthening its own autonomy and financial market. While the rationale behind this objective is clear, the potential effects on Chinese financial institutions and investors raise some important questions. Many of the current and planned measures make operating in the EU more complicated and less attractive for some of these Chinese actors, even though they play a key role in facilitating not only Chinese business operations in Europe but also European business development in China. When Chinese actors in Europe feel targeted, experiencing differential treatment due to the EU measures, this raises the question of whether the EU is taking the right

approach. How much can Europe's financial and economic security be improved through measures that complicate the presence and operations of one of Europe's most important economic partners? And at what point does this protective EU impulse turn into a harmful politicisation of finance?

Striking the right balance between market protection and economic openness will therefore be crucial for the future of EU-China economic relations. However, fairness also requires this balance to be built on genuine reciprocity and not on EU action alone. In the long term, a stable, fair, and mutually beneficial financial relationship between Europe and China can only be sustained if risk minimisation and economic integration do not work against one another, but instead reinforce each other.

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