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CHINA'S FINANCIAL SPACES IN EUROPE: BANK NETWORKS, INVESTMENTS, AND CURRENCY

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ABSTRACT

Despite the vast research on China's external economic expansion, little is known about the spatial organisation and operations of Chinese commercial and development banks that enable such expansion. This thesis by publications sheds new light on the physical presence, organisation and agency of Chinese banks in Europe. It analyses the capability of Chinese banks to create new financial spaces. I start with the assumption that socioeconomic interactions, which I ascribe to the combinations of network-place and structure-agency, construct (financial) space. I identify Luxembourg as a key place of the spatial organisation of Chinese banks in Europe and detect Chinese banks as key players in organising the mechanisms that enable China's economic expansion into Europe. To understand the implications of Chinese banks' presence and operations in Europe, I address three intertwined overarching questions: what are Chinese banks doing in Europe? How are they spatially organised? Are they reshaping European financial spaces? To answer, I designed interdisciplinary qualitative research based on expert interviews and desk research. I selected three dimensions for Chinese financial activity in Europe: bank networks, currency and investments, which I analyse in four chapters/publications. The first two chapters analyse the geoeconomics of Chinese bank networks' expansion and its spatial organisation that enables mergers and acquisitions in Europe respectively. Chapter 3 analyses how Chinese development banks make use of Luxembourg's investment fund industry to invest in (energy) infrastructures and private equity in Central and Eastern European countries. Chapter 4 analyses the investment role of money as a neglected dimension to understand renminbi internationalisation. This chapter highlights the roles of Luxembourg and Western banks as key for investments into China's domestic financial markets, and the role of China's state in governing the inflow of such investments. Findings from the four chapters show how Chinese financial spaces in Europe are co-constituted by both Chinese and European actors. I find that Chinese banks have established a wide set of networks across Europe while their activity is still limited. This suggests that Chinese bank networks are still in an embryonic stage although they are preparing to widen their activities in the (near) future. This strengthens Luxembourg's positionality as a key financial hub connecting China to Europe. Chinese banks' attractiveness as future gatekeepers to the Chinese domestic financial markets suggests that they will expand their activities in Europe despite current geopolitical frictions between China and the West. Beyond contributing to the growing literature on China in Europe, this thesis contributes to the advancement of the sub-disciplines of economic and financial geography by conceptualising banks as key agents of financial space creation and shapers of global financial networks.

CHINA'S FINANCIAL SPACES IN EUROPE

BANK NETWORKS, INVESTMENTS, AND CURRENCY

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INTRODUCTION

China and the Creation of Financial Spaces in Europe

In the last decade, Chinese commercial and development banks have been building a wide set of networks to facilitate the flow of Chinese investments into Europe. By doing so, Chinese banks have created a financial space in Europe, which is a completely new phenomenon in China's external economic expansion and the recent history of globalisation. Analysing the territorial and economic expansion of Chinese banks and finance in Europe is important for several reasons. First, it helps to understand how two of the largest markets in the world—China and the EU—are cooperating; second, it helps to outline China's economic expansionary strategies in Europe, which in turn helps to understand potential avenues for future cooperation and political economic risks; finally, it helps to better understand the potential implications of hosting China's financial heavyweights, namely Chinese commercial and development banks, in a time of increasing geopolitical frictions between the West and China. As the title suggests, this thesis is mostly concerned with China's financial spaces in Europe; and the concept of space is a starting point to further understand the phenomenon I decided to analyse through this dissertation.

Space is a socioeconomic construct (Brenner 1997, Jessop et al. 2008, Lefebvre [1974] 1991) where actors exercise their power by controlling material and non-material resources in bargaining processes (Allen 2016). Actors organise networks that enable knowledge, capital and commodities to flow between and within regions (Aoyama et al. 2011). This dissertation is interested in a specific type of space that is taking shape in Europe, identified by two attributes: *financial* and *Chinese*. It is financial, as it is co-constituted by state and private financial actors such as banks,

regulators, financial service providers and investment funds, among others. It is Chinese, because the focus of my analysis is on Chinese actors, namely Chinese commercial and development banks. To be sure, a pure Chinese financial space in Europe does not exist, because space is by definition co-constituted by all actors operating through and within it. The Chinese financial space that I explore in the chapters that follow is the space where Chinese banks perform their functions and extend their networks, whose governance structures facilitate the flow of capital. While scholars have analysed Chinese investments to Europe (e.g., Jepson 2022; McCaleb and Szunomár 2017; Rogers 2022), not least under the sign of the Belt and Road Initiative (BRI) (e.g., Gledić 2019; Liu et al. 2021; Pendrakowska 2018), the banking networks that facilitate such flows have attracted little attention.

This dissertation by publications helps to fill this gap through four chapters that analyse different dimensions of Chinese financial organisation and activities in Europe: bank networks (Chapters 1 and 2), investments (Chapter 3) and currency (Chapter 4). The keywords in the subtitle of the thesis—which recall the topics of the chapters/publications—narrow down the scope of the analysis of Chinese financial spaces in Europe to the space where Chinese bank networks, investments and currency are at the core of socioeconomic relations and transactions. The aim of the thesis is twofold: first, it aims to contribute to the emerging literature on 'China in Europe'; second, it aims to contribute to the broader project of economic geography by affirming the importance of analysing bank networks to further understand how the economy is (spatially) organised. In order to achieve the first aim, I will assess China's financial activity in Europe by responding to the overarching research questions of this dissertation: What are Chinese banks doing in Europe? How are they spatially organised? Are they reshaping European financial spaces?

I show that Chinese financial activity is rather limited if compared to its potential. Chinese commercial and development banks, however, have established a wide range of networks across Europe to facilitate the flow of capital. Furthermore, the four chapters reveal the importance of *place* in the creation of financial spaces. Luxembourg's international financial centre stands out as the key regional headquarters of Chinese banks in Europe and a strategic node in China's global financial network. Despite their broad physical presence, as I will show, Chinese banks and investments are still small and limited. This suggests that, on the one hand, Chinese banking activity in Europe is still at an embryonic stage, and on the other, its potential is primed to become reality in the (near) future, with implications for both China and Europe, especially in light of recent geopolitical frictions. The second aim of the thesis is to argue that bank networks, their functions and governance structures, are key to better understanding how and where capital flows through and within regions. A deeper engagement with the spatial organisation of banks would contribute to better understanding how the economy is organised. More in general, it would

contribute to further developing the sub-discipline of economic geography, as I will argue in the concluding chapter.

The following section provides a literature review of the key concept of the thesis: space. This concise review aims to identify the connection between the concepts of network, place, structure, and agency in order to affirm the importance of (Chinese) bank networks in *making* (China's) financial spaces. To frame my research, I disassemble the concept of space into a framework defined by two complementary combinations: network-place, which helps particularly to understand how actors are spatially organised; and structure-agency, which helps to understand what actors are doing and what limits, or increases, their ability to operationalise their strategies and reach their goals. I will show how actors and places, namely Chinese banks and Luxembourg, are embedded 'in a range of territorial scales' (Sheppard 2002: 310): global, regional, and local. This introduction, then, will present an outline of my research strategy, case selection and methods. With the aim of meeting my ambitions to publish diverse scientific articles on selected topics of Chinese finance in Europe, I have addressed the issue of Chinese bank expansion into Europe from different perspectives. I used different analytical lenses for each chapter/publication to understand the implications and consequences of Chinese bank presence and agency in Europe. From chapter 1 to 4 respectively, I have used the following concepts: geoeconomics, global financial networks, externalisation, and currency internationalisation. Each, in turn, identifies organisational and operational patterns of Chinese banking in Europe and helps to better assess China's financial agency in Europe as a whole. I will close this introductory chapter with an overview on the organisation of this dissertation and by presenting the four publications that constitute the core of the thesis.

NETWORK-PLACE, STRUCTURE-AGENCY

Economic and political forces constantly produce and reproduce space. While capital produces the space of economic transactions, the state produces political space and both influence each other. The state contributes to 'organise, instrumentalise and regulate social space' (Brenner 1997). This means that 'the market exists, and can only exist under certain political legal and institutional conditions that must be actively constructed by government' (Burchell 1993: 270-1, cited in Butler 2012: 94). In this perspective, state and capital are inextricably engaged in the production and reproduction of space. From a slightly different angle, space is produced by 'making law' (Martin et al. 2010). This inseparable 'productive' relationship has evolved into phenomena that epitomise our time such as the commodification of law (Pistor 2019), which can be understood as an example of commodification of space (Lefebvre 1991). Importantly for this study, this is especially related

to the effort and ability of international financial centres to attract financial actors and govern capital flows. The perspective that I suggest here aims to show that space is always co-constituted by a set of state and market actors that tend to organise their networks and activities in, from, and across specific places, which in turn attract economic activity through relational assets that create competitive advantages (Sheppard 2002).

Attracted by those relational assets, financial entities such as banks ground their activity in places where they assume legal and physical form with office buildings and employees. Actors are organised in networks, which cannot be separated from the places where those same actors establish their presence. The conceptualisation of a network-place nexus helps us to identify and highlight the territory where Chinese banks—the actors under analysis in this thesis—ground their activities, that is, the European Union (EU) and particularly Luxembourg. As will emerge from this thesis, Luxembourg is the main, although not the only, regional hub of Chinese financial activity and the largest headquarters of Chinese banks in Europe—in terms of the number of bank branches governed from there—and by far the largest in the EU. This is why, as we will see from the analysis of Chinese bank networks, investments and currency, Luxembourg is for various reasons and to different extents always present. The analysis of economic networks helps us to understand how places benefit from economic relationships, and more generally, how economic activity is organised (Aoyama et al. 2011). In this vein, by identifying Luxembourg as the main hub of Chinese financial activity and bank headquarters, I set a starting point from where to analyse the governance structures of Chinese financial spaces in Europe.

Governance is 'necessarily territorial' (Jonas and While 2005: 78) and involves the complementary analysis of *structure* and *agency*. Structure and agency were originally two different ways of understanding the creation of value through labour or utility according to Marxist and Neoclassical theories respectively (Barnes 1989). Today, in general, scholars agree that structure and agency are two complementary concepts that help to understand, among others, how economies and societies are organized, and power relations in space. However, scholars tend to prefer Marxist or Neoclassical accounts playing up, or down, the structuration of society and the ability of individuals to achieve their objectives through their potentials. For instance, acknowledging their different approaches, Henri Lefebvre (1991) and David Harvey (1982) tend to emphasise the role of capital in the production of space and the structuration of society. Scholars like Doreen Massey (2009, 2012) believe that the agency of individuals has a more relevant role than capital in shaping ever-evolving spaces.

The concept of structure involves the conditions that limit, or facilitate, actors' ability to govern networks and economic activity. Simultaneously, actors exercise their power to reproduce, reshape or change the same conditions. Structure, as concrete socioeconomic interaction (Glücker 2007), evolves constantly and results from the interaction of complementary state and market forces, and

network-place relations. This is important because 'the restructuring of the state is associated with the emergence of *new spaces* and scales of governance' (Jonas and While 2002: 78, emphasis added). From a slightly different perspective, place conditions both structure and agency, while powerful actors in economic networks, in turn, reshape its geographies (Storper and Walker 1989) in an iterative process. In this vein, as Giddens (1984) suggests, structure can be understood as rules and resources that actors use to reproduce the same structures, they are simultaneously the means to build social systems and the outcome. This means that structures are not only normative constraints but also resources for action. To this understanding of structure, Sewell (1992) adds that structures are a 'profoundly cultural phenomenon' (p. 28), which implies the need of a careful reasoning about the implications of European and Chinese socioeconomic interactions.

Agency is far from being defined. Emirbayer and Mische (1998), consider agency as the ability to sustain and alter structures. Agency can be simply conceived as the ability to influence decisions in socioeconomic relations. The power to use and reproduce structures, as Knafo (2010) explains, is often conceived as being in opposition to agency. On the one hand, dynamics of social reproduction refer to the power exercised by actors who are interested in maintaining the status quo. On the other, agency refers to social change. In this vein, power dynamics unfold across networks and places between agents of reproduction and agents of change. However, Knafo (2010: 513-514) argues that:

> '[t]he notions of agency and structures do not refer to two ontological dimensions of social reality that we need to recover, but rather to a broader epistemological issue […] structures have a different significance depending on the way specific agents relate to them. Agency provides a methodological rigour to specify how structures are used differently by social agents in order to gain leverage over phenomena that escape their control (agent related) and to determine what power produces in this process (social change)'.

This dissertation aims to understand how Chinese banks are using European socioeconomic structures differently. The relationship between Chinese banks and local structures in Europe implies different types of agents and agency across different scales. Banks are not the only agents using structures as there are also local governments that use structures to develop and promote their comparative advantages. Places such as Luxembourg's financial centre exercise their own agency by using and constantly reproducing structures to attract, specifically in this case, banking activity. This thesis aims to utilise the abstraction of the combination structure-agency to understand what Chinese banks do concretely on the ground through four examples of Chinese financial activity in Europe. In so doing, I start from the assumption that banks are not mere intermediaries in the economy, but agents with their own 'productive' ability and strategies.

Banks play a key role as they are systemic constituents of the economy and the ultimate source of credit (cf. Ryan-Collins et al. 2017; Werner 2005). Scholars have looked at the role of banks in the economy through different perspectives. In general, they agree with the fact that banks deserve special attention, not least for their role as 'agents of change' in the global financial crisis in 2008 (Hardie and Howarth 2013; Macartney et al. 2020). Others suggest that banks are still far from being deeply understood due to their absence from macroeconomic theory (Werner 2016). In this vein, I suggest that banks are important although still neglected actors in the production of financial spaces. Interestingly, Lai (2018) ascribes the co-constituted nature of global financial networks to state-firm power relations. While this resonates in the structured complementarity of space (cf. Jessop 1998), I ascribe the same 'co-constituted nature' to financial spaces, partly produced by state-banks relations. This debated relationship concerns power relations in the state-finance nexus.

Scholars have interpreted China's state-permeated economy as a determinant of China's state-led global economic networks (Töpfer 2018), which the state assumes a leading role to whom finance is subjected. In contrast to this straight understanding of state-bank power relations, other scholars have noticed more nuanced relationships between state and finance, especially banks. For instance, Langley (2015) analyses the state-finance nexus through state interventionism in the aftermath of the financial crisis in 2007-08 and explains how state-bank (power) relations unravels and affect financial practices and techniques in crisis governance dynamics. Macartney et al. (2020) suggest that bank power comes mainly from government protection, and this is particularly true for large systemic banks, considered by governments as 'too big to fail' (Macartney et al. 2020). This power, however, has different connotations in different nation-states and different levels of state-firm bargaining (Lai 2018). Importantly from this perspective, China is a case in point as its 'uniqueness … resides in the determination of the CCP [Communist Party of China] to maintain its explicit role as custodian of the power of capital' (Gruin 2019: 218). While this is a key connotation of China's state-finance nexus, it is slowly but relentlessly changing as financial opening and reform in China is governed by a set of forces that thicken and expand through coalitions, beyond the rule of the Party (Li 2018), including external forces exercised by foreign powers (Balmas 2019).

Epstein (2017) suggests that states have used banks to wield influence abroad and direct credit to specific segments of the economy. Through the example of Western banks' takeovers of local banks in Central and Eastern European countries, Epstein also shows how loosened state-bank ties may result in bank acquisitions from foreign banks and structural change in domestic banking systems. The state-finance nexus in Chinese bank expansion to Europe assumes an important role as China's state and banks are hardly tied through shareholding ties and government guidance on credit allocation and, in their expansion to Europe, meet a strongly regulated banking system. In this system, European banks are on the market, open to foreign acquisitions. Despite the liberal

connotation of the European banking sector, Chinese banks to date have not shown interest in acquiring European banks. However, while all this literature provides useful insights on state-bank power relations, it is in general far form assessing power relations in Chinese bank expansion into Europe, especially beyond the relationship between states and their own banks. The four chapters in this thesis imply a complex set of socioeconomic relations between hosting states and Chinese state and banks, and offer four different examples of Chinese financial activity in Europe where Chinese and European states, along with Chinese banks, contribute together to the creation of new financial spaces.

To take stock of this concise review, I start from the basic assumption that Chinese financial space in Europe is co-constituted by all state and market forces operating in economic networks, with states creating the institutional conditions for formal socioeconomic interaction (Coe et al. 2004). This process of space creation can hardly be understood without placing the geography, and in particular the interaction between networks and place, at the core of the process itself. The governance structures of (bank) networks are conditioned by the place, while at the same time agency in (bank) networks affect the evolution of places. To further complicate the picture, this iterative relationship develops through a multiscale dimension, from the local, to the regional and the global (Sheppard 2002). This is important in my analysis because the economic interactions of Chinese banks have at least three different scales that cannot be separated one from the other: the local (Luxembourg), the regional (Europe) and the global. I address more specifically these complexities applied to the case of China's financial spaces in Europe in the following sections.

CHINA'S FINANCIAL SPACES IN EUROPE

Producing one of the key socioeconomic and geopolitical dynamics of our time, China started to expand economically beyond its national borders, with Chinese banks and enterprises seeking market accession in various regions of the world. This phenomenon, which is often perceived as a counter globalisation, constitutes the background of my research. Scholars have analysed Chinese foreign direct investment (FDI) (e.g., Curran et al. 2017; Gubik et al. 2020), the BRI (e.g. Lai et al. 2020; Oliveira et al. 2020), Chinese currency—the renminbi (RMB)—internationalisation (e.g. Germain and Schwartz 2017; Green and Gruin 2020), China in Africa (e.g. Brautigam 2011) and broader international security-related issues (e.g. Eder 2013). Scholars and members of the current COST Action network 'China in Europe Research Network (CHERN)' have been aiming at deepening knowledge on China-Europe economic and political relations. They have analysed, among other things, the growing presence of Chinese financial entities, non-financial enterprises and elites in Europe from various perspectives.

In dozens of papers and books, however, Chinese overseas bank networks and the mechanisms they have built to facilitate capital flows are barely mentioned. Only recently, scholars have started

to address this gap. Some examples are Marques et al. (2017), who analyse the failure of a Chinese bank in the private bank business in Switzerland, while Pan et al. (2018) study the global expansion of Chinese financial service firms and how they connect Chinese financial centres to global urban networks of financial services. Gemici and Lai (2020) study the emergence of Asian investment banks, including Chinese ones, in Asian equity capital markets. Cerutti et al. (2020) provide an interesting analysis of Chinese banks' international presence and the correlation between their lending and bilateral economic relations like FDI and portfolio investment. In a recent article, Oliveira (2022) shows how Chinese finance expansion in Brazil is not primarily resource-seeking as most accounts argue. Oliveira analyses Chinese commercial banks' activity in Brazil to show how international trade finance and currency exchange services 'play a central role in the internationalisation strategies of Chinese finance on the peripheries of GFNs, such as in Brazil' (p. 9). Besides these few examples, Chinese banks' global expansion, their spatial organisation, and the logics and conditions that shape their financial networks, have attracted little attention.

The hypothesis presented here is that Chinese commercial and development banks are key players in China's external economic expansion. The fact that Chinese banks, at least those that are leading China's external expansion, are state-owned, raises questions on the territoriality of globalisation. Brenner (1997), for instance, explains the false dichotomy of globalisation and territorial space through Lefebvre's conceptualisation of globalisation as 'a process of worldwide spatial restructuring that unfolds in part through reconfigurations of state socio-spatial organisation' (p. 139). Globalisation, therefore, is a complex dynamic that unfolds through three different but intertwined processes: Globalisation of capital, re-scaling of state territorial power, and urbanisation (ibid.). Globalisation is not the progressive disappearance of the state, but the re-scaling of the state; a process in which, first, the multi-scale, spatial dimension is key to understanding unfolding political and economic dynamics, and second, 'the territorialisation of political power is an essential precondition for the state's ability to regulate flows' (Brenner 1997: 148). Urbanisation can be understood as unfolding through a 'worldwide grid of strategic places … a new economic geography of centrality [which] is the inter-urban geography that joins international financial and business centres' (Sassen 2000: 225).

Lefebvre explains that 'each new form of state, each new form of political power … commands space … to serve its purposes' (1991: 281). Importantly, Lefebvre argues that 'centrality … aspires to be total' and tends to expel 'all peripheral elements with a violence that is inherent in space itself' (1991: 332). Against this background, and through the concept of 'grid of strategic places' and 'centrality' (Sassen 2000: 225), the inter-state struggle for the creation of space and the control of capital flows begins to take shape. When emerging states, in their disaggregated set of political and financial institutions, re-scale their formations to the global in order to govern cross-border flows of capital, they start to create new global financial spaces. Therefore, it becomes important

to understand if China in Europe is ‘a body which by putting up resistance inaugurates the project of a different space (either the space of a counter-culture, or a counter-space in the sense of an initially utopian alternative to actually existing ‘real’ space)’ (Lefebvre 1991: 349). Beyond abstraction, the analysis of the network-place nexus in the previous section helps us to understand that the ‘utopian alternative’ is actually grounded firmly, that is, where actors establish their physical presence.

SETTING THE MULTISCALE SCENE

This section ‘sets the scene’ by providing information on China’s external economic expansion. It is mostly a descriptive exercise to provide a basic understanding of China in Europe through the visualisation of data on Chinese FDI to Europe. Furthermore, the section aims to report on the historic relationship between China and Luxembourg, which in part explains the reason why Chinese banks have clustered in Luxembourg in recent years. It develops through three sections/scales: global, regional and local. This section’s key message is that (Chinese) financial space can be identified on a single scale only for facilitating the analysis. The three scales, indeed, cannot be separated. The global defines the local and vice versa, as actors and places are embedded ‘in a range of territorial scales’ (Sheppard 2002: 310). Presenting these three scales, this section aims to provide the reader with a multiscale perspective on China in Europe.

THE GLOBAL: CHINA’S EXTERNAL ECONOMIC EXPANSION

China’s external economic expansion has developed in phases. One important turning point was China’s accession to the World Trade Organisation in the early 2000s. Simultaneously, Chinese banking system was undergoing a deep reform that culminated in 2010 with the listing of the Agriculture Bank of China on the Shanghai Stock Exchange and Hong Kong Stock Exchange (Stent 2017). China’s economic expansion has contributed to the reconfiguration of South-South economic relations (Narins and Agnew 2019). Concomitantly, Chinese national development banks, along with Chinese sovereign wealth funds, started to invest across regions and sectors. Since the global financial crisis in 2008, Chinese corporations began to expand their business abroad more assertively, and this expansion increased starting in 2013 with the launch of the BRI. Mainstream media often depict China as an aggressive economy that is buying everything around the world, but a brief look at available data from popular websites suggests that China’s economic expansion is still very limited if compared to others, as we will see in the next section. However, starting in 2013, Chinese commercial banks started to enlarge their networks outside of Mainland China (see Chapter 2).

Scholars have identified some key features of China's global expansion. First, it is focused mostly on seeking control of critical resources—even though it is not the only explanation (see Oliveira 2022)—such as hydrocarbons, minerals, and metals especially in Africa and Latin America. In so doing, China is building a South-South, new pattern of international relations, which in turn affects the status quo of North-South international relations. For instance, China is building a network of state-state development contracts in which it proposes Chinese international courts as venues for international dispute resolutions. South's countries are learning that costly Washington Consensus clauses are not necessary to build road and sewers—Gelpern et al. (2021) provide a wide account of Chinese development contracts that do not include any clause asking for political economic structural change. The BRI as well as the dual-circulation strategy that China has recently launched are key drivers of economic expansion. Chinese banks, which I identify as important but still neglected actors (see Chapters 1 and 2), are key players in China's global expansion as they organise and provide the mechanisms that enable Chinese corporations' access to the global economy and contribute to the creation of new financial markets beyond China's state borders. For this dissertation, the expansion of Chinese commercial and development banks into Europe is one of the key events in China's globalisation. The mutual relationship between their physical presence and Chinese FDI to European countries is the topic of the next section.

THE REGIONAL: CHINESE FOREIGN DIRECT INVESTMENT TO EUROPE

This section offers a descriptive analysis on the mutual relationship between Chinese bank networks—their physical presence in European countries—and Chinese FDI distribution across Europe. The purpose of the section is to provide a visual presentation of different ways to interpret the impact of Chinese FDI to Europe. The logic of this research is to ask a broad research question on the hypothetical correlation between Chinese FDI destinations and the spatial organisation of Chinese bank networks in Europe. Many scholars have addressed the issue of Chinese investments to Europe (e.g. Jepson 2021, McCaleb and Szunomár 2017), and assessed the reasons why they reach their investment targets indirectly (Gubik et al. 2020). However, Chinese bank networks in general, and their relationship with Chinese FDI in Europe in particular, have attracted little attention. It is one of the aims of this thesis to bring Chinese bank networks in Europe to the fore. Not only can the study of Chinese bank networks in Europe provide insights on Chinese financial activities, but it is also a privileged lens to understand how deep China's economic relationship is with single European countries and the EU more in general.

Chinese FDI to Europe is generally presented in absolute numbers, in a country-by-country logic, and often discussed through the perspective of its incidence by sector. Significant examples of studies and open-source databases on Chinese FDI to Europe are those by MERICS, DATENNA and the American Enterprise Institute (AEI) with the US Heritage Foundation. All

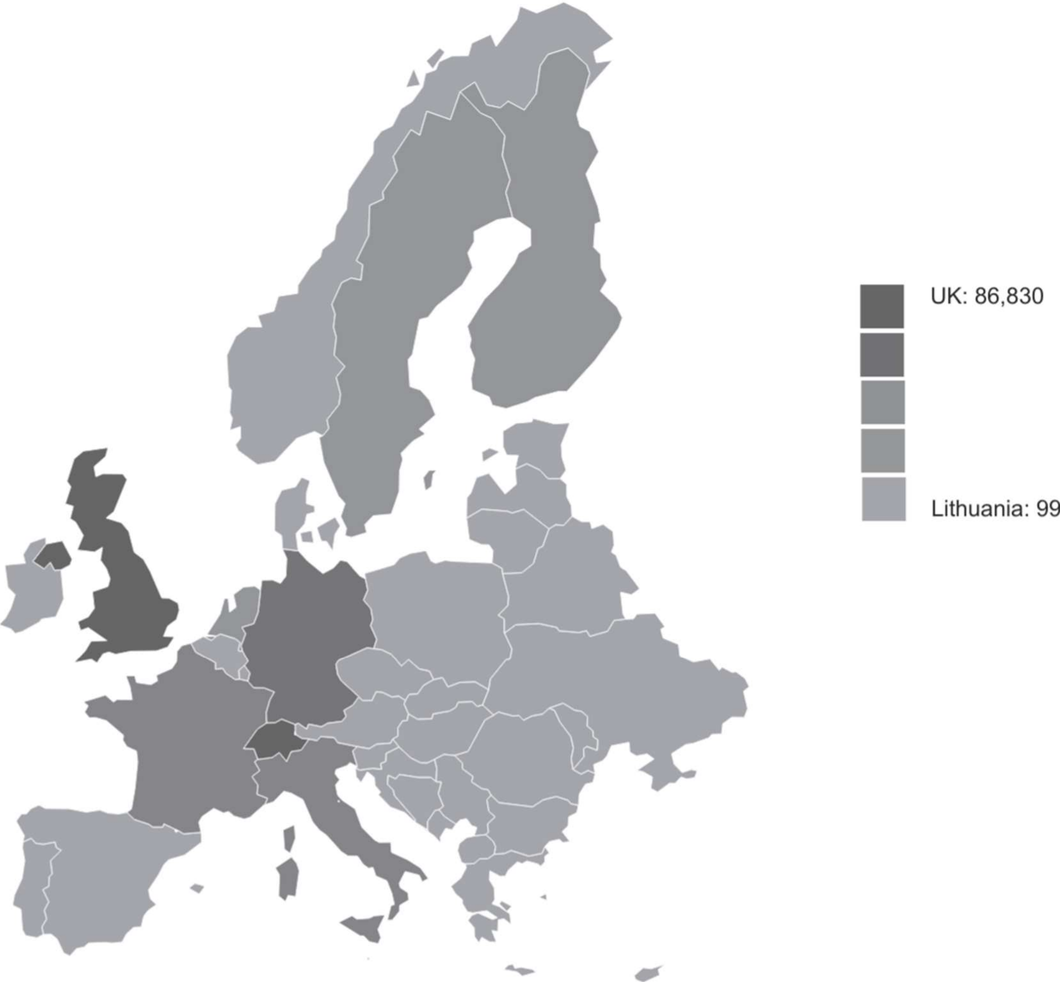
these works are important sources of information; however, they all present some gaps. For instance, the databases by both DATENNA and AEI do not include all the information that Chapters 2 and 3 in this thesis offer. Indeed, this study has found that part of Chinese investments through Luxembourg-based alternative investment funds (AIFs) fly off the radar. Beyond the need for a more comprehensive study of Chinese FDI to Europe, what is important here is that the Chinese bank presence overlaps with Chinese FDI distribution. Map 1 depicts how Chinese FDI distribution in Europe overlaps with the number of Chinese bank branches and subsidiaries by country (see below Ch. 2, Table 2.2, p. 63).

The largest Chinese bank headquarters in Europe are in Luxembourg and London. However, headquarters in both locations have different functions. While the UK is the largest receiver of Chinese FDI, Luxembourg is the largest transit country for Chinese FDI. Even though it is not precisely correlated, the large presence of Chinese banks in Germany, Italy and France reflects the large amount of Chinese FDI to these countries. Map 2 and Map 3 offer a different interpretation of Chinese FDI to Europe[1].

Maps 1-3 depict different realities and suggest different ways to look at and understand Chinese FDI incidence in European countries. Map 2 and Map 3 show the ratios of Chinese investments on European countries' GDP and population respectively. As stated above, this work limits itself to the descriptive surface of the correlation between Chinese bank networks and Chinese FDI distribution across Europe. More research is needed to understand power relations and political and economic cooperation between Chinese state and financial institutions in different European countries and regions. For example, Rogers (2022) suggests a relationship between Chinese state and 'illiberal' democracies, namely Serbia and Hungary. Sielker and Kaufmann (2020), instead, interpret China's approach to Europe through formal and informal arrangements that China has reached with European countries in relation to BRI-related infrastructure projects.

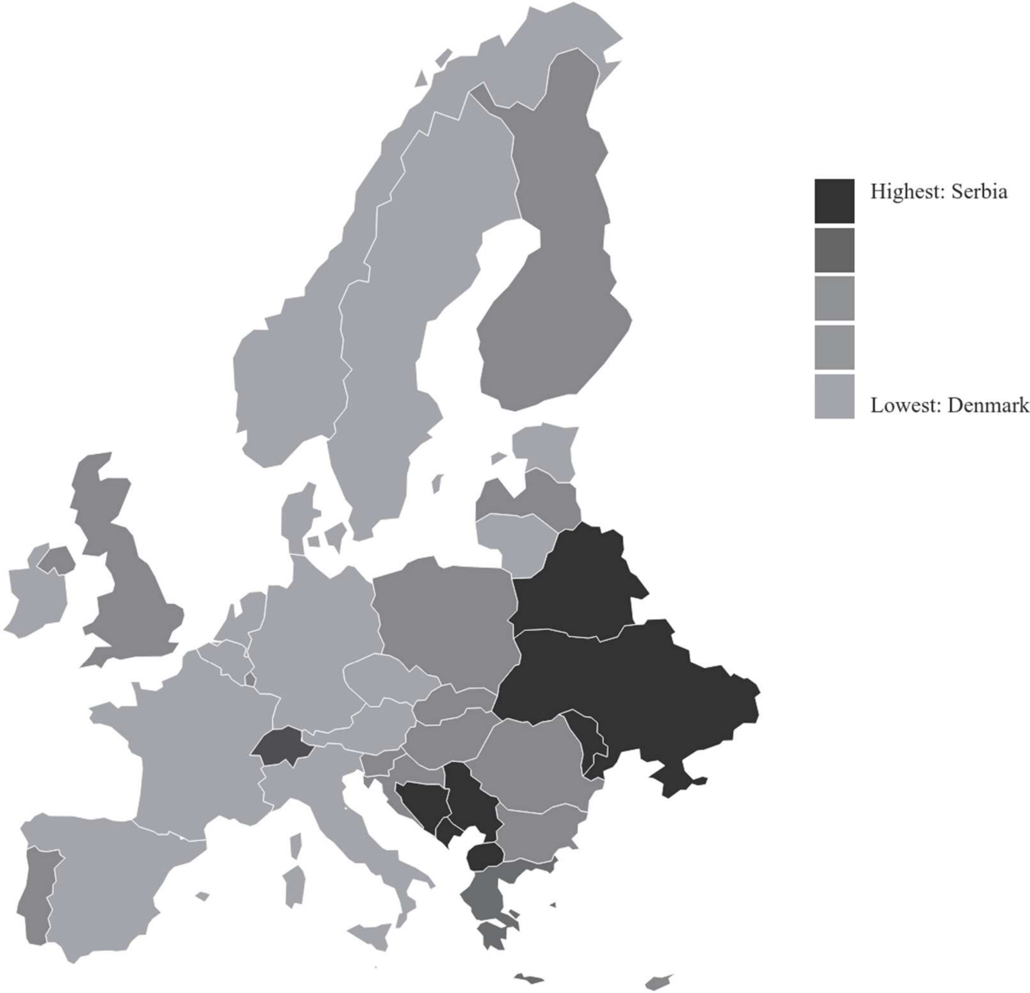
[1] Maps 1-3 are based on data sources that are not consistent and only provide partial information. Here, 'investments' includes FDI, portfolio investments, and construction projects. The rationale is to provide the reader with the trends and impact—from different perspectives—of Chinese investments in Europe in the last two decades.

Map 1. Chinese investments in Europe 2005-2020 by country (US$ Millions)



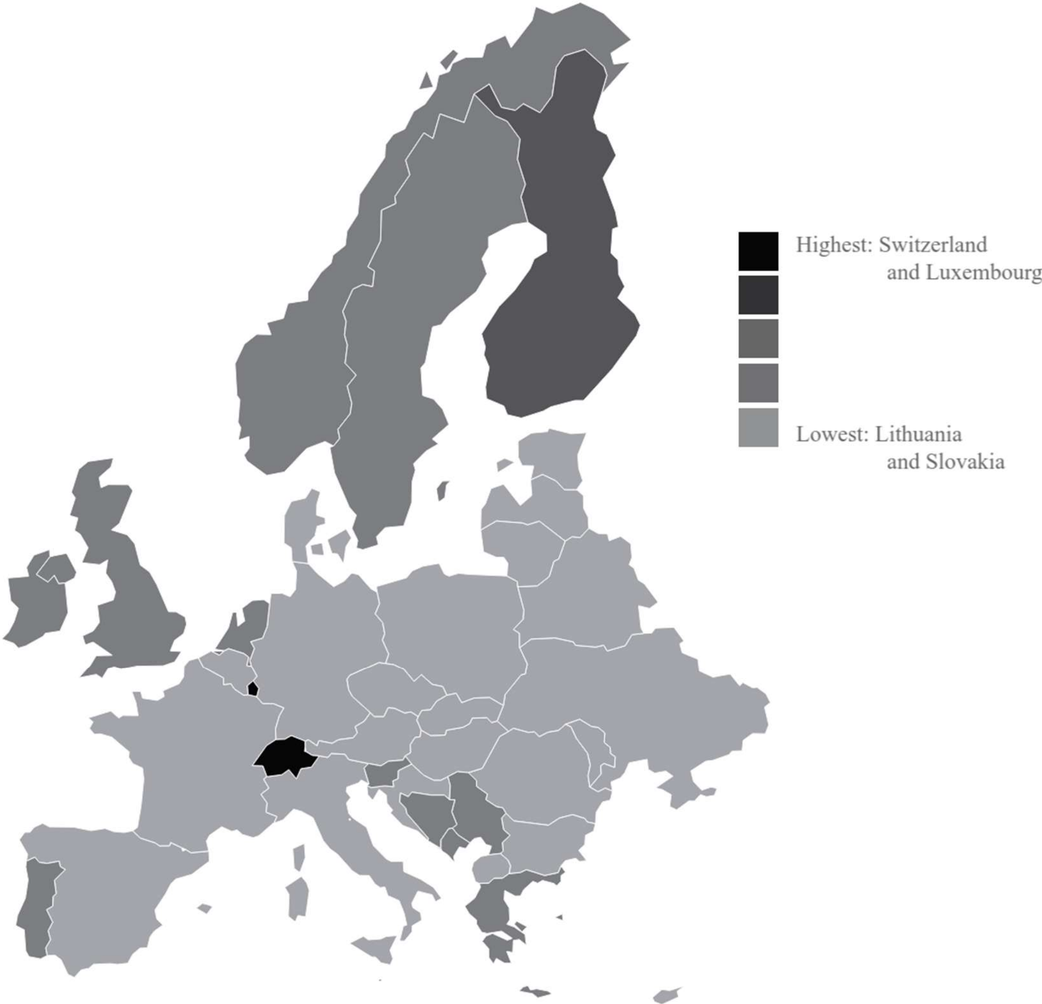
Source. Author's own elaboration. Data source: US Heritage Foundation, US American Enterprise Institute, and MERICS.

Map 2. Chinese investments in Europe 2005-2020 on national GDP (2020)



Source. Author's own elaboration. Data source: US Heritage Foundation, US American Enterprise Institute, and MERICS; countries' GDP: the World Bank.

Map 3. Chinese investments in Europe 2005-2020 per capita by country



Source. Author's own elaboration. Data source: US Heritage Foundation, US American Enterprise Institute, and MERICS; countries' population: the World Bank.

While these descriptive exercises are useful to keep in mind the picture of Chinese investments in Europe and different ways of understanding China-Europe political and economic relations, it is always necessary to bear in mind the paucity of Chinese investments in Europe, especially if compared to American FDI to Europe. Between 2005 and 2021, total Chinese investments to Europe reached US$ 2.2 trillion. Between 2005 and 2020, US investments to Europe reached almost US$ 45 trillion. In 2021, Chinese investments to Europe were about 20.5 billion, while in 2020, US investments to Europe were more than US$ 3.6 trillion[2]. Even though the numbers provided on China reflect M&A and construction projects, and do not provide a complete picture of Chinese investments to Europe, the difference is so deep that any adjustments would not change much. The analysis of the mutual relationship between Chinese bank networks and FDI distribution, however, is an important starting point to understand how Chinese capital flows are organised. It also offers a powerful perspective to follow Chinese money in Europe. The key findings of this preliminary research are that, first, there is a correlation between Chinese FDI and physical bank presence in European countries; second, echoing Gubik et al. (2020), an important part of Chinese FDI to European countries arrives indirectly, of which a large part passes though Luxembourg. The historic relationship between China and Luxembourg, which partly explains this phenomenon, is the topic of the next section.

THE LOCAL: A BRIEF HISTORY OF CHINA IN LUXEMBOURG

Scholars have noticed that most of Chinese FDI to Europe, especially to Central and Eastern European (CEE) countries, reaches its destination indirectly (Gubik et al. 2020). Luxembourg is the largest transit country for Chinese FDI, funnelling more than 40 percent of Chinese FDI to Europe. This extraordinary amount of Chinese financial activity through Luxembourg reverberates in Luxembourg's specialization in the cross-border investment fund industry, its historic relationship with China and its function as the largest host for Chinese bank headquarters in the EU. While Chapter 3 offers an analysis of the reasons why Chinese financial institutions have organised their European networks through Luxembourg, this section delves into the historical relationship between China—namely, Chinese banks—and Luxembourg.

In 1979[3], the Bank of China (BOC) established a branch in Luxembourg. It was the first time that a Chinese bank started operations in an overseas jurisdiction since 1949, the year of the foundation of the People's Republic of China. The BOC already had a branch in London since 1929, before the Maoist revolution. During the Cold War, Luxembourg was a discrete place where to fulfil international payments. To this purpose, Luxembourg hosted the bank of the Soviet Union

[2] Data for China are from the American Enterprise Institute and the Heritage Foundation's study on Chinese FDI, while data on US investments are from Statista.

[3] For a more detailed chronology of China-Luxembourg financial relations, see Annex, p. 149.

and American banks as well. The decision to establish a branch in Luxembourg followed the opening of diplomatic and economic relations in September 1972, when Grand Duke Jean of Luxembourg visited China, just a few months after the historic visit of US President Nixon to China in February 1972—the week that changed the world (Balmas 2017). The Official Bulletin of the Grand Duchy records that a Luxemburgish engineer, Adolphe Franck, was present when Grand Duke Jean and Mao met. Other sources (e.g., Als 2012) underline how Franck, being a fervent Maoist, donated his rail patents to Mao and had an important role in the early mediation between China and Luxembourg. Grand Duke Jean's visit to China started the slow but relentless process that led to the strategic cooperation between Chinese banks and the Luxembourg financial centre, as we know it today.

For more than a decade, the BOC branch was the only Chinese banking institution present in Luxembourg. When a new phase of Chinese President Deng's economic reform campaign kicked off at the end of the 1980s, Chinese economic international activity increased. In 1991, the BOC established a subsidiary in Luxembourg. BOC's organization took the dual form of branch and subsidiary that it still has today. In 1998, BOC's major competitor, the Industrial and Commercial Bank of China (ICBC), established a representative office in Luxembourg. This was the same year that Luxembourg's financial regulator, the CSSF, signed a memorandum of understanding with one of its Chinese counterparts—China Securities Regulatory Commission (CSRC). One year later, in 1999, the ICBC's office became a full operational branch. The end of the 1990s was a time of reform and change for Luxembourg as well. In 1998, the Central Bank of Luxembourg (BCL) was established in order to join the European System of Central Banks. Since then, Luxembourg-based banks have been subject to both national—namely the CSSF—and European Central Bank (ECB) oversight.

Until the global financial crisis of 2008, the organisation of Chinese banking in Luxembourg did not change. Only in the aftermath of the crisis, when Chinese state-owned enterprises (SOEs) started to invest more assertively in Europe, the BOC subsidiary in Luxembourg started to open sub-branches in other EU member states through its EU-passport banking license (Briault, 2015). From 2008 until 2015, BOC's subsidiary established five branches. BOC was not the only Chinese banking group to expand its activities within the EU. In the first decade of the 2000s, diplomatic relations between Luxembourg and China intensified in line with economic relations. In 2011, ICBC established a subsidiary in Luxembourg, and simultaneously, opened five subsidiary branches in other EU member states. Chinese banking expansion in Europe came along with the increasing interest of Chinese SOEs in investments and acquisitions overseas. In general, economic activity through Luxembourg was not only directed to the EU. Through the Luxembourg fund industry, Chinese banks and SOEs were, and are, able to allocate resources almost anywhere around the world. In 2011, the first Undertakings for Collective Investment in Transferable

Securities (UCITS) RMB bond fund was launched in Luxembourg to invest up to 100 percent of its assets in the Hong Kong RMB over-the-counter bond market. The next year, 2012, the CSSF and the CSRC signed a new memorandum.

In 2013, the launch by President Xi Jinping of the One Belt One Road initiative, then renamed BRI, to build energy and economic corridors across the Eurasian continent, marked a turning point in Chinese economic and banking activities overseas. The year 2013 was a turning point for the fund industry regulatory regime in the EU and the Chinese banking sector in Luxembourg as well. That same year, the China Construction Bank (CCB) established a branch and a subsidiary in Luxembourg. Including CCB, from 2013 to 2017, five Chinese banks established their headquarters in Luxembourg City, deploying the subsidiary-branch architecture first used by the BOC since 1991. In 2016, the Shanghai Pudong Development Bank (SPDB) confirmed its intention to open an office in Luxembourg. However, at the time of writing, the SPDB has not established a branch or a subsidiary in Luxembourg yet. According to people from the Luxembourg bank sector, the China Banking and Insurance Regulatory Commission (CBIRC) may have delayed the final approval for the license. Importantly, in the same days, non-official statements from Luxembourg's regulators and policymakers suggested that Luxembourg wanted to see more business from China and not more banks—as my fieldwork data revealed (Interviews 2 and 6). Since 2014, when the People's Bank of China (PBC)—China's central bank—designated the ICBC branch as the RMB clearing bank, Luxembourg has been an RMB clearing centre. The RMB clearing business is strictly connected to the geographical organisation of Chinese banking groups. Obtaining a license for RMB clearing sparks competition between Chinese commercial banks. CCB obtained the license in London and Zurich, while the BOC obtained it in Paris, Frankfurt and Budapest.

The Chinese banking sector in Luxembourg extends far beyond the seven Chinese banks, to include Western banks controlled by Chinese corporations. In 2016, Fosun group acquired a 24 percent stake in the Portuguese Millennium BCP, which operates in Luxembourg through the Banque BCP. In 2018, the share reached 27.25 percent. That same year, BCP and Ant Financial Service Group signed an agreement to launch the Alipay in-store payment service. A few months later, in 2019, Ant Financial established its European headquarters in Luxembourg. In 2016, Fosun group acquired a 99.91 percent stake in the German banking group Hauck and Aufhäuser (H&A). In Luxembourg, H&A operates a branch, which acquired Oppenheim, a well-established investment fund and asset management company (Fosun Annual Report, 2018: 35). Through this acquisition, Fosun group expanded into the Luxembourg fund industry. In 2017, Legend Holdings acquired an 89.93 percent stake in Banque Internationale à Luxembourg (BIL), a major banking group in Luxembourg with a large portfolio of strategic assets in Luxembourg and Europe (Balmas, 2018). In 2018, Zhejiang Geely Holding Group acquired 52 percent of the Danish Saxo Bank,

which established a subsidiary of its Saxo Payments Banking Circle in Luxembourg (Ferns, 2018) in the same year. This is an incomplete account of all Chinese interests in Luxembourg's financial sector. Indeed, the Chinese presence in Luxembourg's fund industry is said to be larger than it seems, but there are no official figures to corroborate this assumption. What we know is that both Chinese commercial and development banks have domiciled investment funds in Luxembourg (see Chapter 3) to support their investments in Europe, especially in BRI-related infrastructures and private equity acquisitions.

During the Covid-19 crisis, some Luxembourg-based Chinese bank subsidiaries recorded losses. Instead of interpreting this phenomenon as a temporary issue, people from the financial sector argued that by bearing losses without reorganising their business, those Chinese banks proved to have strong political reasons to be in Luxembourg—reasons that go beyond business objectives. Interestingly, some interviewees claimed that this reason could be 'reputation building' (Interview 18). This interpretation suggests that Chinese banks, beyond the seminal presence of BOC and ICBC in Luxembourg, are still in an embryonic, experimental phase, in which they are more inclined to learn and build reputation than expand their business. This interpretation is reflected in my empirical findings, especially regarding Chinese commercial banks' self-imposed limits on potential markets beyond corporate banking—including BOC and ICBC—(see Chapter 1, 2 and 4). Furthermore, the overall picture that emerges from this short analysis suggests that Chinese banks and Luxembourg have been building a strategic relationship over the years, which ideally strengthens Luxembourg's 'positionality' (Sheppard 2002), as I suggest in the concluding chapter of this dissertation. As the following chapters will show, this strategic relationship unveils how structure-agency dynamics in a network-place dimension contribute to shape financial spaces. Having discussed the multiscale dimension of China's external economic expansion into Europe, the research strategy, case selection and methods are introduced in the subsequent chapters.

RESEARCH STRATEGY, CASE SELECTION AND METHODS

This section discusses my research strategy, my approach to case selection and the qualitative methods underlying the entire research project. In order to address the overarching research questions in this thesis—what are Chinese banks doing in Europe? How are they spatially organised? Are they reshaping European financial spaces?—and more specifically the research questions in each chapter/publication, I have taken an interdisciplinary approach, involving literature and approaches, not only but mostly, from sociology, international political economy and financial geography. The diversity of theoretical frameworks and analytical lenses that I used in each chapter/publication to analyse Chinese financial actors and activities in Europe depends

on the diversity of cases selected. The research is based mainly on data from 20 semi-structured expert interviews and desk research. A range of other methods such as observation, conversation and note-taking has informed the research. As I explain below, the research was limited by the general lack of data, the delicate nature of certain topics—a situation worsened by political events in Luxembourg—and the difficulty to reach experts for interviews during the Covid-19 lockdown and the months immediately after. These complications forced me to adapt the research methodology accordingly.

RESEARCH STRATEGY AND CASE SELECTION

Two basic assumptions guided my research strategy design: first, China's financial space in Europe is co-constituted by all the actors connected in different ways to Chinese financial businesses operating in Europe; second, Chinese financial actors need local financial business services to compensate their lack of knowledge on the fragmented financial regulatory framework in Europe. The logic was to identify key Chinese financial actors operating in Europe and their interconnections with local financial services firms—for instance, a Chinese bank or corporation willing to list a bond in a European financial centre needs a local custodian bank, a stock exchange and a set of (legal) advisors. This example, which remains out of my case selection, clearly identifies a set of financial actors and their related interactions. However, interconnections, especially in the broader domain of finance, are not always neat and clear. Desk research and interviews were necessary to establish the existence and the nature of connections between Chinese and European financial actors, which in turn imposed the necessity of a 'flexible' research design (cf. Flick 2011) to progressively adapt my strategy to new findings.

The broad scope of the topic 'Chinese financial spaces in Europe' required making clear choices between different potential cases. The rationale behind the case selection was to detect cases in which key Chinese financial actors were at the centre of financial dynamics such as enabling the flow of Chinese capital into Europe (Chapter 2) or private equity investments (Chapter 3). My research, therefore, started from the identification of key Chinese financial actors operating in Europe, which I easily identified with Chinese banks. Banks, especially commercial banks, are systemically important in any capitalist system, including the Chinese, due to their unique ability to create credit and allocate resources in the economy (Schumpeter [1943] 2013; Werner 2005). Moreover, the fact that China is widely renowned to be a bank-based economy (e.g. Cousin 2011; Sun 2020) suggested that Chinese banks, both commercial and development banks, have a key role also in China's external economic expansion, as this dissertation well shows.

Living in Luxembourg was an advantage. Being an international banking centre and the largest regional hub of Chinese financial activity in Europe, Luxembourg hosts all Chinese commercial banks operating in Europe. A glance at these banks' annual reports allowed me to map their spatial

organisation around Europe, which overall includes fifty-four legal entities—branches, subsidiaries, sub-branches and representative offices[4]—across the EU, the UK, Switzerland and Serbia. Even though it was not possible to precisely quantify their aggregate or single financial activities in Europe, the wide extension of their branch and subsidiary networks exemplifies the existence of a 'Chinese financial space' in Europe.

The selection of cases developed over the course of the research project as the collected data revealed new insights into China's financial activities in Europe, and the potential directions of the thesis became clearer. The identification of commercial and development banks as key actors in China's economic expansion to Europe helped to narrow down the scope of the research. Banks are multifaceted entities and perform a wide set of diverse financial activities. As mentioned above, I was primarily interested in their spatial organisation, that is, their networks of branches and subsidiaries, and their interactions with local (financial) actors. The analysis of such networks, however, opened windows onto many very different activities and scenarios. I selected the cases according to two main factors. First, I had to adapt my choices to the data that I could collect from both desk research and fieldwork, which soon suffered from constraints due to COVID-related measures as mentioned before. Second, I selected the cases that most resembled the 'reality' of Chinese bank activities in Europe and their capability to create new financial spaces. My understanding of this reality, of course, evolved with the collection of data from both desk research and fieldwork. To be clear, by analysing Chinese banks' websites, one would argue that these banks in Europe provide the entire range of financial services possible. However, data from fieldwork revealed that some of those services are barely provided (see e.g. Chapter 4 on RMB business). By 'reality', I refer to the actual engagement of Chinese banks in specific businesses in Europe. Therefore, I selected the cases along my research, and not before starting my project. I decided to dive into two aspects of the close relationship between spatial organisation and financial activity of Chinese commercial banks in Europe (Chapters 1 and 2); one specific dimension of Chinese development banking in Europe (Chapter 3); and the curious inactivity of Chinese banks—and the key role of Luxembourg's financial centre—in the process of RMB internationalisation (Chapter 4).

In qualitative research, case selection, or sampling, can be more 'formalised', or more 'flexible' (Flick 2011). My approach was flexible, meaning that case selection evolved with the research and decisions were taken 'during the progress of the research on the background of collecting and analysing the data continuously' (Flick 2011: 26). Flexibility, however, does not translate into absence of rigour in research design. Adaptation along the way, as well as refining case and participant selection, implies careful research design. The latter 'is an important part of ensuring

[4] Bank annual reports not always include representative offices, so that the real number of entities may not be precise.

rigour in qualitative research because it helps us make and understand complex connections' (Roller and Lavrakas 2015, cited in Hay and Cope 2021: 92) between, in this dissertation, different financial actors and sub-sectors, and scales of organisation and operation to address the broader dimension of 'Chinese finance' in Europe. Changes in case selection required to target interview participants accordingly. As the research advanced, I needed specific experts able to answer more specific questions on selected issues.

I originally identified three main sectors of reference for selecting experts: banking, the wider domain of financial services, and the political / administrative sector. I had the fortune to meet experts from all the three sectors, most of whom had a direct professional experience with Chinese banking and finance in Luxembourg and Europe. I targeted experts that operate at the crossroads between Chinese economic expansion into Europe and the European financial sectors. Besides regulators and civil servants, I specifically targeted individuals working for financial services, such as lawyers and economists in accounting and advisory, who have—or previously had—experience with Chinese financial entities not only in Luxembourg. I avoided to select individuals from very high-ranking positions, such as presidents or general directors of banks and large corporate businesses, while I focused on experts from specific departments who had their hands in banking, investment, and other financial, practical issues in their everyday life—account, marketing, portfolio, etc., managers—in other words, those who work on the ground in specific financial and regulatory mechanisms.

In early 2020, in the middle of my fieldwork, the Covid-19 related health measures forced me to amend the methodology. On the field, my strategy was to establish direct contact with potential interviewees at conferences and other events to start building a relationship that could endure beyond a single, formal interview. The goal was to start conversations that would have informed me about expectations, concerns and, more in general, on 'real' issues that various types of financial experts face in their everyday life when addressing topics relevant for my research. I could not properly interview all the experts I had encounter, and my strategy came to an end. The Covid-19 lockdown imposed me to rethink and reorganise my fieldwork. I started contacting a wider sample of experts mostly identified through corporate websites, via email and social network applications such as LinkedIn. Despite the constraints I experienced in the fieldwork due to the Covid-19 lockdown, the careful selection of the experts that I interviewed, helped me to address very different topics. I selected a valuable sample of experts in banking and finance from different perspectives: banking, financial services, and regulatory / administrative. They helped me to address diverse issues regarding specific mechanisms, complex regulatory frameworks, currency, etc., which I have analysed in the four chapters/publications.

In general, my positionality as a researcher (see Hay and Cope 2021) affected my knowledge-creation process and my relationship with the interviewees I selected. As a non-practitioner in the

financial sector, I had to be careful and develop a sensitivity on potential political and cultural issues. One example is the BRI agreement signed between China and Luxembourg in the summer of 2019. Experts that were knowledgeable—regulators, civil servants and (Chinese) bankers—did not show openness to discuss the matter. This was a clear example of a researcher breaking into the life of people with sensitive questions, which would in turn require some sort of implicit political positioning or critics towards the Chinese or Luxembourgish government. Furthermore, I had to consider behavioural codes. The literature (e.g., Hay and Cope 2021) identifies cultural differences as potentially limiting constructive relationships between the researcher and the population targeted for fieldwork in general, beyond the choice of a specific method—interviews, observation, conversation, etc. Attending two semesters of Chinese language and culture courses at the Confucius Institute in Luxembourg and becoming a member of the China-Luxembourg Chamber of Commerce, helped me to address and eventually overcome some of the limitations.

In the next section, I discuss the methods adopted throughout the entire research project.

METHODS

This research project engaged in a mixed methods strategy by combining qualitative data from *expert interviews* and both qualitative and quantitative data from desk research. The strategy mostly relied on data and methods *triangulation* (cf. Flick 2011). I analysed interview data against both the qualitative and quantitative data collected through desk research. I repeated this iterative process several times with the aim, first, to test both interview and desk-research data, and second, to refine further interview questions in order to obtain more precise information.

As stated above, the research encountered some limitations in data collection. On the one hand, there is not an extensive academic literature on the specific topic of (Chinese) bank networks and their spatial organisation. Most of the information and insights on (Chinese) bank and investment fund networks come from non-academic literature and interview data. Furthermore, quantitative data on Chinese banks' activities in Europe is rather limited. On the other hand, it was not always possible to reach people working in the financial sector in Luxembourg and other European financial centres. Only about 30 percent of the people I tried to reach accepted to be interviewed. The Covid-19 lockdown negatively affected my access to the sample of interview partners I selected. Most of the experts I interviewed were experts I met at conferences with whom I had the chance to start a conversation in person and exchange business cards. Only three out of about thirty experts that I contacted through phone, email or LinkedIn (cf. Robinson 2021) accepted to be interviewed.

Starting from my original two assumptions (see above) and the literature that I carefully reviewed, my sampling strategy was to identify the population working in Chinese commercial and development banks, and more importantly, the population working in financial and business

services (FABS, cf. Wójcik 2020) in relation to Chinese banks—accountants, lawyers, civil servants and other bankers. I identified people in Europe (18 interviews) and China (2 interviews). I avoided contacting top managers and focussed on experts who get their hands into actual practices of accounting and advisory services. In order to get access to my sample of interview partners, I started to attend conferences since the very beginning of my research project, in Luxembourg, Brussels and Beijing. Again, residing in Luxembourg was an advantage. I met most of my interviewees at conferences and events organised by state agencies and multilateral organisations, such as Luxembourg for Finance, the Luxembourg Chamber of Commerce, the China-Luxembourg Chamber of Commerce, the Benelux-China Chamber of Commerce and the Asian Infrastructure Investment Bank, which in 2019 organised its first annual conference outside of Asia, in Luxembourg.

In this context, *observation* was another method of data collection (Flick 2011) that allowed me to also obtain access to potential interviewees, learn the jargon of different financial sectors and develop strategies to refine interview questions, and access direct reporting from experts presenting their insights on various aspects of the banking and the financial sector in general. Another important practice that informed part of my research was having *conversations* with experts on the sidelines of conferences and other events. I introduced a topic to start a discussion and then asked them to 'unpack certain key terms' (Rapley 2004: 26); a practice that turned out to be extremely useful.

Attending conferences was very helpful to obtain access to experts. However, access is only part of the process (Liu 2018). Indeed, the actual interviews also encountered some limitations. Two political processes repeatedly framed and influenced the conversations: the economic and geopolitical contrasts triggered by the changing positions of the US government and the EU Commission towards China, and a moment of friction between Luxembourg's government and its parliamentary opposition over the decision to keep the BRI agreement secret in the summer of 2019. Given the delicate nature of the topics, I was often asked not to record the conversation—to the point that I stopped asking to record them to enable a higher degree of comfort and to encourage my interlocutors to speak freely. I collected almost all the interview data by note-taking. I fixed the data in memory-based transcripts directly after the interviews. The *reanalysis* of previous collected data (Akerstrom 2004) was highly useful. With hindsight, I could re-appreciate data that I had previously deemed not useful.

Finally, desk research on academic literature was complemented with an array of grey literature on China, Luxembourg, investments, and banking, e.g., international newspaper and magazine articles, government reports, statistics, corporate reporting, industry papers, and reports from multilateral organizations (BIS, FSB, etc.) to help examine rationales and strategic actions by both banks and financial centres. I carefully analysed Chinese banks' annual reports and the Basel III

Disclosure reports (see Chapters 1 and 2) that Chinese bank subsidiaries need to produce in the EU. Unfortunately, not all were available. The analysis of RMB internationalization (Chapter 4) is based upon a range of secondary and primary sources, including academic work on currency internationalization more generally and on RMB specifically. In addition, I analysed documents produced by financial firms, financial sector promotion bodies, and audit and consulting firms. Primary sources include documentation from the China Securities Regulatory Commission (CSRC), the Chinese State Administration of Foreign Exchange (SAFE), and the People's Bank of China (PBC), along with data and descriptive statistics produced by Chinese researchers at Renmin University and by the Society for Worldwide Interbank Financial Telecommunications (SWIFT) payment services.

In the next section, I overview the organisation of the dissertation and introduce the four chapters/publications in more detail.

ORGANISATION OF THE THESIS

The remainder of this thesis develops through four chapters and the conclusion. Chapter 1[5], now published as Chapter 7 (co-authored with Sabine Dörry) of the book *The political economy of geoeconomics: Europe in a changing world* edited by Milan Babić, Adam Dixon and Imogen Liu (2022) for Palgrave Macmillan, analyses the case study on the spatial organisation of bank branch and subsidiary networks through the lens of geoeconomics to assess the issue of agency and power more carefully. Changes in the EU Commission's official position towards China, which was identified as a 'systemic rival' (EU Commission 2019), are compelling reasons to conduct studies on what kind of power China exercises in Europe. Some scholars would like to see the 'anxiety' over China reduced (e.g. Henderson et al. 2013), while many others more or less explicitly support the idea of a growing 'China's threat'—a term used by the US Federal Bureau of Investigation (FBI) on its official website. Geoeconomic power can be seen as a means to build financial spaces. However, as Chapter 1 shows, in the case of Chinese banks operating in Europe, this power is reduced by both the 'structures' in place in Europe and China. The paradoxical conditions under which Chinese commercial banks operate in Europe, constrained by their own and European structures, convinced me to use this case study as an opening of the analytical part of the dissertation. European states such as Luxembourg, and the Chinese state itself, facilitate Chinese

[5] The four chapters/publications are reproduced in their original form. In co-authored chapters (1, 2 and 4), I kept the subject form 'we'. I just have adapted some words, like 'chapter' instead of 'paper' or 'article'. At the time of writing, Chapters 2 to 4 are under review and subject to revisions with three different journals. Once accepted for publication, they will be available open access.

banks' access to the European markets; however, they simultaneously keep those banks' ability to build new markets—new financial spaces—limited.

Chapter 2 (co-authored with Sabine Dörry) analyses the relationship between Chinese bank branch and subsidiary networks headquartered in Luxembourg and Chinese FDI into Europe through the lens of global financial networks. I found that Luxembourg funnels more than 40 percent of Chinese FDI to Europe (Arendt n.d.) and I hypothesised that this phenomenon was correlated to the spatial organisation of Chinese bank networks, organised in a 'branch-cum-subsidiary' architecture set up in Luxembourg by all Chinese banks. Chapter 2 explains in detail this correlation. This study is key to assess China's ability to create financial spaces in Europe, because as the chapter shows, the architecture allows banks to trump regulatory limitations on risk management in order to operate more flexibly. Interviewees confirmed my initial hypothesis and further explained how Luxembourg bank regulation allows non-EU banks to use this bank architecture to tap into their large parent bank's balance sheets. This confirms the fact that China's financial space in Europe is co-constituted—in this case by foreign banks and local structures—just as the academic literature on space production suggests (see above). Curiously, it emerges that both Luxembourg and China's regulators consciously relax the constraints identified in Chapter 1. Furthermore, the importance given to Chinese FDI in the EU Commissions' recent reaction to China's economic expansion (Svetlicinii 2020) strengthens my conviction of the importance of including this case study in the thesis. The analytical results presented in this chapter contribute to a deeper understanding of the formation and constituent features and capabilities of global financial networks that affect regional investments.

The third publication (Chapter 3) explores a different aspect of Chinese bank activities in Europe. It analyses how Chinese national development banks organise their investments and manage their assets in CEE countries through Luxembourg-based alternative investment funds. It shows how part of Chinese financial globalisation is grounded in both policy- and profit-driven logics. This chapter uses the concept of externalisation (Henderson et al. 2013; Henderson et al. 2021) to scrutinise how China 'externalises' its socio-political and economic formations through investments and by building economic networks in Europe. It is another example, though very different, that suggests the ability of Chinese banks to create financial spaces in Europe. Again, Chapter 3 shows how this space is co-constituted by both Chinese and European actors.

Finally, Chapter 4 (an article co-authored with David Howarth) presents the last case study, on RMB internationalisation. The decision to include a study on the RMB comes from the fact that the expansion of the international use of the RMB is widely considered one of China's main challenges. The increasing use of the RMB in Europe reflects well the creation of new financial spaces—and markets—as currencies are well recognised as instruments of international economic expansion and domination (Cohen 2013; Strange 1971; Wheatley 2013). My initial assumption

was that Chinese banks were the main agents of RMB internationalisation. This initial hypothesis was completely contradicted by my desk research and surprising fieldwork data. I found that the main agents of RMB internationalisation are large Western investment banks, which mainly use Luxembourg's investment fund industry to include RMB-denominated securities in their portfolios. This discovery further convinced me to include the study in the dissertation, as it shows that 'Chinese financial spaces' are created in Europe by Western agents that use Chinese structures to enlarge their business.

The concluding chapter closes the thesis and reflects on the implications of China's economic expansion and Chinese banks' role in creating financial spaces in Europe. Furthermore, it reflects on the contribution of this thesis to the project in economic geography by arguing that banks' spatial organisation deserves more attention to understand processes and patterns of regional development.

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CHAPTER 1

The Geoeconomics of Chinese Bank Expansion into the European Union

Be unhurried to enter opponent's territory.
One of the Ten Golden Rules of Wéiqi

Applying the *concept of geoeconomics,* this chapter mobilizes empirical insights to disentangle how various economic means are employed by, through and between nation states in the pursuit of strategic goals (Scholvin and Wigell 2018). Though still a fuzzy concept, we apply geoeconomics as a continuation of geopolitics, that is, as a foreign policy practice à la US foreign affairs advisors like Kissinger, Brzezinski, and others (see Luttwak 1990; Søilen 2010). Our case study links the seemingly uneven, yet interdependent, relationship between China and Luxembourg with the realm of international finance via large Chinese state-owned banks as important, but analytically neglected actors. China is a large territorial country that ascribes to power politics through—as we argue—the expansion of its large state-owned banks, while Luxembourg is a microstate that forms an integral part of the European Union (EU) and which some observers call a financial minnow super-power (Laulajainen 2003) that is punching well above its economic and political weight.

Finance is an industry that has gained disproportionate power over other industries during the era of financial capitalism and financialisation (Dörry 2022), therefore suggesting that a limited number of international financial centres (IFC), i.e., the production sites of finance, also wield a certain degree of power over other territories, sovereign powers, and actor groups. Luxembourg is an example of such an IFC, and large Chinese state-owned banks that anchor in Luxembourg are

the *agents of change* in the spotlight of our empirically informed analysis. Luxembourg is a highly sophisticated IFC that manages and leverages its economic power, which, to a certain degree, is simply 'borrowed' economic power. Against this background, an interesting question presents itself, namely: how (successful) are geoeconomic strategies, when the large majority of the most influential financial firms in Luxembourg is of foreign origin, e.g. from China, and quintessentially governed by external interests?

The concept of geoeconomics, here applied in a narrow, instrumental sense (Wigell et al. 2019), helps us unpack measures, means, and ends between both Luxemburg and China, in order to systematize their respective influence and impact on their future relationship, and beyond. In this regard, the prefix '*geo*' in the conceptualization of geoeconomics is of distinct importance as we illustrate in the next section. Although the term *geoeconomics* is relatively well established in the disciplinary canon of (mainstream) International Relations (IR), its analytical power as a concept is somewhat fuzzy, and the concept sits uncomfortably with that of geopolitics. Recent attempts sought to clarify and tease out the essences of geoeconomics as a concept for analysing contemporary structures. While some scholars suggest a deliberately broad definition to encompass a range of diverse and partly overlapping areas (Moisio 2018, 2019; Sparke 2004, 2018), e.g. "borderless economic zones, strategic economic instruments of foreign policy, both neoliberalism and economic nationalism, and so forth" (Vihma 2018b, p. 48), others disagree with such an "overly extensive" approach that ultimately "lose[s] its analytical power" (Vihma 2018b, p. 49). Instead, they favour a more "instrumental and hegemonic" (ibid.) application of geoeconomics. In this chapter, we follow this latter suggestion and propose to understand geoeconomics as economic activity of "a more subtle means [than military power] for seeking relative gains, with less risk of major counteractions that could prove costly in a situation of interdependence" (Wigell and Vihma 2016, p. 605; cf. Scholvin and Wigell 2018). However, we seek to extend this essentially state-centred notion of geoeconomics, that is prevalent in the discipline of IR, and add an explicitly spatial and firm-centred notion inspired by disciplinary thinking in economic and political geography. Dicken (2015), for example, understands geoeconomics as an outcome of strategic – global – economic activity and thus a driver of (global) economic inequality, while Dörry and Dymski (2018) consider the uneven distribution of global capital gains a stand-alone "geo-economic" issue.

Several other factors determine our approach to the concept of geoeconomics. First, the tension between the private and the public sector is an important notion with which this chapter is concerned. During the co-constituting eras of neoliberalisation and (financial) globalization, large corporations, including globally operating *financial* firms, have become part of a powerful global elite able to dominate and instrumentalise the state for their own purpose (Crouch 2020; Merkel 2019). Second, the global dynamics of the economy has further influenced the conceptualization

of geoeconomics, and recent changes in the global realms of both politics and economics force us to rethink and reposition the relationship between economy and politics. Søilen (2012) stresses this point when defining geoeconomics as the "continuation of the logic of geopolitics, applied to the era of globalization" (p. 8). Third, however, we show that geoeconomics is not a one-way approach in which one state wields power and influence over others, as is often implied in the concept of geoeconomics (Vihma 2018a), exemplified by Russia's strategy of using its energy resources to leverage its political interest over other states (Wigell and Vihma 2016), or accounts of the export-oriented geoeconomic power of China and Germany to influence exchange-rate policies in Europe and the Far East, respectively (Baru 2012). Rather, we suggest that regions/states themselves reach out actively and strategically to specific (economic) actor groups. IFCs embedded in states like Luxembourg are a specific case in point. They do so to benefit from the economic power of these global actors (Coe and Yeung 2015) in order to enhance their own economic power that would implicitly enable them to exert their (growing) economic means for future political advantage. Aptly put, geoeconomics includes strong elements of a "revival of economic statecraft" (Wigell et al. 2019).

The chapter develops its arguments across five sections. Section 2 sets the Chinese state-owned banks committed to geoeconomic agency, as well as the Chinese state and the Luxembourg IFC, in context and situates it among the broader strands of literature. Section 3 reviews the different internationalization strategies of banks in order to understand their organizational patterns, their derived functions and structural positions of power. Section 4 links Chinese bank networks in the EU and their headquarters in Luxembourg with Luxembourg's own expansion strategies in its capacities as an IFC. The final section offers a critical reflection on geoeconomics as an analytical concept and, in this context, reflects on the Chinese banks in Europe as agents of change. In light of its empirical findings and conceptually embedded in the framework of geoeconomics, the final section also suggests avenues for further research on Chinese banks and their financial activity in Europe, and beyond.

THE INTERNATIONALISATION STRATEGY OF CHINA: A GEOECONOMIC PROJECT?

Over the past decades, the extensive network of Chinese state-owned commercial banks ('Chinese banks' in the following) has successfully internationalized to Europe and beyond, in order to support the expansion of Chinese (state) corporations. In doing so, Chinese banks respond to two different yet inseparable logics; the global capitalist market and the Chinese state, the latter in the sense that Chinese banks follow relatively strict state guidelines on strategic investments. In their

expansion, Chinese banks' operations materialize in regions which they consequently influence in their economic development. Yet, China's economic internationalization is also an inevitable consequence of its remarkable economic growth during the past decade. This was enabled and accompanied by the internationalization of Chinese banks since 2010, especially after 2013, and coincided with the launch of the *One Belt One Road* development project, later dubbed *Belt and Road Initiative* (BRI).

As state-owned entities, the mission of Chinese banks is primarily defined in accordance with state guidelines (Dikau and Volz 2021) that strikingly resemble the 'window guidance' strategies applied by East Asian developmental states. Window guidance, in a nutshell, refers to a policy instrument to effectively direct and control the growth of lending by commercial banks (for the example of China, see, e.g. Bell and Feng 2013; He 2014; Beggs and Deer 2019). Window guidance is prevalent in Asian bank-centred financial systems (Sasada 2013), in which commercial banks are often owned by the state (So 2016). State governments identify socio-economic priorities to ensure that financial investments are channelled to targeted sectors and firms in order to boost industrial expansion and exports (Woo-Cumings 1999). The Chinese government, for example, defines strategic targets in various documents and programs, including its (14th) Five-Year Plan, the BRI and the *Made in China 2025* strategy. However, despite the differences with South Korea, Japan and Taiwan, China displays similar conditions and characteristics to other so-called East Asian developmental states (Helleiner 2021; Knight 2014; Yeung 2017; Zhang 2018): (1) China's largest commercial banks are state-owned. (2) The state controls the banking system[6] in order to ensure that commercial banks direct sufficient credit to strategic sectors and firms (and withdraw capital from industries the state considers to have failed to comply with state guidelines, see, for example, the latest excesses of China's real estate industry). (3) The People's Bank of China (central bank, PBC) supports the banking system through a respectively defined monetary policy. Overall, window guidance therefore has resulted in an informal process (Dikau and Volz 2021; Woo-Cumings 1999) that commercial banks follow through their credit decisions. This is important because the discourse on economic internationalization and foreign investment is firm-centred (e.g. Xie et al. 2019) and implies that firms allocate financial resources towards politically privileged sectors, supported by industrial and monetary policy.

[6] The Chinese state controls large commercial banks through the *Central Huijin Investment Ltd*, which is the major shareholder of Chinese state-owned commercial banks. The principal shareholder of Central Huijin's is the State Council of the People's Republic of China, which appoints both the Board of Directors (according to its shareholding weight with appointees often being officials from the Ministry of Finance, cf. Stent 2017) and the Board of Supervisors. Central Huijin's mission is to preserve and increase the value of the financial assets that it owns on behalf of the state. In short: The Party extends its reach directly into the large banks to ensure oversight and conformity with the above-mentioned state guidelines.

In this chapter however, window guidance implies, in short, that Chinese banks act in a more development-driven than purely profit-oriented manner, a point we will detail below. Banks seem to invest in strategic assets in the real economy to the benefit of the many rather than in purely financial assets (Stent 2017) that may further inflate asset prices and serve speculative investments for a select few only. Chinese banks are thus – although being the largest banks in the world – not (yet) part of financialised market-based banking (Hardie and Howarth 2013). This is echoed in their internationalization strategies, which we discuss across three dimensions in this chapter: cross-border lending, mergers and acquisitions (M&A), and the increasing physical presence of Chinese corporations and banks abroad, including foreign direct investments (FDI). This suggests that, for the moment, the political trumps the economic. The apparent contradiction between a capitalist banking system and the embeddedness in the state logic and dynamics defines the puzzle of the internationalization of Chinese bank networks in the EU – and the notion of geoeconomics with which we engage.

Since a strict dichotomy between the state and the market as both an analytical and policy approach may encounter partiality or cultural bias, identifying some key pillars of Chinese philosophy will help understand economic development from a Chinese perspective. The concept of the state builds on Taoist and Confucian thinking (Weber 1951) and aims at a Confucian-inspired formation of societal hierarchies: The state sits at the top and holds responsibility for social-cum-economic harmony, as recently reflected in Xi Jinping's project of 'common prosperity'[7] (The Economist 2021). It is complemented by the tradition of Chinese Legalism,[8] which conceptualizes a strong, centralized and pragmatic state administration, and ensures the efficiency of the government (Hahm and Paik 2003). Today, in China, the pragmatic state and the efficacy of the government are visible in two main features. The first is the dichotomy of political concentration – the apex of the Communist Party of China as the key place for decision-making – and economic decentralization, that is, the localized and diversified implementation of macroeconomic policies (Zhang 2018). The second is the pervasive presence of the state in the banking system, not only in the shareholder structure of major banks, but also in the credit and monetary policies that direct investment (Sun 2020). The entwinement of these two points, in turn, exemplify how China is different from an advanced democracy with a broad-based welfare system and industrial policy. In China, credit policy becomes an inherent constituent of bank governance

[7] Its meaning in the West would be closer to 'even/equal economic development'.

[8] Legalism is one of the classical philosophical schools of ancient China and helped build the concept of a strong state based on the rule of law more than on Confucian ethical principles. The role of legalism in China's state building processes across time scales back the relevance of Marxism in China's contemporary political thought. It helps explain that Chinese Legalist pragmatism has deeper roots than Marxism, and why Marxism can co-exist with capitalist institutions in China (Liu 2017).

and the actual instrument of economic development, which complements the socio-political relationships (*guanxi*) between the state and the firm.

Chinese economic pragmatism during the 1980s/1990s has spread across the banking system. It established hundreds of small, private and locally bound banks to serve small and medium sized enterprises (SMEs) across China, which is one important foundation for the model of 'capitalism with Chinese characteristics' (Huang 2008) that follows the historically and culturally deeply-rooted primacy of the state over the market. The introduction of capitalist institutions in China is progressively changing its socioeconomic landscape and, to a certain extent, the conceptualization of China's traditional state-market nexus. The pervasive presence of the state in the economy inspired Western scholars to interpret the Chinese state as *entrepreneurial*. For example, Gonzalez-Vicente (2011, p. 404) assumes that, in the early stages of China's economic internationalization, the increasing autonomy of Chinese state-owned enterprises (SOEs) was to be understood as 'an effect of the entrepreneurial statehood rationale' and not as the state retreating from the direct management of the economy. Today, this thinking has accumulated in the further engagement of market-oriented reforms promoted by Chinese pro-reform policymakers and scholars,[9] which do not question the primacy of the state.

Another recent strand of literature that focuses on the geoeconomics of the BRI includes currency internationalization and state capital-driven asset management (Baracuhy 2019). Most importantly, it equates the *geo*economics of China with its expansionist strategy realized through the BRI and attributes multiple *geo*-economic and *geo*-political meanings to it. For example, for Narins and Agnew (2019), the BRI project provides an important answer to China's geopolitical dilemma of expanding its role in the world while keeping the defence of its national borders at the core of its strategy. Summers (2016), on the contrary, sees the BRI as a state-led spatial fix to facilitate the creation of networks of capital across the Eurasian continent. In a different vein, Winter (2021) argues for the geocultural power of the BRI as a means to build regional alliances. Ly (2020) considers the BRI as an opportunity to internationalize China's currency, the renminbi (RMB), which in turn will help China to develop and strengthen its domestic financial system. The internationalization of the RMB is interchangeably understood and defined as either a geoeconomic (Huotari 2018) or a geopolitical (Hasegawa 2018) phenomenon, through which China will increase its regional power in Asia. While these contributions are far from agreeing on a common understanding of the essences of geo-politics or geo-economics, each contribution stresses the importance of the conceptual prefix 'geo'.

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[9] The engagement of scholars and policymakers in market-oriented reforms is evident, e.g. in the PBC's current focus on monetary policy and the internationalization of the renminbi (Guo et al. 2020), which is echoed by scholars at Renmin University who monitor the performance of the renminbi in international markets through the Renminbi Internationalization Index.

To enhance its analytical subscription, we propose to complement this mainly structural definition of geoeconomics with a relational, agency-centred concept. We do this by following up on the afore-mentioned important role of Chinese state-owned banks and their agency abroad. However, given the significant differences between Chinese actors, especially between SOEs, and their different strategies in their host countries, an analytical geoeconomic approach from this perspective may be too general and oversimplified (Yeh 2016). Contributions assembled in a special issue in *Political Geography* (Oliveira et al. 2020), for example, address this risk of oversimplification and show how the BRI is not a monolithic program imposed by China but co-constructed by Chinese and non-Chinese agents, sometimes embedded in contradictory discourses (Liu et al. 2021). This complexity echoes in the multifaceted formation of bilateral cooperation agreements and deals that China underwrote together with European countries (cf. Sielker and Kaufmann 2020). Another recent special issue in *Eurasian Geography and Economics* (Lai et al. 2020) focused on the topic of financing the BRI. This research agenda seeks to understand foreign economic development through Chinese aid and FDI (Dunford 2020; Liu et al. 2020), and the effects of huge infrastructural projects and potential domestic costs for BRI countries (Rowedder 2020). Interestingly, Summers (2020) suggests that China's ability to challenge the structural power of the existing Western institutions through the BRI is rather limited. Echoing Oliveira et al. (2020), Liu et al. (2020) find that BRI projects are particularly defined by inter-governmental cooperation, which suggests the existence of a shared space of co-production between Chinese and non-Chinese state institutions. Importantly, they add that BRI projects 'involve more complicated and innovative financing structures than do traditional FDI projects' (p. 139).

Although we develop our argument drawing on the example of Chinese banks, Chinese financial activity in Europe is still limited when compared to the investment potentials of Chinese corporations and banks. Research directed towards understanding modalities and agency involved in internationalization strategies remains to be better identified and analysed in the future. Chinese banks building extensive networks into Europe (Balmas and Dörry 2021) are an important example and provide corporate financing services (e.g. Mergers and Acquisitions, M&A) to their Chinese corporate clients and engage directly in investing/financing infrastructure projects, private equity acquisitions and currency services such as lending and clearing. At the same time, however, banks adhere to the logics of the Chinese state. In these processes, Luxembourg plays a pivotal role in 'transiting' Chinese FDI to the EU.

Luxembourg hosts the largest headquarters of Chinese banks that design the fund structures to invest in private equity and infrastructures along BRI countries, and it is a key centre for RMB investments and RMB-denominated bond listing. Yet despite this seeming importance as a strategic node in Chinese foreign bank networks, and despite the fact that Luxembourg has enthusiastically embraced and politically supported the creation of Chinese banks, financial

activity remains limited so far. This concerns, for example, the difficulties of integrating business from Chinese banks – or the lack thereof – into the national economies, which has caused disappointment in the recipient countries, e.g. in Luxembourg (Schmit 2021). Such difficulties seem to have two root causes. First, local practitioners' lack of knowledge and trust towards Chinese financial institutions derives in part from the absence of marketing and distribution activity of Chinese banks' services and products throughout the EU. Their slow and seemingly somewhat cautious integration process, which is still in an early stage, does not align with business expectations from EU host states. European policymakers asking Chinese banks to engage more into EU economies resonates in the broader political changes at EU level. China's growing economic activity in the EU, e.g. M&A activities with/of European companies, has set the stage for the EU Commission to adopt a tougher stance towards China in the *EU Strategic Outlook* (European Commission 2019) and to revise the EU Merger Regulation (European Commission, 2021; cf. Svetlicinii 2020). At the same time, the European Central Bank has started to discuss and negotiate the intermediate parent undertaking (IPU) regulation that will strongly affect the future governance of EU-based Chinese banks (Global Times 2018, January 31). This stiffening does not only affect negotiations between the EU and China for the currently pending *Comprehensive Agreement on Investment*; it also triggers political reactions that could lead to changes with regard to the originally hoped-for economic integration between the EU and China. All considerations on the actual cooperation and co-production that define the BRI, as well as the integration of Chinese banks into the European financial landscape, seem to be at odds with the tougher stance of EU political institutions towards China. Many geopolitical fears of EU countries linked with the rise of China refer to sensitive economic activity such as strategic infrastructure investment and company acquisitions.

BANKS: AGENTS OF CHANGE

Commercial banks are economic entities that create credit. In doing so, they decide where, what, and who to finance according to their financing strategies and risk management, which in turn "reshapes the economic landscape, across a variety of spaces" (Werner 2013, p. 2792). Alluding to this understanding, we suggest that analysing Chinese bank expansion into the EU reveals the functions they perform outside their home country and helps to better understand China's geoeconomic projection.

Christophers (2013) identifies three internationalization strategies of banks. First, banks can export their services without establishing a permanent presence in a foreign jurisdiction. Second, they can enter foreign markets by establishing a presence through branches and/or subsidiaries, or

they can acquire and control foreign banks through FDI. A third option is portfolio investment. Chinese banks are expanding their business in Europe through the establishment of branches and subsidiaries. However, Cerutti et al. (2020) find that they are also exporting their services to emerging markets, often without establishing a permanent entity there, while preferring being present in advanced economies. This suggests that Chinese banks organize their business strategies according to political and regulatory differences in target markets. In stable economies where their business is more concentrated, such as in Europe, Chinese banks opt for establishing permanent offices. Interestingly, not Chinese banks but corporations have acquired local banks in Europe, as we will briefly discuss below.

Bearing in mind that branches and subsidiaries theoretically operate in different arenas of competition (Heinkel and Levi 1992), several reasons influence strategic decisions to set up one rather than the other model. For example, the parent bank may prefer to establish a branch when a foreign jurisdiction offers the right conditions to raise funds at a lower cost, which a branch easily reallocates to where it earns higher returns (Fiechter et al. 2011). Other motivations may take into account that the setup of branches is less costly, as compliance needs with the host country's company law are low (Schön 2001), but subsidiaries are less costly to dissolve in case of failure (Fiechter et al. 2011). These theoretical distinctions can vary in practice, but as a rule of thumb, branches are primarily oriented towards wholesale and corporate activities, subsidiaries more towards retail services. However, Chinese banks in the EU do not engage in local retail markets.

Although implying different ways to raise capital, the decision to establish either a branch or a subsidiary depends not only on the parent bank's strategy. Rather, regulations in both the host and the home country tip the scales, specifically with regard to a bank's business objectives and the associated risk exposure that varies between both organizational models. The aim of such strategic decisions is to manage liquidity most effectively by transferring assets routinely among branches and subsidiaries (State Street 2019). A foreign branch can take advantage of its parent's balance sheet (Abrahamson 2020), while the subsidiary is incorporated in the host country and therefore partly independent from its parent bank. Branch networks are centralized, which helps capital move easily within the network of branches, that is, from jurisdictions where raised capital is cheaper to jurisdictions where returns are higher (Fiechter et al. 2011), reflected by the logic of transfer pricing in globally operating firms.

Chinese banks' territorial organization in Europe is not new to the markets. In the 1970s and 80s, Japanese banks adopted a similar strategy to internationalize their businesses in Europe (Düser 1990). While in Luxembourg they established subsidiaries only, they established branches and subsidiaries in Switzerland, Germany and in their main headquarters in London. Curiously, Hall (2021) notes that, before 2014, London's regulator allowed Chinese banks to establish subsidiaries only. In contrast, in Switzerland and Germany, Chinese banks have established branches only. As

a type of state-owned banks, German Landesbanken offer another interesting example as compared to the Chinese strategy. Landesbanken expanded throughout Europe through the setup of branches and/or subsidiaries but followed their corporate customers to the US in the 1970s to internationalize their operations and operating branches in New York, where they also enjoyed access to the local financial markets (Pohl 1994). Thus, Chinese banks' networks in the EU, through their territorial organization and legal structures, reveal in part their strategies and their potential.

The branch-subsidiary structure in Luxembourg enables Chinese banks to perform corporate financial services for their corporate clients across the EU. Luxembourg is a leading hub for bond listing services to both Chinese banks and their clients, not only for the fledgling green bond market. More relevant to our argument is that because Chinese bank subsidiaries in Luxembourg govern a wide network of their own branches across the EU (Balmas and Dörry 2021), they have direct contact to the localized markets of financing SMEs in the EU, a business that is still recovering from the credit crunch of 2008/09. China's participation in the EU's economic development through its large banks would increase both its geoeconomic advantage in the EU and its economic power over the EU.

However, banks do not only affect host countries economically, but also politically. Spendzharova (2014) explains how foreign ownership of domestic banks in Central and Eastern European Countries (CEEC) has affected both the integration process of those countries into the EU and the making of the European Banking Union. In the same vein, Epstein (2017) has analysed the implications of Western banks' systematic acquisitions of CEECs' banks with cases reaching up to 100 per cent of foreign ownership. She found that banks' foreign ownership correlates with the weakening relationship between the host state and its banking sector. Studies of banks' foreign acquisitions suggest that foreign banks affect the socio-economic organization of the host country by reshaping the landscape of resource allocation and have a major impact on domestic politics. Acquisitions of local (retail) banks imply a high degree of penetration into and control over the local economy (Epstein 2017), e.g. by allocating capital resources where and to whom it is economically and politically most opportune. However, as mentioned before, not banks but Chinese corporations acquired local banks across Europe, with three acquisitions exemplifying this: Banque Internationale à Luxembourg by Legend Holdings in 2017; the German bank Hauck and Aufhäuser by Fosun Group in 2015; and the Danish Saxo Bank by Geely in 2017. The political implications of a wider presence of Chinese corporations into the EU banking sector could strengthen, for instance, lobbying power over the EU Commission and the European Bank Authority. This might be another way for the Chinese state to exert economic and political influence within the EU in the years to come, not least by providing RMB services through non-Chinese banks.

ANCHORING GEOECONOMICS: STRATEGIC INTERESTS OF LUXEMBOURG

For China, Luxembourg is a transit country for FDI operations and the most important one in Europe. More than 40 per cent of Chinese investments into Europe passes through Luxembourg (Arendt, n.d.). Marketing and distribution of investment and RMB services are, however, still limited, although Chinese banks have built an extensive network of affiliates throughout the EU. They are headquartered in Luxembourg, where six of the seven largest Chinese banks are organized in a dual branch-cum-subsidiary structure, and from where subsidiaries *govern* networks of branches across the EU. This allows Chinese banks to take advantage of the balance sheets of their large parent banks in China, while concomitantly accessing other EU member states through their subsidiaries, which are locally incorporated banks allowed to open up their own branches across the EU. Building on this argument, the widespread presence of branches and subsidiaries of state-owned commercial banks in the EU gives China the opportunity to influence parts of the EU economy. However, as central banks can influence the credit supply by commercial banks through a regime of credit control (Ryan-Collins et al. 2014), Chinese banks in the EU are also geo-economic actors, which in turn may determine parts of China's own economic development.

Chinese banks are active in the RMB-denominated (green) bond listing, with the Luxembourg Stock Exchange currently taking the lead with more than 250 RMB-denominated bonds (LuxSE 2020). Issuers of Luxembourg-based RMB bonds include the Chinese national development banks, even though they do not have representative offices there. Interestingly, Chinese development banks, along with Luxembourg-based Chinese banks, are investing through alternative investment funds that target private equity and infrastructure projects in Europe, with a particular focus on CEE countries. Chinese banks in Luxembourg, however, use different vehicles to allocate their resources, and the governments of China and the EU countries have co-constituted the conditions under which Chinese banks operate within the EU. These and similar conditions enable Chinese and EU banks and corporations to perform capital market services in both the EU and China. One enabling instrument of such operations are MOUs, which also define an important geoeconomic dimension.

A *Memorandum of Understanding* (MOU) is a bilateral decision to complement international agreements. MOUs are directed to effectively implement actual practices not explained in detail in international agreements. Often, international agreements do not detail what and how each actor involved in an international agreement can do. For example, a double tax treaty (DTT) is an international agreement between two parties to avoid double taxation from both imports and

exports of goods and services. The treaty, however, does not enter into the specifics of relevant factors affecting the business of key players in the economy, e.g. stock exchanges. Stock exchanges based in two different countries may sign an MOU to complement an international treaty such as a DTT. In the same fashion, agencies representing specific sectors like banking or asset management, may sign an MOU in order to define practices to follow when banks or investment funds enter the other jurisdiction. Thus, while international agreements define the operational framework for actors, an MOU outlines the guidelines for obligatory practices actors will obey. This makes MOU atypical soft law tools (Adamski 2020), with their legal status and binding effects not always being clearly defined (Masilo 2020). Table 1.1 depicts signed agreements between Chinese and Luxembourg agents that help to organize the business environment for banks and investors, including Luxembourg's fund industry and bond market, the BRI and China's securities markets.

Table 1.1. Most relevant MOUs between financial entities from China and Luxembourg.

Counterparties		**Year**
Luxembourg	**China**	
Financial Sector Supervisory Commission (CSSF)	China Banking Regulatory Commission (CBRC – today CBIRC)	2008
Financial Technology Transfer Agency (ATTF)	Shanghai Financial Services Association (SFSA)	2010/2012
CSSF	China Securities Regulatory Commission (CSRC)	2012
Association of the Luxembourg Fund Industry (ALFI)	Asset Management Association of China (AMAC)	2014
Central Bank of Luxembourg (BNL)	PBC	2014
Insurance and Reinsurance Association (ACA)	Insurance Association of China (IAC)	2016
Luxembourg House of Financial Technology (LHoFT)	National Internet Finance Association (NIFA)	2017
Luxembourg Stock Exchange (LuxSE)	China Central Depository and Clearing (CCDC)	2018
Luxembourg Bankers' Association (ABBL)	China Banking Association (CBA)	2018
Government	Government (BRI Agreement)	2019

Source: Author.

Four important features shape China's bank presence in Europe, especially in the EU and Luxembourg. First, (most of) Chinese banks have adopted a specific, if not unique, branch-cum-

subsidiary structure, which enables them to perform their core business – providing corporate financing services to Chinese corporations – in the most efficient way. Second, Chinese banks have a wide network of branches, subsidiaries and sub-branches within the EU but do not (yet) use them to their full potential, e.g. they do not expand RMB services, and limit marketing services and distribution of their knowledge and financial products. Third, the environment in which Chinese banks operate is the result of a complicated design of local, international and Chinese regulations, co-constituted by Chinese and European governments and financial institutions. Fourth, while subsidiaries of Chinese banks maintain their presence in Luxembourg and the EU, some have recently reported losses. The continued maintenance of financially non-viable banks, however, profoundly contradicts the capital(ist) market logic. Rather, it suggests that some Chinese banks may be constrained in operating freely in the EU, underscoring the need for furthering detailed analysis as proposed in this chapter. Given both their success in China and their financial potential, banks would generally be expected to perform economically in the EU and suggests that political motivations may take precedence over economic ones. Given the banks' inherent geoeconomic power, we assume that these four characteristics are important, if not the only, preconditions for the geo-economic power of Chinese banks in the EU.

CRITICAL REFLECTIONS AND CONCLUSION

In this chapter, we sought to contribute to further understanding the concept of geoeconomics drawing on the example of the (economic) expansion of Chinese state-owned banks' to Europe and their networks within the EU. Chinese banks embody the specific characteristics of state capitalism in China, including its goals for economic developmental and social equality within China and its external projections. The state logic of Chinese banks is reflected in their mission to follow rigid state guidelines and serve the real economy both inside and outside its territory. It is important to acknowledge that Chinese banks are state-owned and respond to two different yet closely intertwined logics: the Chinese state and the global market. This makes Chinese banks both political and economic agents of China's economic expansion strategies across the globe, and particularly to Europe. We identified that Chinese bank networks primarily provide a platform to perform Chinese corporations' direct investments but also that Chinese banks perform a set of other functions, including the provision of RMB services and therefore promoting the international expansion and use of the RMB. Further, we identified important mechanisms and practices, e.g. the international organization of bank networks, their anchoring in certain places like Luxembourg, and the limited meeting of expectations by Western policymakers, as well as instruments (e.g.

MOUs) and strategies (e.g. window guidance) that define important aspects and dimensions of the concept of geoeconomics and complement the ascribed agency of Chinese banks.

As shown throughout this chapter, an interesting paradox arises. As the banks' expansion into the EU is a factor of a broader geoeconomics of the Chinese state and given that the EU is a large recipient of Chinese FDI as well as an important destination of the BRI, future research into this paradox is of particular importance. As agents of the state, the banks' inherent expansion in Europe implies that they are geo-economically motivated. Ironically, however, the fact that Chinese banks are limited in their activity and strictly adhere to the Chinese state developmental guidelines at the same time constrains their geoeconomic power. This suggests that they are constrained geo-economically by the geoeconomic calculus of state developmentalism. Put differently, and somewhat ironically, the banks' constrained expansion in Europe may be a factor of a broader geoeconomics of China's state development in which Europe figures. That the banks are not operating with their full potential is due to various reasons: First, their business strategies and operations do not seem to be entirely profit-oriented, at least for the time being. Second, banks are not providing as many services as they could, e.g. large RMB investment service providers in Europe are Western and not Chinese banks. Third, all Chinese banks seem to be engaging in a cautious step-by-step expansion and most of them (5 out of 7) started to operate in Europe only recently. In a nutshell, while the banks' business activity is still limited their networks are extensive and growing, as are the geopolitical concerns of EU state officials.

Nevertheless, Chinese banks have the *potential* power to reshape parts of the socioeconomic and political landscape of the countries where they expand their networks. To date, they have not (yet) fully utilized/exerted that power, as their presence and continued territorial expansion across the EU over the last decade have not coincided with an expansion of their services, at least for the time being. This does not mean that they are not framed within the geoeconomic logics of the Chinese state. A closer look at Chinese state investments in Europe by sector (cf. Babic 2021) reveals their strong orientation towards technology and knowledge acquisition for domestic economic-developmental purposes, which is not always purely profit-driven. However, Chinese banks may exert their geoeconomic power in the future, with relevant implications for local economies and economic development in Europe.

Our summary of the analysis provided in this chapter allows us to further critically engage with the concept of geoeconomics, including a brief elaboration of its strengths and limitations by way of the example of our case study, and a more general conclusion regarding the concept's application. We started with and incorporated an understanding of geoeconomics as a state's more subtle means than military power to secure relative gains (e.g. Scholvin and Wigell 2018); yet, we departed from this overall structural literature by adding concrete agency to identified key players. While we consider the focus on concrete agency important, the concept of geoeconomics is rather

limited in providing concrete analytical guidance. Here, we borrowed from the literature concerned with tracing (economic and political) agents and product(ion) networks as, for example, performed in economic and political geography. The apparent contradiction between a capitalist banking system and the embeddedness in the state logic and dynamics remains a theoretical wellspring for future research, which would explain better the internationalization of Chinese banks. This chapter sought to address this by identifying and highlighting the particular role of specific agents (banks, regions, states) and their *relational* agency. The expansion of Chinese banks in the EU provides an illustrative example of geoeconomics by unpacking the relationship between the state, the firm and place(s). Following these actors through their permeation into foreign jurisdictions requires a more micro- and meso-level oriented analysis, which we suggest would complement the understanding of the state as a monolith operating in the international arena. Geoeconomics provides a perspective for analysing the emerging complexities of the global economy where particular state agency, not states, alongside other agency performed by firms and banks (co-)create the political and economic conditions for expansion and development. Thus far, scholars have paid little attention to the (economic) expansion of Chinese banks into Europe and their potential political motives and constraints. The relevance of the banks' presence and the power they could exert in the future deserve further research.

Beyond understanding the role of Chinese banks in the performance of China's FDI to Europe and the consequences of increased RMB activities, we suggest two important avenues for further (empirically driven) research, not least in order to assign more analytical power to the concept of geoeconomics. First, and as a consequence from a series of Chinese acquisitions in Europe, a better appreciation of the implications of Chinese corporate heavyweights in the European banking system would help strengthen a key dimension of the geoeconomics concept. This key dimension comprises China's potentially rising economic statecraft abroad, informed by the contradictory notion of "constrained geoeconomics" of Chinese banks in Europe outlined above. Second, our analysis suggests that in-depth insights into the role and relevance of the political dimension of Chinese banks would contribute to recognizing more clearly their strategies and practices as materializations of this perceived statecraft. More generally, we believe that research on these two topics would enhance our understanding of China's progressive and challenged integration into the global system. And last, but by no means least, it would also help to further and better comprehend the nexus between China's growing banking system and its geoeconomic power in the world.

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CHAPTER 2

CHINESE BANK NETWORKS IN EUROPE: FDI-ORIENTED BY LEGAL AND STRATEGIC DESIGN

Chinese banks have been building an extensive network of branches and subsidiaries across Europe. Concomitantly, Chinese enterprises have started to invest in Europe more assertively while the Chinese government has launched the Belt and Road Initiative (BRI), supported the internationalization of the renminbi (RMB), and progressively opened its financial markets to foreign investors. As an integral part of this concerted undertaking, Chinese banks have gradually driven China's integration into the international financial system and their choice of location always follows a very distinct bank branch and/or bank subsidiary strategy. Examining why this is so, is the first analytical objective of this chapter. Secondly, places also actively promote their regional assets to attract financial activity, and here we aim to understand the relationship between Luxembourg's international financial centre (IFC) and the headquarters of the largest Chinese banks located there, or in short, the reasons for the matching fit between place and international financial activity (Coe and Yeung 2015).

Here, we build on two assumptions. First, an important reason why Chinese banks have clustered in Luxembourg is the combination of Luxembourg's uniquely developed capabilities and assets as an IFC (Walther et al. 2011), including the administration of cross-border investment funds (Dörry 2015; Wójcik et al. 2021) and its longstanding expertise in structuring complex financial vehicles alongside its sophisticated financial and taxation framework (Dörry, 2016; Haberly et al. 2019), including Luxembourg's extensive list of double tax agreements (DTAs).

Second, Chinese banks are primarily in Luxembourg to serve European and Chinese corporate clients, mostly Chinese state-owned enterprises (SOEs). Luxembourg funnels more than 40% of Chinese FDI to Europe (Arendt, n/a), and we argue that the location of Chinese banks enables especially SOEs to engage in mergers and acquisitions (M&A), an important part of FDI, as well as portfolio investments through financial instruments well-established in Luxembourg, namely special purpose vehicles (SPVs). Importantly, about 70% of Chinese bank lending in the European Union (EU) is to large European enterprises, making them their main target of credit expansion in the EU. Both assumptions guide the analysis of the concrete spatial-organizational patterns observed for Chinese banks in Europe and the links between these distinct patterns and FDI from China to Europe, via Luxembourg. We argue that large Chinese state-owned banks are thus important but analytically neglected geoeconomic actors (Balmas and Dörry, 2022) and that their presence in Luxembourg, as well as Luxembourg's regulations, are pivotal to the formation of Chinese-driven financial networks in the EU. Primarily, therefore, this chapter deepens the understanding of these patterns and conditions of the progressive integration of an emerging market (China) into global finance and, in particular, into the EU single market.

Embedded in this Eurasian context, we draw specifically on contributions from literatures on (i) global financial networks (GFN) and (ii) internationalization strategies of banks. GFN scholars recognize the primacy of banks in the architecture of GFNs as well as the banks' "sticky power" to connect IFCs to foreign jurisdictions as an important enabling mechanism to link regions with global economic activity (Coe et al. 2014; Wójcik 2018, 2020), particularly with regard to the banks' key role for FDI (Lai 2019; Gemici and Lai 2019). Despite recent worthy descriptive contributions to the GFN literature (e.g. Pan et al. 2018; Fang and Pan 2021), there is little analytical engagement with important constituting elements of GFNs. We address this gap and complement it with insights from the literature on bank internationalization processes and strategies. Specifically, we focus on Chinese bank branch-*cum*-subsidiary strategies, thereby assigning explicit geoeconomic agency to (Chinese) global banks. Our empirical findings thus add to the analytical project in economic geography, which so far has been privileging the manufacturing firm over the financial firm. More specifically, it extends the analytical focus on banks to the active shaping and shapers of GFNs, which includes a strategic dimension inseparably linked with the development and capabilities of certain IFCs, that is, their specific regulations and functional specialization, and their mutual mobilization of distinct locational assets for, but subsequently also from, foreign bank branches *and* subsidiaries.

For that reason, section 2 introduces and contextualizes the Chinese banking cluster in Luxembourg. Section 3 positions the paper among the literatures on bank internationalization strategies as crucial constituting parts for GFNs, thus forming an analytical lens to help determine the conceptual angle for empirically studying the internationalization of Chinese banks on the

example of Luxembourg. Section 4 introduces both the methodology and the empirical findings. This analysis considers two factors: first, the Chinese banks' spatial *organization* and their choice of Luxembourg as their main headquarters in the EU, and, second, the Chinese banks' *functions*, that is, how they elevate these enabling spatio-organizational patterns. Section 5 discusses the paper's key points and proposes avenues for further research.

CHINESE BANKS IN THE CONTEXT OF LUXEMBOURG

Surprisingly at first sight, Luxembourg hosts the headquarters of seven leading Chinese banks[10]. In 1979, the Bank of China (BOC) established a branch and later, in 1991, set up a subsidiary in Luxembourg. Since then, the BOC is organized in a dual branch-cum-subsidiary form. In 1998, the BOC's major competitor, the Industrial and Commercial Bank of China (ICBC), opened a representative office in Luxembourg, and in 1999, the ICBC's office became a full operational branch. Until the financial crisis of 2008/09, the organization of Chinese banks in Luxembourg did not change. After the crisis, when Chinese SOEs started to invest more assertively in Europe, the BOC subsidiary in Luxembourg began to open up branches in other EU member states through its EU-passport banking license (Briault 2015). Between 2008 and 2019, the BOC subsidiary established six branches in as many EU countries, followed by the ICBC, which, in 2011, established a subsidiary in Luxembourg with five further branches across the EU. Between 2013, when president Xi Jinping launched the BRI, and 2017, five other Chinese banks started to cluster in Luxembourg after decades of only limited presence (Table 2.1). Following the example of the BOC and ICBC, four Chinese banks deployed the same branch-cum-subsidiary structure. Two of them, the China Construction Bank (CCB) and the Bank of Communication (BCM) subsidiaries, expanded to other EU member states by establishing branches. Empirical results confirmed that the pioneering presence of BOC and ICBC in Luxembourg was a crucial motivation for other Chinese banks to cluster, revealing features of entwined contingency and path dependence on both the bank and the location.

[10] According to the Chinese bank classification, these seven banks are divided into two categories: state-owned commercial banks (SOCBs) and joint-stock commercial banks (JSCBs). Bank of China, Industrial and Commercial Bank of China, China Construction Bank, Bank of Communications, and Agricultural Bank of China are SOCBs. China Merchants Bank and China Everbright Bank are JSCBs. The difference dwells in the fact that SOCBs are majority state-owned while JSCBs should be majority private. However, following a series of government investment rounds, almost all JSCBs in China are now majority state-owned (Stent, 2017). Here, we focus on SOCBs, to which, in the remainder of the paper, we simply refer to as Chinese banks.

Table 2.1. Chinese banks in Luxembourg

Bank	Acronym (category*)	Year of entry	Assets (US$ mn)**
Bank of China	BOC (SOCB)	1979	6,512.92
Industrial and Commercial Bank of China	ICBC (SOCB)	1998	5,460.27
China Construction Bank	CCB (SOCB)	2013	1,675.74
Agricultural Bank of China	ABC (SOCB)	2014	21.75
China Merchants Bank	CMB (JSCB)	2015	n/a***
Bank of Communications	BCM (SOCB)	2016	495.18
China Everbright Bank	CEB (JSCB)	2017	36.35

Source: Authors. *See Note 1. **Subsidiaries' assets as of 2020 (Thebanks.eu n/a). ***At the time of research, data were not available as the CMB's subsidiary was established in June 2021.

Chinese banks have built a similar banking network in London to that in Luxembourg. It reproduces the same organizational model of branches and subsidiaries but differs in that the London-based subsidiaries set up branches in the UK only, except for a single branch in Ireland ceased post-Brexit. The EU, however, is well supplied with Chinese bank branches controlled by Luxembourg's subsidiaries, although with some exceptions (Table 2.2).

Table 2.2. European bank networks of four Chinese banks

	ICBC	BOC	CCB	BCM
LUXEMBOURG	PB / S	PB / S	PB / S	PB / S
NETHERLANDS	SB	SB	SB	
BELGIUM	SB	SB		
FRANCE	SB	PB	SB	SB
SPAIN	SB		SB	
PORTUGAL		SB		
ITALY	SB	PB	SB	SB
GREECE		SB		
SWEDEN		SB		
GERMANY	PB	PB	PB	PB
AUSTRIA	PB / S	SB(Hungary)		
HUNGARY		PB / S		
CZECH REP.	PB	SB(Hungary)		
BULGARIA		SB(Hungary)		
POLAND	SB	SB	SB	

SERBIA		S		
UK	PB / S	PB / S	PB / S	PB / S
IRELAND		S		
SWITZERLAND	PB		PB	

Source: Authors. Based on banks' annual reports 2019 and 2020. PB=Parent's branch; S=subsidiary; SB=subsidiary's branch; SB(country)=subsidiary's branch of a third EU member state's subsidiary.

At first sight, Chinese bank networks in the EU are not different from other non-EU bank networks. Yet a closer look reveals important differences. US banks Goldman Sachs and State Street[11], for instance, located their European subsidiaries' headquarters in Germany (Frankfurt am Main and Munich). JPMorgan, in contrast, has chosen Luxembourg as headquarters for a subsidiary only, from which it governs a network of 12 branches across the EU. Other foreign banks in Luxembourg, e.g. UK's HSBC and French BNP Paribas, have organized in the same branch-cum-subsidiary structure[12] but usually dedicate just one specific function to a subsidiary, e.g. wealth and asset management, but not, as found for all Chinese bank subsidiaries, corporate banking. Yet, the key difference between Chinese and other, mainly US and UK non-EU banks in the EU, is the nature of the bank itself. Chinese banks' agency is constrained by China's state credit and monetary policies (Balmas and Dörry 2022; Sun 2020), while most Western banks follow liberal market-oriented policies (Hardie and Howarth 2013). In Luxembourg, they therefore barely compete in the same markets. The former mainly provide M&A services to Chinese firms and lending to EU corporations, while the latter provide the full range of services and importantly, custody services and marketing of financial instruments. It makes Chinese banks less likely to transfer financial shocks across borders but also stresses their relatively small balance sheets (Table 2.1), especially if compared to systemically important banks in Luxembourg (Table 2.3).

Table 2.3. Systemically important banks in Luxembourg

Bank*	Assets**	Country of origin
JPMorgan	66,880.45	United States
BCEE	50,435.75	Luxembourg
BGL BNP Paribas	46,642.20	France
Société Générale	43,121.48	France

[11] All information on non-Chinese banks are derived from their annual reports (2020), retrievable from their respective websites.
[12] In the following branch-subsidiary structure.

BIL	30,557.27	Luxembourg
RBC	18,582.25	Canada
Clearstream	14,616.58	Germany

Source: European Systemic Risk Board (ESRB 2020) and Thebanks.eu (n/a). *The ESRB classifies systemically important banks according to a set of indicators including not only the assets of the banks, but also the interconnectedness, the cross-border activity and the complexity of the group between others. This is why large bank groups such as Deutsche Bank (Germany), UniCredit and Intesa-San Paolo (Italy), HSBC (UK), or ING (Netherlands), even though having a large amount of assets in Luxembourg, do not appear in the ranking. **As of 2020.

Against this background, Luxembourg's importance for foreign banks, especially from China, has been growing quietly with little critical reflection and analytical scrutiny to understand not only their concrete *mechanisms* but also important *implications*. While scholars have focused broadly on the banking sector in China (e.g., Cousin 2011; Klapper et al. 2019; Sun 2020), less is known about the global reach of Chinese banks, their strategies that form and determine the international expansion to specific locations (Daniels 1986), and the more general logic of banks' spatial organization in and across foreign jurisdictions. These gaps are addressed in the following sections.

CHINA'S ECONOMIC EXPANSION AS A DRIVER OF GFNS

China's integration into the world economy is a key driver of the actual reconfiguration of global finance, as scholars from different disciplines have diagnosed. Some of them, for example, analysed the cases of Chinese bank subsidiaries in Canada (Yang and Lin 2019) and in Australia (Zhu 2019) mainly through the lens of bank-internal human resource management. Others recognize the increasing importance of the integration processes of Chinese banks into the global financial system and China's steep rise as a global net creditor and increasingly trusted debtor (The Economist 2020, April 18; Tooze 2018). Scholars have examined, for example, China's state policy towards the RMB internationalization process via European IFCs like London and Frankfurt (Töpfer and Hall 2018; Hall 2021; Pacheco Pardo et al. 2018) and state-led economic activities (Xin and Mossig 2020), including the state's ability to build and govern global economic networks (Töpfer 2018; Chen et al. 2020). A recent collection of articles in *Eurasian Geography and Economics* (Lai et al. 2020) has cemented this interest further and specifically shed light on aspects of financing the BRI project, a geopolitically and geoeconomically thorny issue often embedded in the powerful, yet contested narrative of 'debt-trap diplomacy' (Bennett 2020). The articles focus

on understanding foreign economic development through Chinese aid and FDI (Liu et al. 2020, Dunford 2020) as well as on the effects of huge infrastructure projects (Rowedder 2020) and potential domestic costs for BRI countries. However, this chapter seeks to capture China's growing ambitions to augment its influence through its global banking strategy and to understand Chinese banks' concrete agency through their dual, finely tuned interplay of branch-subsidiary structures in serving SOEs and facilitating FDI processes.

IFCs like London, Singapore, and Frankfurt have been referred to as the strategic hubs from which to inject an RMB-based financial regime into the world (Green and Gruin 2020; Pacheco Pardo et al. 2018; Töpfer and Hall 2018; Hall 2021). Smaller, yet equally vital IFCs in the European part of the Eurasian project are still systematically overlooked in this debate. Luxembourg is a case in point. Its long-standing know-how as the world's largest IFC for cross-border investment funds matches the particular needs of Chinese banks for both specific financial investment vehicles and strategic location, from which they create and govern new European financial markets. Luxembourg's specialization in designing cross-border investment vehicles, e.g., SPVs for corporate clients (de Mooij et al. 2020) second only to the Netherlands (Claassen and van den Dool 2013), is an attractive feature for (Chinese) banks.

Christophers (2013) captured the relevance of Western banks' internationalization as a major driver of financial globalization. In particular, he showed how banks' new organizational architecture enabled them to move across international borders "before it became possible for money […] to do so" (p. 146). Christopher's insight, in turn, sparks questions on the causality between cross-border territorial expansion of banks and the geographies of FDI. Although contested by some scholars (e.g. Poelhekke 2015), and despite Chinese banks' still limited international operations as compared to both their potential and operations at home, Christophers' assessment of early US banking seems to hold true also for China's banks today. Their clustering in Luxembourg can hence be interpreted as part of China's early-stage financial expansion into Europe.

CHOOSING LOCATIONS: BANK INTERNATIONALIZATION STRATEGIES

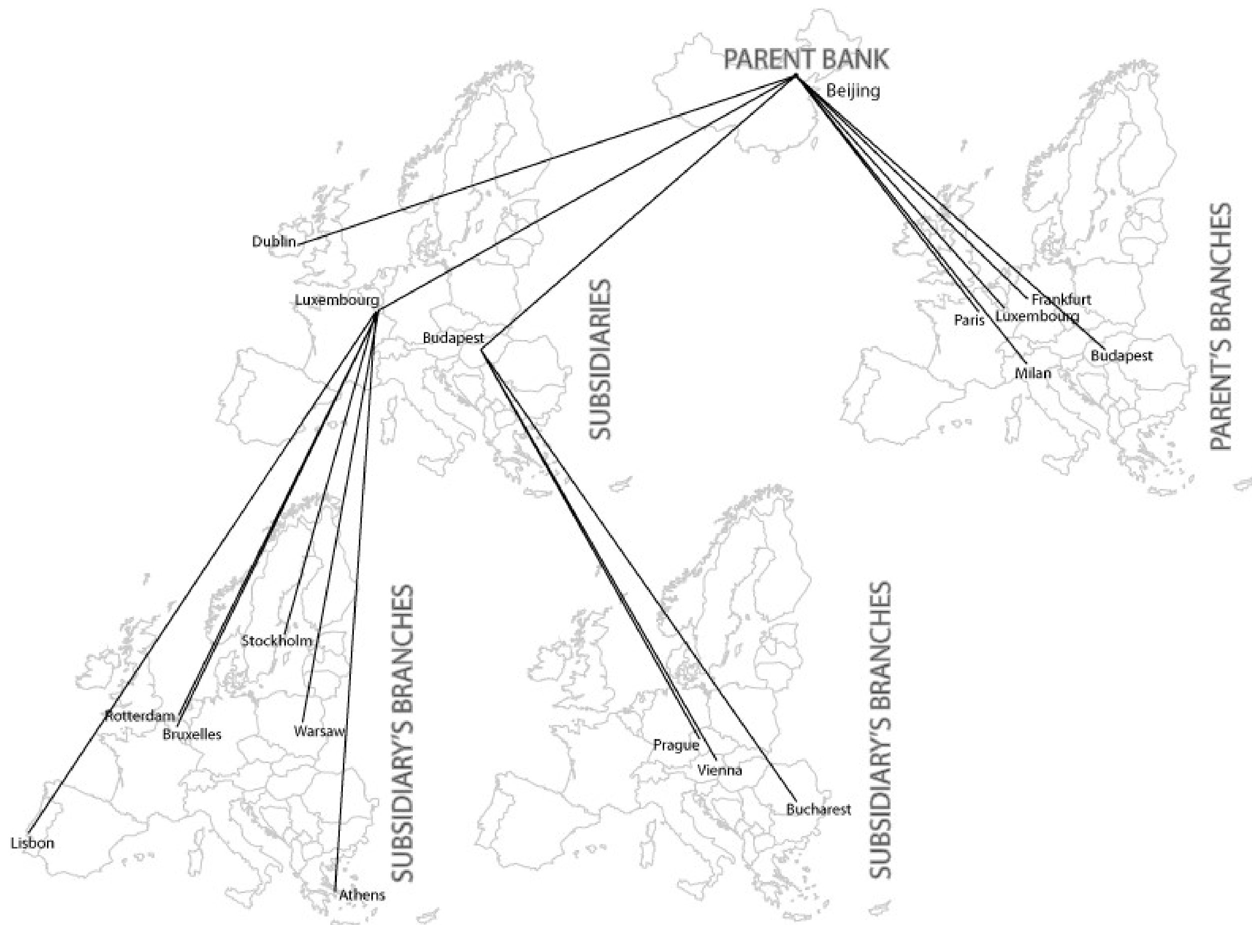
Specifically after 2008, management and organization scholars developed a keen interest in banks' organizational forms with a research focus on: (i) how banks transmit financial shocks across national boundaries (Cetorelli and Goldberg 2012; Goldberg 2009); (ii) what determines banks' organizational forms (Cerutti et al. 2007; Thalassinos et al. 2013); (iii) how foreign branches affect lending activities in their host economies (Claessens and van Horen 2012; Kowalewski 2019); and (iv) the role of regulation in banks' organizational preference and efficiency (Berlin 2015; Curi et al. 2013; Harr and Rønde 2003). This literature reveals that banks are not rigid in their approach

to deploying the two organizational forms of branch and subsidiary, which makes it difficult to identify the precise patterns of bank expansion in foreign jurisdictions. Despite revealing insights, however, this literature falls short on informing about the logic (and strategies) of the parent bank in establishing both forms of branch and subsidiary in the *same* foreign jurisdiction.

To expand their business overseas, banks can open either a branch or a subsidiary in the new jurisdiction: "If the foreign operation is incorporated in the host country, with a separate legal identity, it is a *subsidiary*, and if not, it is a *branch*" (Porter 2005, p. 85, original emphasis). In general, the literature identifies three main internationalization strategies of banks. First, the establishment of a branch and the creation of a centralized network of branches generally applied by banks whose main objective is to follow and serve their corporate clients abroad. A second one refers to the establishment of subsidiaries and the creation of a decentralized set of sub-networks useful for expanding into retail markets. The third one refers to the takeover of banks in the target jurisdictions. These banks, once acquired, become subsidiaries that can rely on ready-made networks of knowledge and customers, such as retail and SME clients. Scholars have assessed such strategies on Western European and American banks' market entry in the former Soviet countries after the collapse of the Soviet Union in the 1990s (Epstein 2017; Spendzharova 2014). Christophers (2013) considers yet another form of bank internationalization, which is exporting bank services without establishing a physical presence beyond national borders.

Here, however, we refer to the establishment of Chinese bank branches *and* subsidiaries, a strategy not explicitly addressed in the literature. Subsidiaries have their own legal personality. They are granted a full banking license by their Chinese parent banks and an EU banking passport, which allows them to establish their own branches in other EU member states. Figure 2.1 shows an example of BOC's network of branches and subsidiaries in the EU.

Figure 2.1. Bank of China's network of branches and subsidiaries in the EU



Source: Authors' own elaboration.

To be clear, branching and setting up subsidiaries are no novel features in the internationalization of banks. On the contrary, the expansion of Deutsche Bank to Luxembourg in 1967 to participate in the lending business on the Euromarkets via a subsidiary (and a branch in London for the same reason), which was added by a Luxembourg-based branch in 1993 to invest liquidity reserves in a 'tax-efficient' manner, is a rather relevant example. Yet, the meaning of choosing a branch *or* a subsidiary is not well elaborated in the literature, specifically with regard to their wider spatio-economic (and geo-political) implications. This is especially true with the forming of large – increasingly competing – global networks of banks against the backgrounds of larger global geo-political shifts (Dixon et al. 2022).

IFCs are active shapers of financial regulation, not least to capture banking and corporate business, and banks, in turn, are not exempt from corporate restructuring in internationalization processes in their search for locations to lower costs and benefit from tax advantages, a practice

commonly referred to as 'treaty shopping' (Weyzig 2013). It has major consequences for globalization processes and the formation of global financial networks, including the proliferation of 'mailbox companies' (cf. Baumgartner 2016), with Chinese corporations being no exception, as shown below.

MATCHING FOREIGN LOCATION WITH SPECIFIC FUNCTION THROUGH DISTINCT ORGANISATION: BANK BRANCHES AND BANK SUBSIDIARIES

Literature suggests that at least three main reasons influence banks' strategic decisions to set up branches *and* subsidiaries. First, the parent bank has different motivations for establishing one rather than the other organisational model, e.g. when a foreign jurisdiction offers better conditions to raise funds at a lower cost, which a branch can easily reallocate within the banks' network to where it can earn higher returns (Fiechter et al. 2011). For example, in Luxembourg three banks, the Swiss UBS, the French CACEIS and the British HSBC, have all established a branch employed to perform three different services, i.e., wealth management, securities services, and corporate banking (Thebanks.eu n/a), respectively. Banks may hence be attracted by the same foreign jurisdiction for different reasons, but both banks' strategies and foreign jurisdictions' conditions collectively shape GFNs along with market considerations.

Second, branches and subsidiaries hypothetically operate in different markets (Heinkel and Levi 1992). This means that the branch operates in markets of wholesale and corporate banking, while the subsidiary is engaged in retail banking, or is established with the purpose of supplying a specific country or region with a specific service, like wealth or asset management – just as a branch might do as shown in the previous paragraph. As the arena of competition may differ even between the same forms of branch, examples from Luxembourg suggest that subsidiaries as well may operate in different markets. For instance, all Japanese subsidiaries in Luxembourg operate in the domain of asset management, while all Chinese subsidiaries operate in the domain of corporate banking.

Third, setting up branches is less costly as compliance needs with the host country's company law are low (Schön 2001), but subsidiaries are less costly to be resolved in case of failure (Fiechter et al. 2011). This is important when dealing with political and market risks in the host country. Chinese banks, for instance, tend to establish branches and/or subsidiaries in politically stable economies in Europe, while engaging in cross-border lending without establishing a physical presence in less stable countries, like in Africa (Cerutti et al. 2020). These three conceptual distinctions can vary in practice, but as a rule of thumb, branches are primarily oriented toward corporate activities, subsidiaries more towards retail services. However, this is not the case for

Chinese banks in Luxembourg as none of their subsidiaries, at the time of this research, is engaging in the local or other EU retail markets.

From a different perspective, the goal of such strategic decisions is to manage liquidity effectively by transferring assets routinely among branches and subsidiaries (State Street 2019). A foreign branch can take advantage of its parent's balance sheet (Abrahamson 2020), while the subsidiary is incorporated in the host country and therefore partly independent from its parent bank. Branch networks are centralized, which helps capital move easily within the network of branches (Fiechter et al. 2011). Subsidiaries, instead, have the advantage of establishing their own centralized network of branches across the EU thanks to their EU banking passport. The presence of a subsidiary and a branch in the same jurisdiction echoes the necessary organizational logic for enabling transfer pricing like that in globally operating firms.

Transfer pricing is a complex practice that requires expertise and supervision from legal, tax and financial advisors (Abrahamson 2020). Although implying different ways to raise capital, the decision to establish either a branch or a subsidiary depends not only on the parent bank's strategy. Rather, regulations in both the host and the home jurisdiction tip the scales, specifically with regard to a bank's business objectives and the associated risk exposure that varies between both organizational models. Fiechter et al. (2011) illustrate with data from the financial crisis that failing branches received support directly from their network, whilst subsidiaries were more likely to be left to manage distress themselves. While these studies are valuable, they leave important issues unaddressed. First, the literature overlooks cases in which banks deploy a *combined* branch-subsidiary strategy in the *same* jurisdiction for their internationalization. Second, studies remain largely Western-centric and fail to incorporate evidence to explicate transformation drivers in global finance. This includes how banks from emerging economies (e.g. BRICS) have organized their networks across advanced economies (e.g. the EU) through specific forms of centralization and decentralization, which in turn shape distinct financial geographies. Third, while the literature has disentangled the differences between branches and subsidiaries and outlined implications for host and home countries, the mechanisms behind these processes remain opaque. Our empirical analysis addresses this gap.

METHODS AND DATA

This analysis builds on a range of empirical sources and insights in order to forensically examine (cf. Ashton 2009) the financial networks of Chinese banks headquartered in Luxembourg. First, desk research of academic literature was complemented with an array of grey literature on China and Luxembourg, e.g., international newspaper articles, government reports, statistics, corporate

reporting, industry papers, and reports from multilateral organizations (BIS, FSB, etc.) to help examine rationales and strategic action by both banks and financial centres. Second, between 2019 and 2021, 20 interviews (see list below) with experts from both financial and political circles in Luxembourg and China were conducted, unfortunately severely disrupted by the COVID crisis in 2020. However, previously summarized insights from desk research were carefully addressed in these interviews. In most cases, sensitive topics – particularly with regard to civil servants and policymakers – and different cultural backgrounds suggested not to record the interviews to enable a higher degree of comfort for interviewees and to encourage them to speak freely. In some cases, interviewees asked explicitly not to record the conversation. Memory-based transcripts were fixed directly after each interview, based on careful notetaking during each interview. Two political processes repeatedly framed and influenced the conversations: the economic and geopolitical contrasts triggered by changing positions of the US government and the EU Commission towards China, and a moment of friction between Luxembourg's government and its parliamentary opposition over the decision to maintain the BRI agreement secret in the summer of 2019. Although not anticipated at the beginning, we deemed these insights very useful, as they revealed the larger political context in which strategic thinking of the representatives from the banks and the different IFCs (Luxembourg, Chinese) had been taking place. Interview results were triangulated with other information sources, and this iterative process was repeated several times. A third important source that inform parts of this chapter were conversations at conferences in Luxembourg, Brussels and Beijing between 2018 and 2020, organized by state agencies and multilateral organizations, such as Luxembourg for Finance, the Luxembourg Chamber of Commerce, the China-Lux Chamber of Commerce, and the Asian Infrastructure Investment Bank. Informal conversations with participants from the public and private sectors revealed also their own questions that they found puzzling; they helped to kick off longer informal conversations. Such questions comprised Chinese bank activities in Europe and specifically in Luxembourg, but also questions around investment opportunities via Chinese alternative investment funds. Further, these questions illustrated that this topic sparks broader interest, curiosity and is deemed important among both public and private audiences.

The following two sections provide empirical results, first, regarding the major reasons behind Chinese banks' choice of Luxembourg as their EU headquarters, and, second, regarding their specific functions. Although both parts are closely intertwined, we present our empirical findings through the lenses of two different logics: spatio-organizational and functional.

EMPIRICAL FINDINGS

CONNECTING THE IFC LUXEMBOURG WITH CHINESE BANKS

Three linked motivations were important for Chinese banks' location in Luxembourg: Luxembourg's specialization in tailoring legal vehicles for cross-border funds and SPVs; its international pool of financial knowledge and long-standing experience to service foreign markets; and its financial regulatory and tax framework, which interviewees confirmed unanimously. Some added Luxembourg's political stability as another relevant factor (interviews 1, 2, 6, 10). Importantly, Chinese bank officials stressed that the early presence of the BOC in Luxembourg was important for subsequent location choices (11, 16, 20) and "today, without Bank of China, we probably wouldn't have all the Chinese banks here [in Luxembourg]" (16). More explicitly, one interviewee summarized that "follow the leader, follow the customer" (6) was one main driver. 'Leader' refers to BOC's early presence, while 'customer' refers to Chinese SOEs interested in using Luxembourg as a transit country to invest in the EU and to expand their business in Europe more forcefully since 2008. This would contrast the suggested causality between banks and FDI geographical expansion (Poelhekke 2015). Second, Chinese banks benefit from Luxembourg's financial regulation, which in turn helps Chinese corporations to circumvent domestic constraints on outward investments, i.e., FDI to the EU (14). Accordingly, the branch-subsidiary territorial organization implies that Luxembourg's regulations match Chinese banks' demand for such an environment.

Interview data revealed that foreign bank branches in Luxembourg can only access Luxembourg's domestic market and cannot market their products outside Luxembourg (6, 10). Banking operations of branches in the small state of Luxembourg are therefore limited compared to larger EU member states and their markets. However, organizational structures of banks that have a branch-subsidiary structure, such as the Chinese ones in Luxembourg, do not seem to be disadvantaged. The branch-subsidiary structure allows bank branches to operate in third countries, while subsidiaries' networks across the EU benefit from their parent banks' balance sheets. Interviewees confirmed that Luxembourg is particularly "interesting for the [business of] branches" (6, 10) as its regulation allows non-EU "bank branches to capitalize through their parent company" (6), which is impossible in other EU member states such as Germany, where "a foreign branch needs to be fully capitalized" (10). However, regulations for bank branches do not prevent Chinese parent banks from opening branches in Germany. Ironically, it is branches of Chinese parent banks that supply Germany and not the branches of Luxembourg-based subsidiaries. Although this should be investigated further, the decision of Chinese parent banks to branch in Germany reverberates in interviews: "Having a parent's branch in each EU member state would be the optimal organization" of a banking group, "but it would take a lot of time and discussion with all

the regulatory and political institutions" of the host country (20). The branch-subsidiary structure in Luxembourg, including the subsidiary's network of branches throughout the EU, overcomes these constraints emerging from not having parent's branches in each EU member state and is a very practical solution for time reasons (20).

Under such 'non-optimal' conditions, Luxembourg offers a unique solution not only for timing, but also that "it is all about risk management" (20). Usually, risk limits set bank's operations up from 6 to 8 times over its capital, while the single-client risk limit allows banks to use up to 25% of their capital for transactions with a single client. Being an independent entity, the subsidiary uses the single-client risk limit for transactions with its parent bank (20). In Luxembourg, this limit is partially removed (11, 20), which allows the subsidiary to maintain a privileged relationship with its parent bank, i.e., its parent's branch in Luxembourg (6, 10, 11, 20). In this sense, Luxembourg's success in attracting foreign branches served, along with others, as a blueprint for London's IFC in 2014 (6; cf. Hall 2021).

Further, Chinese bank subsidiaries that have established their own branches in other EU member states (Table 2.2), and are not involved in local retail operations, also work as governance bodies (11, 15) with the task to manage their centralized EU network of branches. Remarkably in this regard, in Luxembourg, Chinese bank branches and subsidiaries share not just a physical location (office building) but also the same staff (6, 11, 15), while responding to different regulations and logics. This 'open secret' is revealed by bank employees' business cards, showing the same employee's function on both sides: One for the branch, one for the subsidiary, both at the same address, and "only Luxembourg permits such a setting" (20). However, the BOC has established a branch-subsidiary structure in Budapest to serve parts of Eastern Europe (Figure 2.1), suggesting that other jurisdictions in the EU are amending their regulatory frameworks, e.g. by copying Luxembourg's. We suggest that these complementary functions are important reasons for Chinese banks to establish both branches *and* subsidiaries in Luxembourg: The subsidiary benefits from Luxembourg's specialized financial ecosystem, while managing its network of branches in other EU member states, whose core business is corporate lending to large EU corporations (20). The branch provides financial support and enables a broader flow of transactions with the parent bank in China. Furthermore, the branch directly supports Chinese enterprises in M&A operations in the EU through Luxembourg-based SPVs in demand from Chinese banks (8, 10, 11, 14). This allows for sophisticated transfer pricing strategies, another complex practice that requires financial, legal and accounting expertise (11, 14), and is an essential part of (banking) business (14). Importantly, corporations use SPVs in certain jurisdictions to make FDI in their home countries, a practice commonly referred to as round-tripping (Baumgartner 2016; Huang 2003; Liu and Dixon 2021; Wójcik and Camilleri 2015) to reduce investment costs in their home countries (Huang 2008). Since SPVs are complex, multilayered structures (cf. Claassen and van den Dool 2013),

Chinese banks usually work with SPVs registered in different countries: Luxembourg and a third country (14, 20).

Luxembourg's 'inviting tax regime' (Palan et al. 2010; Zucman 2015) was another interview focus. Interviewees confirmed unanimously that lower taxes attract corporations and banks to establish physical presence in Luxembourg. They stressed that corporate tax advantages were not a decisive factor, especially for banks (1, 2, 3, 6, 8, 9, 10, 14, 15, 16), but tax advantages enjoyed by administered investment vehicles and complex fund structures, especially alternative investment funds with investments in (BRI related) infrastructure and private equity projects (4). Interestingly, policy makers, civil servants and bankers were more inclined to play down the role of tax engineering in Luxembourg as a reason for banks to cluster, while interviewees from the fund industry and financial advisory considered Luxembourg as a tax haven for finance business, including banks. Besides using European 'conduit countries', e.g. Luxembourg (cf. di Nino, 2019), other ways to optimize taxation are DTAs (14). Deploying branches and/or subsidiaries in specific locations could depend on the triangular relationship of DTAs between China and EU member states, and those between Luxembourg and other EU member states (14). Accordingly, considerations on the territorial organization of Chinese banks in Luxembourg should include the network of Luxembourg's DTAs. Luxembourg has 79 DTAs, including China and Hong Kong. Luxembourg-based Chinese bank subsidiaries supply EU member states with a branch if the DTA between Luxembourg and that member state is more favourable than the DTA that the same member state maintains with China (14). This result requires further research, but shows that the Luxembourg DTA network is yet another attractive element for banks and corporations to cluster. Moreover, it has important implications for our study and the broader literature: DTA networks complement the phenomenon of treaty shopping and contribute to the formation of GFNs.

In summary, all foreign banks in Luxembourg share similar reasons for choosing Luxembourg as a strategic location: Luxembourg's specialization in cross-border investment vehicles; its large pool of financial, legal and tax expertise and long-standing experience in servicing foreign markets; as well as regulatory and tax frameworks, including its DTAs for banks' and corporations' tax-efficient business organization. Important for Chinese banks in particular has been the early presence of BOC that paved the way for other Chinese banks. On the one hand, Chinese banks' branch-subsidiary organization reflects Luxembourg's regulatory advantages – a privileged financial (and physically close) relationship between the parent bank and the subsidiary, i.e., the easing of risk policy constraints. On the other hand, Luxembourg's know-how is used in cross-border financial operations, especially regarding multi-tier SPVs to carry out FDI within the EU. From this angle, subsidiaries play an important role in expanding the presence of Chinese banks in EU markets through their branch networks. The following section examines functions and

agency of Chinese banks with the aim of analysing how they deploy the branch-subsidiary structure to conduct their core business – corporate banking – in the EU.

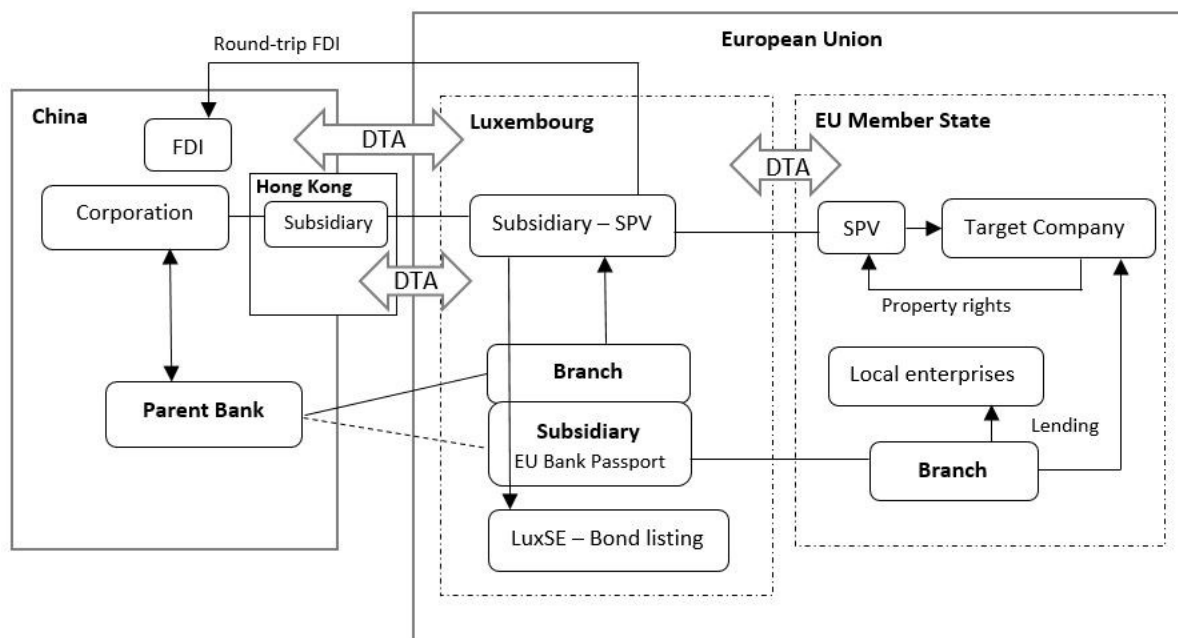
A functional lens to Chinese banks in Luxembourg

Interestingly, "there are no secrets about Chinese banks and their operations. In Luxembourg, Chinese banks do only corporate banking. Secrets come when you do private banking" (14). Chinese banks' core business in Luxembourg and Europe is corporate banking for their large Chinese and European corporate customers, which includes the provision of M&A services to Chinese corporations and lending to European corporations (20). Chinese banks, however, are also involved in an array of other activities, including the growing RMB business, such as RMB settlement, payments, financing and derivatives (15). While interviewees expect the RMB market and asset management to grow in the near future (9, 12, 13, 15, 17), Chinese banks' "big [corporate] customers are now their first concern" (14).

The Pillar III Disclosure Report of the ICBC (2020) states that "the Bank [ICBC's subsidiary in Luxembourg] relies on Luxembourg Branch capacity to raise fund through wholesale counterparties due to the centralization business model of ICBC in Continental Europe", and that the bank "is dependant of guarantee received from Head Office (through Luxembourg Branch) to attract large corporate deposits" (p. 48). In other words, the parent's branch in Luxembourg enables the subsidiary, and its own network of branches, to benefit from the parent's financial capacity to operate in the wholesale and corporate sectors, beyond the limits faced by a subsidiary alone (6, 11). Although the document refers to ICBC only, it exemplifies the mechanism of all Chinese banks in Luxembourg, especially those that have EU-wide networks (Table 2.2), based on the deployment of the same spatio-organizational structure.

Therefore, one of the core businesses of Chinese banks is to provide Chinese corporate clients with a platform for their internationalization strategies, thereby greasing the wheels for Chinese FDI in the EU. This is done precisely through the branch-subsidiary structure (Figure 2.2), which we define as 'FDI-oriented by design' since this mechanism mainly aims at supporting Chinese corporations' expansion into the EU. Interviewees supported our definition, even if "it does not explain everything" (20). Indeed, Chinese banks' lending in Europe targets European companies (20). Unfortunately, the lack of public data at this stage prevents a comprehensive analysis of Chinese bank lending to European clients and a better understanding of this particular relationship. The remainder of this section focusses on the mechanism depicted in Figure 2.2 to analyse the agency of Chinese banks in GFNs to link the EU with global economic activity of Chinese corporations (cf. Coe et al. 2014). Figure 2.2 is based on combined interview and desk research data.

Figure 2.2. Chinese bank networks in the EU: FDI-oriented by design



Source: Author's elaboration (based on interview and desk research data).

Figure 2.2 shows how the bank branch channels capital from China to Luxembourg, while the subsidiary governs the cross-border dimension of the bank-market relationship within the EU. In Luxembourg, the subsidiary enjoys a larger operational scope with the parent bank's branch (20), as thanks to the parent bank branch, the flow of capital from the parent bank to the subsidiary is larger than it would be in other countries. In turn, the subsidiary can allocate its capital – enlarged by the parent bank's branch – to its own branches in other EU member states (11), which are not supplied by parent bank's branches. This important mechanism helps Chinese banks and corporations in the EU to overcome operational and regulatory constraints.

Regulatory constraints in performing investments directly from mainland China force Chinese corporations to organize their strategy via Hong Kong (6, 14; cf. Huang 2008). The Chinese dictum *nei bao wai dai* ("inside keep, outside give") summarizes the mechanism of shifting capital abroad for corporate investments. For the banking sector it can be translated as "in China deposit, abroad grant loans" (14) and refers to an outbound guarantee, or an offshore loan, which uses an onshore guarantee issued by a domestic bank as collateral (14; cf. Liu 2017). In terms of outward FDI to Europe, regulatory restrictions in China produce a disadvantage vis-a-vis other non-EU corporations. The outbound guarantee along with the branch-subsidiary strategy has been created to circumvent this restriction and to increase Chinese corporations' competitiveness in the European M&A markets (14). M&A competition might be a matter of timing, especially if two

non-EU corporations seek to acquire the same company in the EU. While today Luxembourg is the jurisdiction of reference for Chinese FDI, it is also, along with the Netherlands, a privileged entry point for FDI from other countries such as the UK and the US. Even though US corporations do not suffer strong restrictions in performing investments in Europe (14), they also employ SPVs[13]. This suggests that Chinese SPVs are not solely a product of legal restrictions imposed by China: "The concept [of SPVs] doesn't change. You can call it as you wish, special purpose entity, investment holding company or simply financing subsidiary" (14), it refers to a company established in Luxembourg by a parent company, in this case a Chinese corporation commonly headquartered in Hong Kong (14). Arguably, and supported by both interview data and academic literature (cf. Sainati et al. 2020), SPVs denote a wider strategic setting that involves issues of tax and balance sheet engineering (10, 11, 14), ownership transfer in M&A transactions (14), and a certain degree of discretion. The SPV as a binding agreement between two parties to transfer ownership of a company in exchange for money is just one, but surely the main purpose for Chinese SPVs in the EU (14).

The corporation's subsidiary in Luxembourg (Figure 2.2, centre) has various business opportunities. Through the establishment of an SPV, it can merge with or acquire another company in a third country, most likely an EU member state. It may then round-trip FDI back to Mainland China, invest in a Luxembourg-based investment fund and/or raise capital by listing one or more bonds on the Luxembourg Stock Exchange (LuxSE). An example of the latter is the bond issued by China Three Gorges (CTG) on the newly established Luxembourg Green Exchange. This bond was listed in 2018, the same year the CTG launched a new round of investment to the Portuguese Energias de Portugal (EDP) from its subsidiary in Luxembourg. CTG's acquisition of EDP exemplifies how the branch-subsidiary mechanism works in reality and therefore emphasizes the importance of banks' branch/subsidiary organization.

CTG has become the largest shareholder of EDP through various investment rounds that started in December 2011 as part of the privatization process of the then state-owned EDP. At that time, operations were performed without a Chinese bank permanently present in Portugal. CTG performed the second round of investment – the one this study is most interested in – through an anonymous company (s*ociété anonyme*), that is, the SPV that the Hong Kong-based subsidiary of CTG established in Luxembourg in 2013 under the name of CWEI Europe (Journal Officiel du Grand-Duché de Luxembourg 2013). Concomitantly, CTG established a subsidiary in Portugal, CWEI Portugal, and Luxembourg's based BOC's subsidiary established a branch in Portugal

[13] We refer to SPVs as defined by the OECD in its Glossary of Statistical Terms (OECD n/a.), where they figure as Special Purpose Entities (SPEs). SPEs must meet the '10 per cent criterion' to be treated as direct investment enterprises and part of direct investment networks (ibid.). If the criterion is not met, the investment is classified as portfolio investment, that is, out of direct investment networks.

(Table 2.2). The latter mediated the financial operation between CTG and EDP with a loan of €800 million to EDP as part of the privatization process (Baptista 2013). More recent operations show how CTG has launched a new investment round in 2018[14] and the sale of parts of its EDP's shares in 2021. In the first case, Millennium BCP, the Luxembourg-based subsidiary of a Portuguese bank – Banco Comercial Portugues (BCP) – was designated to mediate the financial operations between CTG and EDP. Curiously, the largest shareholder of Millennium BCP is another Chinese company, Fosun, while one of the minor shareholders is EDP's Pension Fund (Millennium BCP 2020). In the second case, CTG chose BNP Paribas and Credit Suisse, and not a Chinese bank, as book runners for the sale (CMVM 2021). The example of CTG's acquisition of EDP shows how the branch-subsidiary strategy has been implemented in the privatization process of the Portuguese EDP, particularly for the second investment round. While the process is partially traceable through public documents regarding the corporate counterparties, that is, CTG's subsidiaries in the EU and EDP, the interaction between the bank branch and the bank subsidiary in Luxembourg remains opaque. Interview data confirmed that large Chinese bank loans in the EU are possible in those EU member states where parent bank's branches are not present through the branch-subsidiary structure. The example shows further that Chinese acquisitions and sales operations are not always mediated by Luxembourg-based Chinese banks, but it seems that Chinese banks provide most of the funding for Chinese FDI to the EU (11, 14, 15).

The specific branch-subsidiary structure depicted in Figure 2.2 only applies to Chinese banks but provides a likely design of the core of a Chinese GFN in the EU with an investing subsidiary, or SPV, which is a result of the complementing bank-corporation interactions. These take shape in jurisdictions where the financial regulatory framework is favourable to both firms and banks (14). Figure 2.2, a schematic simplification of an actual Chinese GFN in Europe, shows that companies, that is, banks and acquiring and to-be-acquired companies, are supported by ecosystems specializing in (global) legal and tax services (cf. Wójcik, 2020). Their agency is reminiscent of the 'sticky' nature of GFNs: by tweaking regulations to meet clients' demand, they grant clients the adherence to both host and target jurisdictions. However, Chinese banks can set up an SPV themselves and do not need these specialized intermediaries; a bank could also create an SPV for a single transaction before closing it down again (11). Otherwise, however, banks are reliant on legal advisors to strategically use DTAs and execute transactions according to the regulations of both the target jurisdiction and the specific industry sector of the target company.

In summary, Chinese banks in Luxembourg and the EU are primarily engaged in corporate banking, i.e., M&A services to Chinese companies and lending to large European corporations. In addition, they provide an array of other financial services including RMB-related services but still

[14] In 2018, CTG's attempt to acquire a majority stake in EDP failed due to the shareholders decision of not meeting CTG's conditions (Wise 2019).

hardly market these services. This indicates that Chinese banks are in an early, still experimental phase of expansion into Europe apart from their core corporate business. Their previous inexperience in European markets broke in scandals – e.g. ICBC in Spain (14; Aguado and Pinedo 2020) – and failure (Marques et al. 2017) of Chinese banks, and has translated into a cautious, "step-by-step" policy now (20). Interview data hence suggest that neither the RMB business will change much in the next decade (15), nor will the potential lending to EU's SMEs do (14, 20), and although the European Commission (2021; cf. Svetlicinii 2021) may scrutinize Chinese corporations in their M&A operations further in the future, Chinese banks still seem to have sufficient room to expand their business in several domains, e.g. wholesale and RMB services.

CONCLUSION

This chapter empirically discussed observable spatio-economic organization patterns of Chinese banks in Luxembourg, i.e., via the employment of bank branches *and* subsidiaries in *one* jurisdiction. We started from the identified premise that it is necessary to explain, rather than only describe, how banks govern their internationalization strategies, especially Chinese banks in the EU. The forensic approach and in-depth empirical insights on which this chapter draws shed light on the reasons, rationales and functional enabling for Chinese banks' choice of Luxembourg as their EU headquarters. Results also stress the distinct mechanisms and choices of the legal-organizational (here branch-subsidiary) architecture that shape GFNs and are closely entwined with important geopolitical *and* geoeconomic dimensions of IFCs in this dynamic.

With specific regard to the formation of China's banking network, we conclude that FDI, in this case Chinese outward FDI to the EU, is both a key driver of GFN and a major determinant of the changing financial geographies, with Chinese banks having a significant role to play in this process through their distinct branch-cum-subsidiary organization. Building on their ability to manage FDI most efficiently and effectively, including through sophisticated tax designs and transfer pricing, we suggest that Chinese financial networks in Europe are FDI-oriented by design. Banks' strategic needs correspond, however, with European IFC's strategic assets developed over decades. We illustrated how Luxembourg in particular, with its specialization in the cross-border investment fund industry, its longstanding expertise and experience, and its regulatory environment, including a long list of DTAs, matches Chinese banks' requirements and offers a stepping stone to expand not only into European markets but also integrate into the global financial markets more efficiently. While Luxembourg therefore can be defined as a gateway to the future Chinese securities markets, Chinese banks are key boundary spanners to Chinese financial markets and the newly shaping financial geographies of the BRI. However, for Luxembourg, having such

banking heavyweights onsite helps it to further develop its overall asset base as an internationally recognized IFC, specifically regarding a future (re-)combination of established and new market knowledge and to set the course for its future. However, the mechanisms identified with the example of Chinese banks are by no means limited to Chinese banks only. IFCs have built these assets in path-dependent learning processes with Western banks, on whose mechanisms Chinese and other new contenders build and thrive today.

Our empirical findings further stress the active, pivotal role of states in shaping GFNs, for which Luxembourg's double-tax treaties are but one example. More importantly, we urge for a more integrated, multi-disciplinary research approach in the future to understand and link the complexities of these processes revolving around a range of interests and legal-technical issues. Although the research in this chapter mainly focusses on the geoeconomic issues, and less so on the geopolitical dimension, the latter is equally important. One interviewee with much awareness of the matter argued, for example, that in Luxembourg the "power [of Chinese banks in Luxembourg] is at the Embassy [of China]" (2). In fact, this may contradict the claim that the branch-cum-subsidiary organization helps Chinese firms circumvent regulatory restrictions in mainland China, and henceforth requires more research.

IFCs continue to compete for market shares, while the EU and China are currently negotiating the Comprehensive Agreement on Investment, which will define the future of their economic relations and open new markets and opportunities for economic development. The formation of China's FDI-oriented GFNs in the EU is a timely issue with a pressing need for further analysis, especially in a time when post-Brexit European financial markets are in a process of reconfiguration.

INTERVIEWS

Interview 1: Luxembourg Policymaker. May 2019.

Interview 2: Luxembourg Policymaker. June 2019.

Interview 3: Luxembourg Policymaker. June 2019.

Interview 4: Luxembourg-based Fund Manager. July 2019.

Interview 5: China-based Western Bank official. September 2019.

Interview 6: Luxembourg Diplomat in China. September 2019.

Interview 7: Luxembourg-based Western Bank official. October 2019.

Interview 8: Luxembourg Civil Servant. October 2019.

Interview 9: Luxembourg-based Financial Advisor. October 2019.

Interview 10: Luxembourg-based Chinese Bank official. October 2019.

Interview 11: Luxembourg-based Chinese Bank official. January 2020.

Interview 12: Luxembourg-based Western Bank official. November 2020.

Interview 13: Italy-based Portfolio Manager. November 2020.

Interview 14: Luxembourg-based Big Four Auditing firms official. February 2021.

Interview 15: Luxembourg-based Chinese Bank official. February 2021.

Interview 16: Luxembourg-based Chinese Bank official. March 2021.

Interview 17: Italy-based Financial Advisor. March 2021.

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CHAPTER 3

PROFIT-DRIVEN LOGICS FOR POLICY-DRIVEN GOALS: CHINESE LUXEMBOURG-BASED ALTERNATIVE INVESTMENT FUNDS

Chinese national development banks (NDBs) are key agents of China's global economic expansion, and have become increasingly active in Europe, especially in Central and Eastern European (CEE) countries. In the past 15 years, they have contributed to the privatization of European state-owned companies, funded merges and acquisitions, and invested in infrastructures—not least within the framework of the Belt and Road Initiative (BRI). Chinese NDBs go beyond fiscal spending in implementing their policies, through using project finance (Chen, 2020). This suggests the growing indirect participation of large private, international investors in their development projects. In Europe, Chinese NDBs employ alternative investment funds (AIFs) and green bonds, in addition to other forms of cooperation including the China-EU co-investment fund under the Investment Plan for Europe (the Junker Plan). To understand how the globalization of Chinese state capital is organized in Europe, this chapter explores one specific dimension of Chinese development banking; that is, investments to CEE countries through Luxembourg-based AIFs.

This example is of particular interest, as it shows how Chinese financial institutions pursue China's state developmental *policy-driven* goals in Europe through financial instruments embedded in European capitalist *profit-driven* logics. This nexus of Chinese 'state-capital hybrids'

(Alami and Dixon, 2020a, 2020b) and European capitalist financial tools is an example of North-South 'convergence' (Mawdsley, 2017). It epitomizes the effort of (Chinese) state-capital hybrids to connect 'poorer [CEE] countries to regional and global structures and drivers of financialisation' (Jakupec and Kelly, 2015, cited in Mawdsley, 2018: 271). The example also shows how the mechanisms that enable China's geo-economic expansion into Europe are co-constituted by Chinese and European state and private actors. In this regard, the Junker Plan was a turning point in European development banking, as the programme included NDBs from any country as strategic partners (Rubio and Thiemann, 2021), thus offering a great opportunity for Chinese NDBs to further penetrate European markets.

The analysis of Chinese NDBs' investments through Luxembourg-based AIFs suggests that Chinese NDBs behave differently than their expected mission. This seems to be particularly true when they operate abroad, such as in this case. Chinese NDBs' investments in CEE countries through AIFs do not respond only to the logic suggested by most of the scholars in development banking. This logic views development banks as countercyclical tools, providing capital to fix market imperfections, reduce poverty and promote environmentally sustainable projects, among other aims. The scrutiny of investments complements a more descriptive breakdown of the spatial organization of Chinese AIFs in Europe, and shows how Chinese NDBs organize their space of capital flow in order to match both profit and policy needs. Moreover, the example shows the complexities of the networks in which the AIFs are embedded, stretching across different professions, sectors and regions. The current article offers another important finding: that the global network of double tax agreements influences the locational choice of AIFs, and also shapes—at least in part and along with policy-driven logics—the spatial organization of Chinese investment flows.

Luxembourg is a transit country for foreign capital flows to Europe, and is also the largest financial centre for cross-border investment funds worldwide. It is a strategic node (Dörry, 2015) in the global network of finance (Wójcik et al., 2021). Unsurprisingly, both Chinese commercial and development banks have used Luxembourg to establish their AIFs operating in Europe. Dörry (2014) demonstrates how Luxembourg's investment fund industry has exploited regulatory arbitrage and its capabilities as a first mover, but goes even further (Dörry, forthcoming), showing how international financial centres construct synthetic differences through law and legal practice. Luxembourg is a case in point, not only as a privileged place in which to establish AIFs, but also as the headquarters of Chinese financial activity in the European Union (Balmas and Dörry, 2021). Inspired by these studies on Luxembourg's financial centre and the broader literature on development banking, the current article aims to contribute to the recent and fast-growing body of literature on 'China in Europe'.

Recently, scholars from different disciplines, many of whom have come together in the initiative of the China in Europe Research Network (CHERN)—a European Cooperation in Science and Technology (COST) action—have analysed from various perspectives the growing presence of Chinese financial entities and non-financial enterprises in Europe. However, there is still a gap in the literature in terms of trying to understand the modalities and financial instruments that China uses in its globalization processes towards Europe. The current article helps to bridge this gap by invoking the concept of externalization (Henderson et al., 2013), which 'adds analytical precision to the popularised notion of "globalisation" … by disaggregating the economic logics of capitalism … from its socio-political logics' (Henderson et al., 2021: Note 1). Importantly for this chapter, it provides a powerful lens to scrutinize how China externalizes its socio-political and economic formations through investments and by building economic networks in Europe.

State and market forces govern China's externalization, and Chinese NDBs operate at this conjunction. In general, NDBs encompass monetary, credit and industrial policies, offering an outstanding research perspective to further understand ongoing global dynamics, particularly the increasing intervention of the state in the economy. By contrast, from the Chinese perspective, it is the market that is defiling the state, through market logics entering state-owned financial institutions after decades of a planned and state-controlled economy. Chinese NDBs increasingly use market-based instruments, such as bonds, to fund their operations (Chen, 2018, 2020) and establish AIFs to manage assets and maximize profits. Chinese NDBs are a valuable lens to analyse and understand the implications of China's commitment to global economic development, while at the same time creating new political and economic spaces—with Chinese characteristics—in Europe. These newly created spaces reveal that China's 'state power becomes embedded in business ventures and is subsequently dispersed and dislocated, yet its effects remain real' (Gonzalez-Vicente, 2011: 403). It is the aim of this chapter to contribute, in particular, to the still limited literature on Chinese NDBs investing in Europe through the previously unexplored dimension of Luxembourg-based AIFs.

The article builds on desk research and 20 expert interviews, although the research encountered limitations in both aspects. On the one hand, there is no existing academic literature on the specific topic of (Chinese) AIFs' spatial organization. Most of the information about, and insights into, these AIFs comes from non-academic literature and interview data. On the other hand, it was not possible to reach people working for the fund that this chapter presents as an example. Nevertheless, people from the fund industry, (development) banking and accountancy sectors were interviewed to help gain an understanding of the logic and functioning of the Luxembourg-based AIF industry. Interview data and desk research results were triangulated in an iterative process several times.

The following section positions the article between the literature on development banking and China's externalization. Sections three and four explore the presence and operations of Chinese NDBs in Europe, and introduce the Luxembourg-based industry of AIFs, respectively. Section five analyses the example of a Luxembourg-based AIF established by China Export Import (CHEXIM) Bank in cooperation with the Export Import (EXIM) Bank of Hungary, and unpacks its spatial organization in Europe. A discussion on the implications of Chinese NDBs investing through Luxembourg-based AIFs concludes the article.

CHINESE NDBs AS AGENTS OF STATE-CAPITAL EXTERNALIZATION

The rise of China as an actor in the globalization processes reconfiguring the North-South relationship lies at the conjunction of the phenomena analysed in literature on development banking and China's externalization. Echoing recent literature on the 'new' state capitalism (Alami and Dixon, 2020a) and the debate on d/Development (Alami et al., 2021; Mawdsley and Taggart, 2022), Chinese NDBs represent an example of state-capital hybrids operating over multiple geographies (Alami and Dixon, 2020b), disseminating alternative narratives of financialization (Liu and Dixon, 2022). In this vein, the current article presents Chinese NDBs as an embodiment of such state-capital hybrids, driving a convergence between North and South (Mawdsley, 2017). In order to scrutinize their operations through Luxembourg-based AIFs in the following sections, this section reviews the most recent literature on development banks to contextualize their role in the economy, and particularly the significance of Chinese NDBs in China's externalization processes. The example of Chinese Luxembourg-based AIFs shows how development logics are increasingly 'inhabiting' the Development sector (Mawdsley and Taggart 2022: 14) and influencing agents such as NDBs.

In recent years, the attention of scholars has been attracted by regional (e.g., Ben-Artzi, 2016; Clifton et al., 2021) and national (e.g., Griffiths-Jones and Ocampo, 2018; Mertens et al., 2021) development banks. These studies approach the banks through the lenses of their shareholding structure (national or multilateral), geographical scope (national or regional) and functions, for example, infrastructure investment, promoting innovation, fighting climate change or correcting market imperfections through countercyclical lending (e.g., Brei and Schclarek, 2018). In addition, scholars acknowledge the role of development banks in addressing investment gaps, stimulating financial innovation (Liebe and Howarth, 2020), allocating financial resources from developed to less-developed countries and alleviating social inequalities. For these reasons, some scholars (e.g., Griffith-Jones et al., 2018) argue that state-driven development banking should grow in the future. Rezende (2018) explains how development banks are strategic for sustainable development, as

they are key agents for mitigating risk in infrastructure and energy transition financing. However, others clarify how the development-banking sector needs reform in order to overcome limitations, specifically the 'ability to mobilise funding' (Alonso and Cuesta, 2021: 328), in order to strengthen its function in supporting sustainability. These re-balancing functions, however, are in contrast with the general 'desire to see returns' (Ben-Artzi, 2016: 300). The disparity between economic interests and development has emerged as a puzzle to solve in order to define what is conceivably sustainable.

The recent rise in academic attention paid to development banking encompasses two apparently diverging but amalgamated dimensions of state policies and market-based logics. Development banking underwent some sort of market turn, to the point that scholars have considered that development banks shifted from their main function of fixing market imperfection or failure, to market making or shaping (Clifton et al., 2021; Mazzucato and Penna, 2016). In this regard, Chinese NDBs are a case in point. The rapid expansion they have shown since their establishment in 1994 reflects the ability to fund their operations from market-based financial instruments—especially investment-grade bonds (Chen, 2018). Chinese NDBs' fast expansion also suggests an adaptation or reinterpretation of existing rules that initially limited development banking in China (Xu, 2018); a reshaping of the 'rules of the game' that has also been noted in the field of European NDBs (Mertens et al., 2021).

Chinese NDBs may be understood as partners and as competitors in European economic development. They not only cooperate in strategic partnerships, such as under the Junker Plan (European Commission, 2015; Gruebler, 2020), but also compete at political and economic levels by attracting bilateral partnerships, pooling capital and allocating resources to preferred infrastructural projects. Moreover, echoing the European Union (EU) Commission (2019), Chinese NDBs may be seen as systemic rivals due to their capability to introduce alternative visions of global development governance—for instance, by proposing Chinese courts for international dispute resolution (Balmas, 2018; Gelpern et al., 2021). Scholars have already discussed China's 'challenge' to the European Investment Bank (EIB), through the example of the Asian Infrastructure Investment Bank in Europe (Kavvadia, 2021). However, the modes and implications of Chinese NDBs' operations in Europe remain unexplored.

Gelpern et al. (2021) offer a 'rare look' into Chinese NDB contracts that are publicly available. They compare their dataset—which comprises a few examples of CHEXIM investing in European countries, namely Serbia and Montenegro—to a benchmark of contracts by non-Chinese development banks investing in Cameroon. They find that Chinese contracts do not include clauses for structural changes, such as those in the Washington Consensus standards. By contrast, such contracts reveal a strong commitment by Chinese NDBs to protect their own economic interests, as well as the interests of other Chinese entities involved in the contract. This, along with the

assignment of Chinese jurisdictions for dispute resolution, represents an alternative developmental approach to the status quo of the post-Bretton Woods system of development aid and finance from North to South.

Chinese NDBs operate differently in the international arena. To date, two of them—the China Development Bank (CDB) and CHEXIM—have attracted most of the attention. Scholars are mainly interested, for example, in how the CDB funds its operations (Chen, 2020), how Chinese policy for banks' financing is affecting the international development regime (Chen, 2021), and the effects of government credit on company activities (Ru, 2018). This body of literature agrees on the fact that Chinese NDBs are challenging the world economic order with a different, innovative perspective on development banking. However, many questions remain unanswered. For instance, in their comparative study of a selected set of NDBs including the CDB, Musacchio et al. (2017) call for empirical investigation into the tools that NDBs use and the effects of their actions on the economy. The article at hand offers the example of a tool—an AIF—that a Chinese NDB (namely, CHEXIM Bank) uses to organize part of its space of capital flow to Europe, allocate resources and manage part of its assets in CEE countries.

The use of an AIF implies a different mechanism of resource allocation. The key difference to the examples in Gelpern et al. (2021) is that direct investments are not made in the form of direct lending to governments. They follow a different logic, using direct lending to projects and companies through bank-company commercial relations and not state-state policy-driven development. The examples from Gelpern et al. (2021) show how CHEXIM lends to specific ministries, including within CEE countries (namely Serbia and Montenegro). Lending through the AIF develops beyond China's state-state relationship with CEE 'illiberal' democracies, such as Serbia, as suggested by Rogers (2022). It defines a set of market-oriented operations, which in any case do not lose their original function of pursuing policy-driven goals.

Chinese NDBs are certainly not new to market-oriented, profit-driven investments in Europe. The database offered by the American Enterprise Institute with the Heritage Foundation shows that CDB invested in the stocks of Anglo-American (1 per cent, mining sector) and Barclays (3 per cent, banking sector) in 2006 and 2007, respectively. Regardless of the curious timing of CDB's investment in Barclays, a few weeks before the tsunami of the financial crisis and the run on the UK bank Northern Rock, these forms of investments are seemingly far from the 'developmental' mission of CDB. In a similar vein, as we will see, CHEXIM's investments in CEE countries are not always in line with the most common understanding of development finance, suggesting that the world economy has recently entered a new age of development banking, as many scholars have noted.

CHINA AND THE LUXEMBOURG-BASED AIF INDUSTRY

Luxembourg's financial centre plays a pivotal role in the spatial organization of European global financial networks (cf. Coe et al., 2014; Wójcik, 2018). The disproportionate presence of legal and taxation specialists—as compared with the number of them in Frankfurt and Paris (Dörry, 2015)—reflects Luxembourg's comparative advantage as a knowledge-intensive centre for cross-border investments. Luxembourg's investment fund industry is the second largest in the world, after the United States of America, and the first for cross-border transactions (far larger than any other in Europe). After reaching a peak of almost 6 trillion euros of assets under management (AUM) in December 2021, it declined in the first quarter of 2022 to just over 5.5 trillion. The major fund initiators are US banks and companies (with about 20 per cent of the total), followed by British (16.6 per cent), German (14.7 per cent), Swiss (13.9 per cent), French (10.8 per cent) and Italian (6.4 per cent). Initiators of Chinese funds represent a relatively small portion of the market, at more than 5 billion euros of AUM.

Chinese investment funds are not widely advertised, and relevant information is scarce and fragmented across Chinese and Luxembourg websites. Table 3.1 represents the information that it was possible to collect as of May 2022, although it should be treated as incomplete. As shown on the website of the ALFI (Association of Luxembourg's Fund Industry), the market trend of Luxembourg's investment fund industry registered an increase of AUM up to December 2021 and a decrease in the first months of 2022, potentially due to geopolitical uncertainties. It was not possible to collect information about the trends of Chinese investment funds' AUM. However it is conceivable that they have followed trends in Chinese foreign direct investment to Europe (decreasing since 2017) and the general trend of Luxembourg's investment fund industry (decreasing since January 2022).

Table 3.1. Chinese investment funds in Luxembourg

Type of fund	**Fund initiator (Fund name)**
Undertakings for the Collective Investment in Transferable Securities (UCITS)	ICBC and Credit Suisse (ICBCCS Fund) Ping An Group China AMC GF Management Harvest Management Full Goal Management

	E Fund Management Universal Asset Management Haitong Securities (Flexible) Haitong Securities (Aggressive)
AIF	Fosun Group KaiLong (Greater China Real Estate Fund) ICBC, China Life, Fosun Group, Royal Eagle Group (Sino-CEEF) CHEXIM and EXIM Hungary (China-CEEF)

Source: Author's own compilation.

This chapter presents the example of China-CEEF (see the last entry in Table 3.1), a Luxembourg-based AIF established by CHEXIM Bank and EXIM Bank of Hungary in 2012. The general difference between 'alternative' and 'traditional' investment funds—the latter are known as Undertakings for the Collective Investment in Transferable Securities (UCITS)—is the logic that frames the two types. The legal framework of UCITS regulates the fund itself, while the AIF frameworks regulate the manager, or management company. This difference translates into much greater freedom in portfolio and asset management for AIFs. Managers of AIFs can invest in any asset class—or those appropriate within the limitations of the fund—while UCITS can invest only in money market instruments, in bank deposits and in a few other eligible products, such as special purpose acquisition companies (SPACs). Hedge funds, venture capital and private equity funds are all 'alternative'. However, Luxembourg's nomenclature of the fund industry is somewhat complicated. Distinctions between funds can apply depending on the perspective from which they are viewed. For example, most of the funds are known as undertakings for collective investment (UCI), which includes UCITS and some types of AIFs. Each type can assume different contractual forms and can be structured under different types of companies. The distinction here relates to the grade of regulatory restrictions to which a fund is subject: UCITS are the most regulated, down to non-UCI non-regulated AIFs.

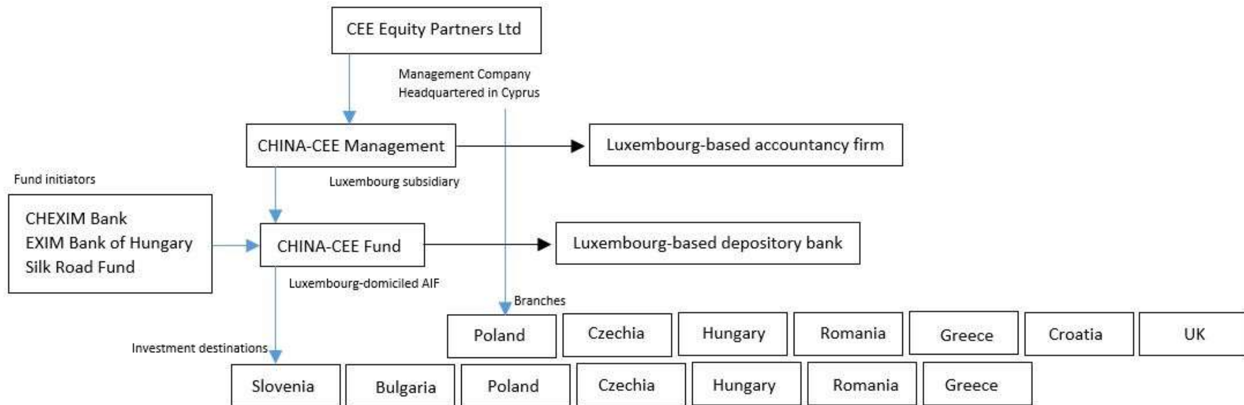
To be precise, the fund given as an example below is a UCI, specialized investment fund (SIF)—an AIF open to any asset class—under the form of a SICAV (*société d'investissement à capital variable*) structured as a Limited Partnership (*société a commandite simple*, or SCS). This complexity refers to the various financial regulatory frameworks for cross-border investments, which include the fund itself, the manager and the company that enshrines the fund. In simplified terms, all of this translates—not solely, but importantly—into tax advantages. In Luxembourg, there is no withholding tax for distribution of a SIF—which is anyway free throughout the EU thanks to the EU fund passport—and it is exempt from income tax. Dividends can be taxed in the investment target country. However, double tax agreements between Luxembourg and the target

country reduce foreign withholding taxes. SIFs pay an annual fixed tax of 0.01 per cent of their net assets. While SICAVs are subject to VAT, SIFs are not. This shows that the choice of 'forms' and 'types' of funds is not only a matter of investment and distribution strategies, but also a matter of tax engineering. Therefore, the logic of choosing Luxembourg as a fund's domicile lies in two main aspects: first, the legal framework, including the network of double tax agreements that Luxembourg has woven, and second, the pool of knowledge and expertise that Luxembourg offers in order to structure a tailored fund. While this can be assumed as a general statement valid for all players, the logic of establishing an AIF for a Chinese NDB also shows traits of path dependency. Balmas and Dörry (2021) assign this to Chinese state-owned commercial banks clustering in Luxembourg, due to the historical relationship between the two countries. Furthermore, the general appeal of Chinese capital—before frictions sparked from the geopolitical turn in the USA under the Trump Administration in 2017—certainly stimulated Luxembourg's ability to attract business from China.

CHINA-CEEF

The China-CEEF was announced in 2012, the same year in which China signed the 16+1 cooperation framework with CEE countries. This framework was established in 2013, the same year that China launched the BRI. It is domiciled in Luxembourg, while its management company—CEE Equity Partners—has its headquarters in Nicosia, Cyprus. It was originally organized as a joint venture between CHEXIM Bank and EXIM Bank of Hungary, with an initial capital of USD 435 million, USD 400 million of which was from CHEXIM. A few years later, in 2017, China-CEEF launched its second phase of USD 800 million, with the participation of the Silk Road Fund (SRF), a Chinese sovereign fund designed to invest in BRI-related projects. A closer look at the spatial organization of China-CEEF shows the complexities of its financial networks.

Figure 3.1. The spatial organization of China-CEEF in Europe



Source: Author's own elaboration.

As Figure 3.1 illustrates, being a Luxembourg-domiciled fund, China-CEEF has a deposit in a local bank and hires a local, but generally globally operating, accountant. Full information in this regard remains unknown for the research, as it cannot be found in the public records provided by Luxembourg's *Registre de Commerce et des Sociétés* (RCS). Curiously, the excerpt from Luxembourg's RCS indicates as associates of the management company—along with EXIM Bank of Hungary—a CEEF Holdings Limited based in Hong Kong. This makes the basic question relevant that Wójcik and Camilleri (2015; see also Haberly and Wójcik, 2022) posed in their work on China Mobile: Where is it? Indeed, from the information available on its website, Cyprus-based CEE Equity Partners is shown as the parent company of Luxembourg-based China-CEE Management. This ambiguity resonates in the opaque nature of global financial networks (Coe et al., 2014).

The spatial organization of China-CEEF spreads over Europe through two partly overlapping networks. As Figure 3.1 shows, the management company, CEE Equity Partners, established a subsidiary in Luxembourg, China-CEE Management, to manage China-CEEF and a network of branches in various European countries. This network of branches almost entirely overlaps with China-CEEF's portfolio destinations. These are all in CEE countries, as the mission of the fund clearly states on its website, demonstrating the physical presence of the management company in most of the target countries. This suggests that NDBs, in this case CHEXIM and EXIM Hungary, rely on a private management company legally responsible for the fund; that is, responsible for its assets under management and for scouting for new investments. As Table 3.2 shows (see below), China-CEEF allocates investments unevenly across the CEE region. Unfortunately, it was not possible to estimate the precise amounts and returns for each investment. However, Poland is the primary recipient of investments—seven out of sixteen—followed by Romania and Hungary with

three and two investments, respectively. Czechia, Slovenia, Bulgaria and Greece all follow, with one investment each.

Importantly, Table 3.2 shows the targets of China-CEEF investments. Some of them are attributable to the developmental policies of Chinese NDBs and BRI targets, which comprise primarily investments in (alternative) energy, railways, telecommunications and logistics. In this vein, nine out of sixteen investments echo the policy-driven logics of China's state commitment to develop connectivity between China and Europe—especially to enhance international trade—and contribute to European economic development. CHEXIM's commitment to prioritize green projects, reduce poverty and contribute to the development of rural areas can reverberate in some of the China-CEEF investments. CHEXIM's mission to sustain private companies—including micro, small and medium sized—includes most of the remaining investments. However, investing in a promising small or medium enterprise is not always in line with green credit or policy-driven logics.

In addition to investments in pharmaceuticals in Poland and Romania, two investments in particular highlight this contrast. China-CEEF invested in two manufacturing firms: Walltopia in Bulgaria and Paperpack in Greece. They operate in the production of, respectively, polymer (plastic) goods (indoor climbing footholds) and paper products (packaging for food, beverages, pharmaceuticals and tobacco). The market for indoor climbing has increased steeply in the last decade (Walker, 2022) and is expected to double by 2031 in Europe (Transparency Market Research, 2021), suggesting that the logic behind the investment is not one of correcting market imperfections or of alleviating poverty. Far from what common knowledge on development banks generally suggests, these investments reflect a more profit-driven logic. This is evidence of Chinese NDBs having a more flexible approach to allocating resources and managing their assets through AIFs.

Table 3.2. China-CEEF's investments as of May 2022

Location	**Project / Company**	**Sector**	**Date of investment**	**Date of exit**	**Co-investors**
Poland, Warsaw	Polenergia	Energy	August 2014	February 2021	
Poland, Wroblew	Wróblew Wind Farm	Energy	September 2014	January 2015	Enlight Energy, GEO Renewables
Hungary, Budapest	Metropolitan University (MetU)	Education and Training Services	December 2014	June 2021	
Poland, Balice	Electronic Control Systems S.A.	Telecommunications	January 2015	-	

Poland, Korytnica	Korytnica Wind Farm	Energy	March 2015	March 2021	
Poland, Zopowy	Southern Wind Farm	Energy	June 2015	March 2021	
Poland, Macierzysz	Bioton S.A.	Pharmaceuticals	July 2015	-	
Bulgaria, Sofia	Walltopia	Specialized Manufacturing	August 2015	-	BlackPeak Capital
Czechia, Prague	Energy 21	Energy	December 2015	July 2021	
Slovenia, Ljubljana	Javna Razsvetljava	Lighting / signalling / energy efficiency	December 2016	-	Management S.A.
Hungary, Budapest	Invitech	Telecommunications	March 2017	September 2021	
Poland, Poznan/Warsaw	EuroWagon	Railway rolling stock	October 2018	-	
Romania, Bucharest	Flash Lighting Services	Lighting / smart city / energy efficiency	December 2018	-	
Romania, Bucharest	Bristol Logistics S.A.	Agriculture, Logistics	July 2019	-	
Romania, Bucharest	FarmaVet-Pasteur group	Pharmaceuticals	September 2019	-	
Athens, Greece	Paperpack S.A.	Carton Packaging Manufacturing	December 2020	-	

Source: CEE Equity Partners' website. Retrieved on May 29, 2022.

Table 3.2 also shows the presence of co-investors, which resonates in the increasing collaboration between DBs and the private sector (Howarth and Liebe, 2021). Nevertheless, the presence of BlackPeak Capital in the list deserves particular attention. It is a 'growth equity co-investment fund, established by the European investment Fund (EIF), under the Joint European Resources for Micro to Medium Enterprises (JEREMIE) initiative, based in Sofia, Bulgaria' (EIF, 2019). The collaboration between China-CEEF and BlackPeak Capital falls within the propositions of the Junker Plan, which among other things, has the objective of supporting small companies within the EU, especially in CEE countries. This confirms that policy-driven and profit-driven logics intertwine with one another beyond the case of Chinese NDBs, suggesting a general, novel

approach to development banking in Europe as well. The following section reports on the profit-driven nature and logics of alternative investments against the background of Chinese and European efforts to cooperate toward economic development through development banks and sovereign funds.

CHINA-EU COOPERATION AND LUXEMBOURG'S AIF INDUSTRY

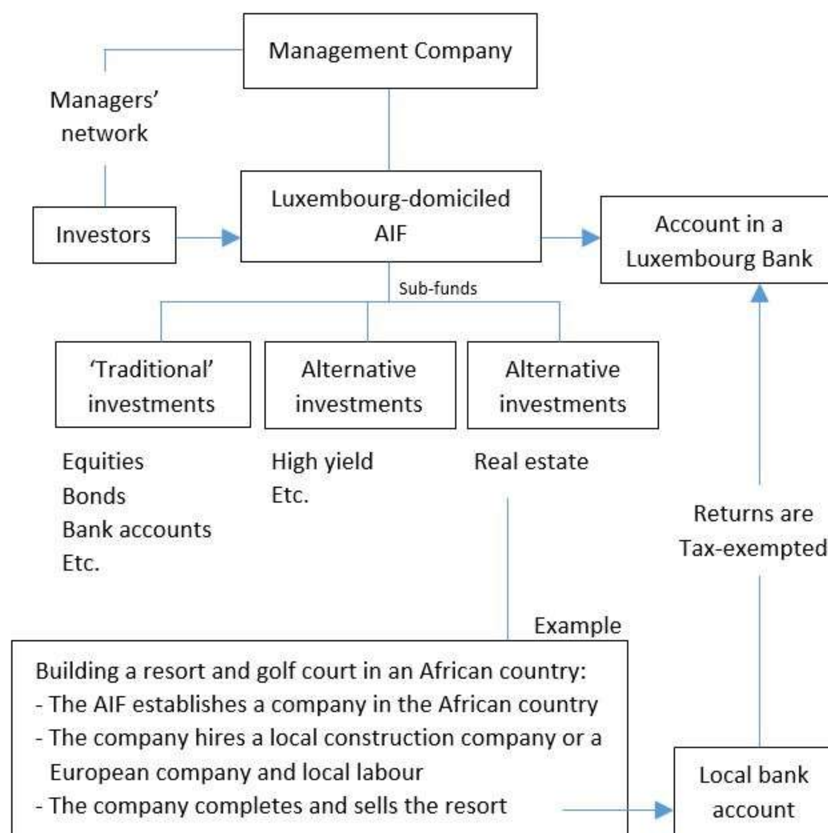
The operations of Chinese NDBs and sovereign investment funds in Europe are partly explained as an outcome of the efforts of the EU Commission to enhance collaboration between China and the EU. Under the auspices of the Junker Plan, the EU Commission 'asked to the EIB and the EIF to cooperate with China' (Luxembourg-based development banker, June 2019). One of the outcomes was a cooperative agreement between the EIF and the SRF to establish a 50-50 venture capital investment in low to mid-market private equity (Luxembourg-based development banker, June 2019). However, there is no 'legal framework [in place] that regulates the collaboration' with Chinese NDBs (Beijing-based development banker, September 2019). Collaboration was increasing and 'many Western development banks, such as the EIB, signed the BRI agreement' (Beijing-based development banker, September 2019), however, after the COVID-19 pandemic and the recent deterioration in EU-China relations, the future of China-EU financial cooperation is unclear (Luxembourg-based private banker, October 2020).

To further exacerbate the delicate economic and financial relationship between the EU and China, the EU Commission labelled China as a 'systemic rival' (EU Commission, 2019); a decision derived from, and further fuelling, geo-economic and geo-political wariness of China-EU economic cooperation (Chapter 1). This 'new position means that the relationship with China will be different' in the years to come (Luxembourg-based development banker, June 2019). The relationship with the EIF in particular could change. This is a fundamental issue for the SRF, as it 'started a learning process for standards and the European fund market' more in general (Beijing-based development banker, September 2019), and this is an important reason to set up funds in Luxembourg. The SFR is particularly interested in 'revolving door investments'; that is, private equity investments—in small and medium enterprises—that would advantage both Europe and China (Luxembourg-based development banker, June 2019). Investments made through the China-CEEF by CHEXIM and the SRF can be interpreted as 'revolving door investments', where China's policy-driven needs meet European economic development.

The nature and the conditions that shape the China-CEEF SCS SICAV-SIF were reconstructed by triangulating information publicly available in reports from advisory and accounting firms such as KPMG, and Deloitte, as well as Luxembourg-based, globally operating law firms. However,

interview data from the investment fund industry were fundamental to understand in a simple way the mechanisms and logics that underlie the complex legal formations. Figure 3.2 (see below) was designed based on interview data collected between 2019 and 2021. Fund managers, bankers and regulators agreed about the functionality reproduced in Figure 3.2. Regulators and civil servants tend to highlight Luxembourg's capacities to 'grease' complex financial mechanisms and implement new financial regulations in the shortest time possible. By comparison, fund managers tend to highlight Luxembourg's tax environment, to the point that 'any discussion about Luxembourg must begin from the fact that we are in a tax haven' (Luxembourg-based fund manager, October 2019). On the opposite side of the spectrum lie those who believe that 'Chinese investors and banks are not here for tax reasons' (Luxembourg-based civil servant, February 2019). As suggested earlier, the pool of knowledge that assures a learning process may also be an important reason to establish business in Luxembourg.

Figure 3.2. The basic functioning of a Luxembourg-domiciled AIF



Source: Author's own elaboration (based on interview data).

Assuming that a Luxembourg-domiciled AIF is an investment tool, the main function of which is to reduce tax burdens and ease its distribution across the EU, this suggests that establishing an AIF

is a profit-driven operation per se, as it implies a mechanism to maximize returns and hedge risk. Figure 3.2 exemplifies the basic functioning of a Luxembourg-domiciled AIF. Some of the junctures, such as the investors-AIF nexus, are actually oversimplified. AIFs can be open or closed, implying different ways of pooling capital and eventually distributing the fund. Dörry (Forthcoming) explains such mechanisms in detail. While the example used for Figure 3.2 is an open investment fund, meaning that the fund could be distributed and investors could join the fund, China-CEEF is 'closed', meaning that 'the fund initiators are the only investors' (Luxembourg-based fund manager, October 2019). As we will see below, China-CEE opened a second phase of the fund to include new investors, namely the SRF. According to Luxembourg's regulations, an eligible AIF investor (whether an individual or a company) must meet some specific requirements, the most relevant of which is the minimum quota of 125,000 euros.

The example shown in Figure 3.2, of an alternative investment in an African country, was used by an interviewee to exemplify the standard mechanism of a greenfield project in real estate, funded via a Luxembourg-domiciled AIF. Luxury real estate is currently one of the most attractive businesses for non-institutional investors, because 'profits are granted and the time is not too long' (Luxembourg-based fund manager, October 2019). An AIF, much like any Luxembourg-domiciled fund, can be organized in an umbrella structure. This means that different lines of investments are made through a set of independent, ring-fenced sub-funds. Thus, if one sub-fund is not performing well, the others can hedge the loss. AIFs, along with alternative investments, can perform 'traditional' operations, mainly in investment-grade public equities and bonds. One of the major advantages of AIFs is their flexibility, which assures diversification of asset classes and time scope—from short-term to long-term investments—to mitigate investment risk (Luxembourg-based fund manager, October 2019; Luxembourg-based banker, November 2020).

Luxembourg's financial centre promotes the fund industry to attract more business. A key feature of Luxembourg's ecosystem is that 'funds' money is here', which involves 'big business for local [depositary] banks' (Luxembourg-based fund manager, October 2019). Therefore, it should come as no surprise that Luxembourg-based bankers and governmental agencies, beyond the EIB and the EIF, want to attract Chinese commercial and development banks to establish their businesses in the country. Luxembourg's financial centre has succeeded in attracting Chinese financial institutions (Balmas and Dörry, 2021), but the country's regulators and policymakers want to 'see more business' in the immediate future (Luxembourg-based civil servant, February 2019).

People from the investment fund business have highlighted the lack of information about Chinese funds, while interest in this business is growing (Luxembourg-based fund manager, October 2019). On the other hand, illustrating the clear knowledge asymmetry within Luxembourg's financial centre, private bankers have argued that 'Chinese [UCITS] funds are

known and profitable' (Luxembourg-based private banker, October 2020). In this regard, a Chinese bank official admitted that 'more should be done' to provide adequate information about Chinese investment fund business in Luxembourg (Chinese bank official, March 2021). According to an accountancy firm official (January 2021), however, Chinese 'asset management business is not going very well'. While Chinese banks, such as ICBC and BOC, have established both traditional and alternative investment funds, 'investors contact Allianz and Deutsche [Bank] to invest in Chinese securities' and 'this is not optimal' (Accountancy firm official, January 2021).

Interviewees from business services—especially accountancy and advisory—explained that one crucial issue about Chinese investment funds is that they are not being advertised. Investment fund business is in place, but initiators (in particular, commercial banks) are keeping a low profile in Luxembourg (Accountancy firm official, January 2021). To overcome this limitation, Chinese banks should hire local a specialized labour force to advertise and distribute their funds (Accountancy firm official, January 2021). However, China-CEEF is a 'closed' fund and stays out of this advertisement logic. Interviewees labelled China-CEEF 'out of business interest' because it is 'just a development fund'; that is, it is 'closed' and designed for 'patient capital invested in large infrastructures' (Luxembourg-based fund manager, October 2019). It is clear that China-CEEF investments are not (at least not all) long-term investments in large infrastructures that require years to see returns. Investments in private equity, even though they can last for years—up to eight years, according to CEE Equity Partners' website—assure a yearly return, which again explains the profit-driven logic of AIF mechanisms, supposedly—at least in part—in contrast with the initiators' developmental mission.

To sum up, the interview data confirm that AIFs are embedded in a profit-driven, return-maximizing logic. This supports the proposition of the current article that part of the investments of Chinese NDBs and sovereign investment funds' in Europe follow two different policy-driven and profit-driven logics. Moreover, the interviews also confirm that the presence and operation of Chinese NDBs in Europe are the result of a cooperative process. However, this has been deteriorating in recent years. EU institutions spurred Chinese national financial institutions to develop investment funds in Europe. One outcome, relevant to this chapter, was (and still is) the matching of China's state policies and European capitalist ideology, both embedded in Chinese NDBs' Luxembourg-based AIFs. The concluding section discusses these findings and suggests further research.

DISCUSSION AND CONCLUSION

This chapter has explored how the globalization of Chinese state capital is organized in Europe. We use the example of a Luxembourg-based AIF—China-CEEF—established by CHEXIM and investing in CEE countries. The article frames this flow of Chinese capital to Europe within the logic of China's externalization (Henderson et al., 2013), which is a concept that disaggregates the political from the economic to better understand how globalization unravels. The dual dimension of the AIF in the example, squeezed between two apparently divergent policy-driven and profit-driven logics, is relevant for a number of reasons. First, it offers an important example of how Chinese externalization to Europe runs in cooperation with European financial institutions—both multilateral and national. In this regard, the Junker Plan was a turning point in European development banking, as it included NDBs from any country as strategic partners in the programme (Rubio and Thiemann, 2021). The example of China-CEEF, as suggested, embodies all the three labels that the EU Commission attributed to China: partner, competitor and systemic rival.

Second, investments via AIFs per se do not imply a direct externalization of Chinese formal institutions, such as in the case of litigation clauses in bilateral development contracts. However, the establishment of China-CEEF, especially the second phase, was part of a wider understanding between China and Hungary. This included the issuing of Chinese RMB-denominated sovereign debt by Hungary in Chinese financial markets—Hungary's Panda bonds (Allen, 2017). The geo-political dimension of contracts in development finance embeds traits of 'systemic rivalry', if the slight expansion of RMB-denominated securities truly represents a challenge for Western economies. In general, China's geopolitical and geoeconomic threat, especially on the debt front of CEE countries (cf. Jepson, 2021), remains limited, and investments via Luxembourg-based AIFs do not affect that balance. Third, the example shows how policy-driven and profit-driven logics co-exist in China's (and Hungary's) sovereign investments in CEE countries. This suggests development banking has recently experienced a change in its nature, which reverberates in scholarly literature on development banking (Clifton et al., 2021; Mazzucato and Penna, 2016; Mertens et al., 2021; Xu, 2018).

The current paper finds that development banks in general, and not only Chinese NDBs, are changing the nature of development banking. Not only do these banks increasingly fund their operations through market-based instruments, such as bonds, but they also seek to maximize returns—not least through tax engineering—on investments, based on profit-driven logics. This intimately changes the logics of development aid and resource allocation, as the example in this chapter clearly shows. Even though the bulk of development lending is concentrated in direct lending to governments, 'the desire to see returns' (Ben-Artzi, 2016: 300) is increasingly influencing development banks' asset management. Whilst state power is diluted by profit-driven logics, its effects remain somehow real, as Gonzalez-Vicente suggests (2011). However, the

cooperation of Chinese and European financial institutions—which resonates in the 'co-production' of BRI infrastructure projects (Oliveira et al., 2020)—along with the still-limited Chinese financial commitment in Europe, should alleviate the general anxiety related to Chinese investments.

This does not mean that Chinese financial activities in Europe do not deserve more attention. In particular, further research could unpack the social and professional networks in which Chinese NDBs and AIFs are embedded. These financial networks involve managers, advisors and professionals from both Europe and China. Relevant examples include former UK Prime Minister Gordon Brown as Chief Advisor of China-CEEF, and the representative of CHEXIM in Hungary as a member of the Board of Advisors of the EIB representative office. China-CEEF is part of a wide network of professionals from the EU and China—as the fund's website reveals—that echoes Liu and Dixon's (2021) analysis of financial professional networks legitimizing Chinese state-capital hybrids in Europe. The same China-CEEF networks suggest traits of 'consensus building', as de Graaff and Valeeva (2021) suggest, and offer an example to explore further this important dimension of China-EU relations. Moreover, the operations of Chinese NDBs and sovereign investment funds in Europe offer a starting point to delve more deeply into the recent debate on d/Development (Alami et al., 2021; Mawdsley and Taggart, 2022) to understand how changes in development ideology are unravelling on the ground.

Lastly, this chapter suggests that further research is necessary in order to better understand the implications for Europe and Luxembourg with regard to hosting the mechanisms that enable Chinese NDBs' geoeconomic expansion in a deteriorating geopolitical environment. In turn, it is important to gain a better understanding of the implications for China, and the extent to which it would continue its 'learning processes' and commitment to European economic development in this deteriorating environment. China-CEEF operations in Europe are unevenly distributed, with potentially uneven repercussions across the CEE region. In particular, the example in this chapter shows that Poland is a privileged destination for investments, which echoes in the currency exposition of some of the Chinese commercial banks operating in Europe. This is illustrated in their Basel III Disclosure reports, available on their websites. The developmental space co-constituted by Chinese and European actors could face increasing scrutiny in the near future with implications for both Chinese policy-driven projects in Europe and European economic development.

INTERVIEWS

Luxembourg-based civil servant, February 2019

Luxembourg-based development banker, June 2019

Beijing-based development banker, September 2019

Luxembourg-based fund manager, October 2019

Luxembourg-based private banker, October 2020

Luxembourg-based banker, November 2020

Chinese bank official, March 2021

Accountancy firm official, January 2021

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CHAPTER 4

CHINESE CURRENCY EXCEPTIONALISM THE CURIOUS INTERNATIONALISATION OF THE RENMINBI

The rapid growth of the Chinese economy in the first two decades of the Twenty-First Century and the growing Chinese economic presence internationally has drawn considerable academic and political attention to the real and potential internationalization of its currency, the renminbi (RMB). Specifically, scholars have considered the impact of this internationalization upon the roll of the United States dollar as the world's leading international currency. However, the renminbi's rise as an international currency has consistently failed to reflect China's increased global economic presence. From late 2015, across a range of indicators, the international expansion of the RMB stalled and even moved into reverse—further suggesting that internationalization was not inevitable (Wildau and Mitchell, 2016). Yet, during the two years prior to the start of the Covid pandemic—2018 and 2019—RMB internationalization reached record levels. Despite the Covid-related economic slump of 2020 and ongoing trade tensions with the US and the European Union (EU), the RMB's internationalization has continued. Developments in 2021 suggest that internationalization levels will continue to rise. Thus, while RMB internationalization has failed to reflect Chinese economic expansion, it nonetheless remains an important economic and political phenomenon of our times.

The literature on currency internationalization places emphasis upon a number of core causal factors. Cohen (1971) emphasizes the need for a current account and trade deficit, a relatively open liberalized economy, a well-developed and open national financial system, rule of law and,

specifically, respect of contracts. China, at the start of the third decade of the Twenty-First Century, continued to lack or face significant deficiencies in all four of these factors. Bergsten (1997) sets five criteria for a currency to be credited 'global currency standing': the economy supporting the currency must have significant weight in world trade and production; there must be no significant external constraints on the current account; capital must enjoy full freedom of movement; financial markets should be deep and liquid; and the economy must be strong and stable. While China met at least two of these five criteria, restrictions on capital movements remained and most expert observers did not expect a sufficiently significant liberalization of the domestic financial sector in the near future to ensure further rapid RMB internationalization (Prasad, 2016). Yet the internationalization of the RMB has increased markedly since 2010—despite the hiccough of 2016 and 2017—and there are important signs that this internationalization will proceed. How can we explain this apparent paradox?

In this chapter, we highlight a relevant factor of RMB internationalization that has been generally ignored in the literature both on currency internationalization and, more specifically, on RMB internationalization: the potential importance of the investment role of money. We argue that RMB internationalization, especially since 2015 has been driven by both inward investment to China and growing Chinese private sector investment abroad—investment flows from Chinese and non-Chinese financial institutions back to China. We also demonstrate that there are a number of surprising features of this internationalization via investment flows. We point to the—to date—limited role of Chinese banks despite their size and rapidly growing global commercial presence. These banks include development banks, state owned commercial banks, joint stock commercial banks—which are largely state-owned—and smaller private commercial banks. We also examine the surprisingly important role of Luxembourg's financial centre in the promotion of RMB-denominated investments. While focused on RMB internationalization, our study is of potential relevance to the internationalization of currencies from a number of emerging market economies, which do not otherwise demonstrate the main factors that contribute to currency internationalization.

Our analysis proceeds as follows. In the next section, we examine the academic literatures on currency internationalization and specifically on RMB internationalization. We point to lacunae in both sets of literature. In the third section, we provide an overview of the internationalization of the RMB to date and the unusually high importance of investment finance in this internationalization, especially since 2015. In the fourth section, we focus specifically on the mechanisms and agents of investment into China, highlighting the importance of specific channels to Chinese capital markets and the fund industry. We point more specifically to the important role of the Luxembourg-based fund industry.

Our analysis of RMB internationalization is based upon a range of secondary and primary sources. The existing secondary literature includes academic work on both currency internationalization more generally and on RMB internationalization specifically, quality newspaper sources and other documents produced by financial firms, financial sector promotion bodies, and audit and consulting firms. Our primary sources include documentation from the China Securities Regulatory Commission (CSRC), the Chinese State Administration of Foreign Exchange (SAFE), and the People's Bank of China (PBC). We have also undertaken 14 semi-structured interviews with bank, other financial firm and public officials with RMB-related experience and expertise. We have made use of data and descriptive statistics produced by Chinese researchers at Renmin University, the CSRC and SAFE and by the Society for Worldwide Interbank Financial Telecommunications (SWIFT) payment services.

STATE OF THE ART: RMB INTERNATIONALISATION AS A CASE STUDY OF CURRENCY INTERNATIONALISATION

A longstanding subject of analysis in the sub-discipline of international political economy, a number of scholars have analysed currency internationalization as a means to exercise influence over markets and other countries. The causal relationship between currency internationalization and state power is, however, unclear — though they are strictly intertwined (Cohen, 2013, 2019). Other scholars acknowledge the relevance of internal macro-economic policies and domestic political economy developments in the issuing country to explain currency internationalization or lack thereof (Germain and Schwartz, 2017). Scholars interested in currency internationalization also look at changing configurations of global finance from the lens of a declining or emerging currency power. The decline of the British pound, the rise of the US dollar, the creation of the euro and more recently the emergence of the RMB are the topics most often addressed in this subfield. This section provides an overview of the main analyses of currency internationalization in the IPE literature, the application of some of these analyses to the study of real or potential RMB internationalization and the contribution of our analysis to this literature.

Seminal studies by Cohen (1971), Strange (1971) and Whitman, Cooper and Solomon (1974) analyse the transforming conditions of international currencies, particularly through the lens of the British pound and the US dollar. The apparent decline of the US dollar in international financial markets with the transformation of the Bretton Woods system attracted scholars' attention. Kenen (1983), building on Cohen (1971), formalizes an analytical framework to assess the role of the US dollar in the world economy and shows how the American currency maintained a dominant role in spite of an increasingly widespread narrative depicting its decline. Kenen outlines three

fundamental functions of money: as a medium of exchange, a unit of account and as a store of value (Table 4.1). Governments and private actors using different forms of money at the international level constitute the determinants of currency internationalization.

Table 4.1. Roles of an international currency

	Functions of money		
Levels of analysis	*Medium of exchange*	*Unit of account*	*Store of value*
Private	FX, trade settlement	Trade invoicing	Investment
Official	Intervention	Anchor	Reserve

Source: Adapted from Kenen (1983); see also Gao and Yu (2011); Cohen (2013).

Since Kenen's contribution, other scholars have used this framework to assess potential changes in the global currency hierarchy. A number of scholars have examined the prospect of the euro substituting the US dollar as the world's major reserve currency (see, for example, Bergsten, 1997; Campanella, 2005; Chinn and Frankel, 2005; Cohen, 2003; Eichengreen, Mehl and Chitu, 2017; Mundell, 2000; Vermeiren, 2019; and Zimmerman, 2004). Most scholars are negative in their assessment. Campanella (2005) concludes that the Euro Area lacked three of Bergsten's five criteria. For Chinn and Frankel (2005), the potential rise of the euro relied on the materialization of two conditions: the expansion of the Euro Area to include the UK's financial markets and the decline of confidence in the US dollar as a store of value due to negative US macroeconomic developments. The increase in US dollar usage for payments through London's financial centre during the 2010s to the detriment of the euro, combined with Brexit, appears to confirm the unlikelihood of progress of the euro as an international currency and the persistent dominance of the US dollar.

Since the international financial crisis (2007-09), a number of scholars have also questioned if the US dollar would maintain its dominant international role or if there would be a shift towards a multipolar currency system (see, for example, Bergsten, 2009, 2011; Campanella, 2014; Gao and Yu, 2011; Helleiner and Malkin, 2012). However, despite an increasingly widespread narrative depicting the decline of US power and the rise of a multipolar system, in which a rising China threatens the current international economic order, scholars and analysts expressed caution as to the internationalization of the RMB and scepticism as to the replacement of the dollar by the Chinese currency in the near future. A number of scholars have stressed the costs that China faces in attempting to increase its monetary power internationally (for example, Li, 2015; Zhang and Tao, 2014). Applying Kenen's framework to analyse the internationalization of the RMB, Gao and Yu (2011) point to two basic conditions that China needs to satisfy in order to internationalize its

currency: capital account liberalization and full convertibility. Eichengreen and Kawai (2014) also emphasize these conditions, noting that capital account liberalization must be supported by financial market liberalization, exchange rate flexibility and a number of regulatory and other developments, including central bank independence.

In the early 2020s, these conditions were far from being met. Prasad (2016) argues that—despite the significant increase in RMB internationalization over the previous half decade—it was unlikely that China would embark on the liberalization, financial system development and political reform necessary to allow the RMB to replace the dollar as the world's preeminent reserve and haven currency. China's capital markets continued to face significant constraints and notably controls on the potential outflow of capital. Germain and Schwartz (2017) point to the important domestic political economy factors that discourage the Chinese government from adopting the kinds of reforms that would enable the significant increase in RMB internationalization. Furthermore, in the early 2020s, the RMB was not yet fully convertible (McNally, 2015; Cohen, 2018; Financial Times, 2021). China maintained a dual-monetary system by differentiating the onshore RMB (CNY) and the offshore RMB (CNH). While the former was subject to a range of central bank interventions and constraints, the latter was 'traded outside China, under unrestricted conditions' (Subacchi, 2016: 114). The dual-monetary system operated as a safety net that allowed China to prioritize domestic growth while decreasing the speed of capital account liberalization, thus limiting external interference in domestic policies (cf. Lo, 2017: 102). In establishing this dual-monetary system, one of the PBC objectives was to maintain the value of the onshore RMB as close as possible to the offshore RMB, to better manage the central bank's monetary policy. The PBC and Chinese government feared that the opening of China's financial markets could generate room for potential speculative operations from outside the country, resulting in an increasing spread between the two RMBs and undermining the efficacy of monetary policy (Subacchi, 2016: 165). This dual-monetary system had a significant limiting effect on RMB internationalization. The Chinese government sought full convertibility of the CNH more to meet IMF accession requirements than to increase RMB cross-border use (cf. Guo et al., 2020). However, McNally and Gruin (2017) argue that the variegated and politicized nature of capital account and currency management controls implemented by the Chinese government could still potentially allow for RMB internationalization—and result in an era of more illiberal state-managed monetary relations.

Pacheco Pardo et al. (2019) point to Chinese government efforts to create offshore RMB centres, arguing that this is a central element of its strategy to support RMB internationalization. Although it is not the aim of their article to prove the importance of these RMB centres to RMB internationalization—their focus is on why other countries support the establishment of RMB centres—these authors claim the significance of these centres for the development of the RMB's foreign exchange, trade settlement and investment roles. However, on the role of growing trade

and RMB internationalization, a number of scholars also point to a surprisingly limited relationship (Eichengreen et al., 2014; Tobin, 2021; Walsh, 2014). Tobin (2021: p. 1) argues ‘that while offshore money markets can reduce US dollar dependence in areas such as trade invoicing that do not depend on currency delivery, increasing the offshore holdings of RMB is more challenging’. Tobin (ibid.) points to how the ‘governance, geographic and credit generating limitations of [Chinese] state settlement banks reinforce the constraints imposed by the uncovered liability problem’. As another indication of the potential contribution of our analysis, Guo et al. (2020) emphasise the critical transformation of the RMB from a settlement to an investment currency. In so doing, they acknowledge the traditional perspective of currency internationalization by progressive stages: trade, investment and reserve.

A number of PRC-based researchers look upon RMB internationalization as inherently problematic, entailing domestic liberalization and reform, which can be perceived as undesirable costs rather than complementary benefits for China’s economic development—see, for example, Gao and Yu (2011). However, there are also studies that consider the potential internationalization of the RMB without the necessity of radical changes in market control and monetary policy in China. Hasegawa (2018), for instance, analyses the internationalization of the RMB as a regional currency through the lens of geopolitical frictions between China and the US in Asia. Hasegawa (2018: p. 550) argues that ‘the deep-seated distrust of dollar dominance and unregulated capital’ in many Asian countries, will help China to regionalize the RMB in Asia. According to Hasegawa, this will happen if China continues to grow and adopts a ‘moderate’ diplomacy in the region, regardless of the limited access to China’s capital market and state intervention on exchange rates. He thus argues that further significant internationalization is possible—due largely to geo-political considerations in Asia—without necessarily meeting all the criteria outlined by Cohen and Bergsten.

In this chapter, we argue that with the partial exception of Pacheco Pardo et al. (2019) and Guo et al. (2020) these studies downplay the potential of RMB-denominated investments to the internationalization of the Chinese currency. Kenen (1983) offers the most detail as to investment role of an international currency, focusing on the role of the US dollar as a store of value in international financial markets, and specifically in the Eurocurrency and Eurobond markets. However, IPE analyses of both currency internationalization more generally and RMB internationalization more specifically focus on the real or potential contribution of other features of currency internationalization and notably: foreign exchange (Pacheco Pardo et al., 2019), trade invoicing (Tobin, 2021), intervention (McNally and Gruin, 2017), role as an anchor currency (Cai, 2020; Huo, 2021) and as a reserve store of value (Guo et al., 2020; Kondratov, 2021). More recently, a number of scholars have pointed to the potentially important role of digitalization in RMB internationalization (Lo, 2020; Loh, 2020).

Some scholars focus upon the potential role of trade finance in RMB internationalization. Zucker Marques (2021), for example, criticizes the focus of most academic analyses of currency internationalisation principally on country characteristics and government policies as the main determinants, while they overlook the increasing relevance of external factors. In this vein, she argues that RMB internationalization is not the result of only China's statecraft. The instability of global finance, including sanctions imposed on China's trade partners, encouraged both banks and firms to search for currencies with lower transaction costs, and use the RMB as an alternative to the US dollar. However, there are crucial sectors, such as trade finance, which remain widely dominated by US dollar transactions (see SWIFT, 2021), and any RMB advancement is made to the detriment of the euro and other currencies.

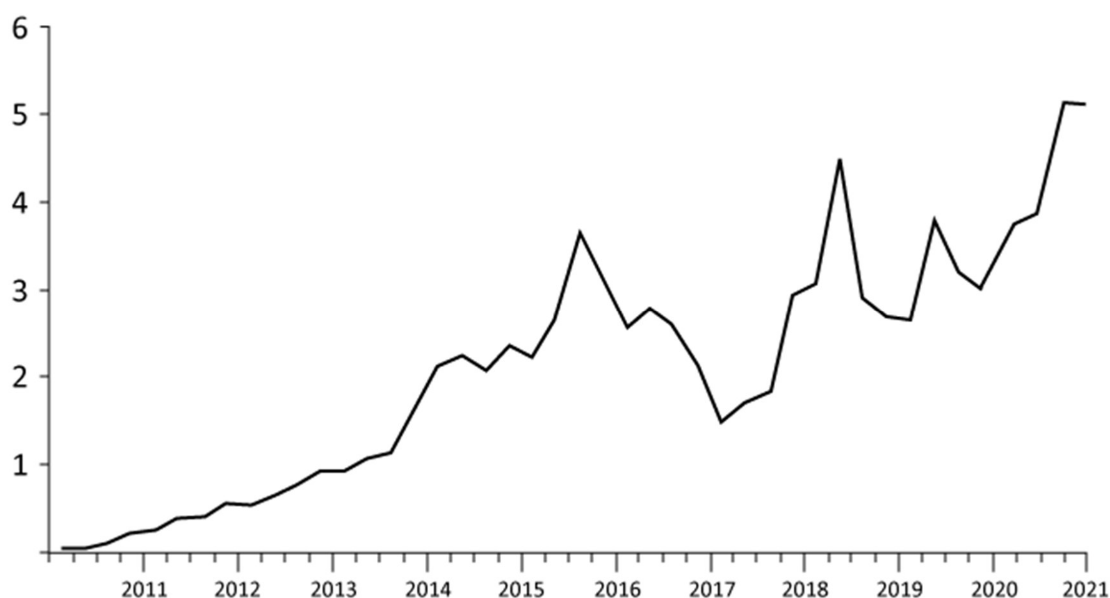
INTERNATIONALISATION AND THE RMB'S INVESTMENT ROLE

The People's Bank of China (PBC) and the State Administration of Foreign Exchange (SAFE) produce regularly updated official data on RMB internationalization. According to the PBC (2020), at the end of 2019 the total amount of cross-border RMB payments and receipts by banks on behalf of their clients reached RMB 19.67 trillion—an annual increase of 24.1 per cent—and a net inflow of RMB 360.6 billion (following a net outflow in 2018). This equalled US$ 3.06 trillion of total cross-border payments reaching US$ 130 trillion (McKinsey, 2020). At the end of the first quarter of 2021, cross-border RMB settlements reached RMB 9 trillion, up 48 per cent year on year; cross-border RMB settlements under the current account grew by 17 per cent year on year to RMB 1.7 trillion; while cross-border RMB settlements under the capital account reached RMB 7.3 trillion, an increase of 58 per cent year on year (PBC, 2021). As an international payment currency, the RMB was ranked fifth globally with a share of 1.76 per cent. Cross-border RMB settlement accounted for 38.1 per cent of the total Chinese cross-border settlement with an annual increase of 5.5 per cent. According to the SAFE (2021), between January and December 2020, the amount of foreign exchange settlement and sales by banks was RMB 14.1 trillion (USD 2.04 trillion) and RMB 13.02 trillion (USD 1.89 trillion) respectively. In the same period, the amount of cross-border receipts and payments by non-banking sectors reached RMB 30.33 trillion (USD 4.41 trillion) and RMB 29.55 trillion (USD 4.29 trillion) respectively. As of Q2 2021, in the International Monetary Fund's (IMF's) COFER index[15], RMB reserves were the fifth largest, with a share of 2.61 per cent, which was 1.53 percentage points higher than in 2016, the year when the

[15] IMF's Currency Composition of Official Foreign Exchange Reserves (COFER). https://data.imf.org/?sk=E6A5F467-C14B-4AA8-9F6D-5A09EC4E62A4

RMB entered the IMF's Special Drawing Rights (SDR) basket. At the end of 2019, the RMB represented 4.3 per cent of global total foreign exchange. Renmin University in Beijing created a RMB Internationalization Index (RII) in 2012 based on Cohen's (1971) study on currency internationalization (International Monetary Institute [IMI], 2016; Tu et al., 2013). RMB internationalization rose to 2016, slowed in 2016 and 2017 and then increased markedly, as shown in Figure 4.1.

Figure 4.1. RMB Internationalization Index*

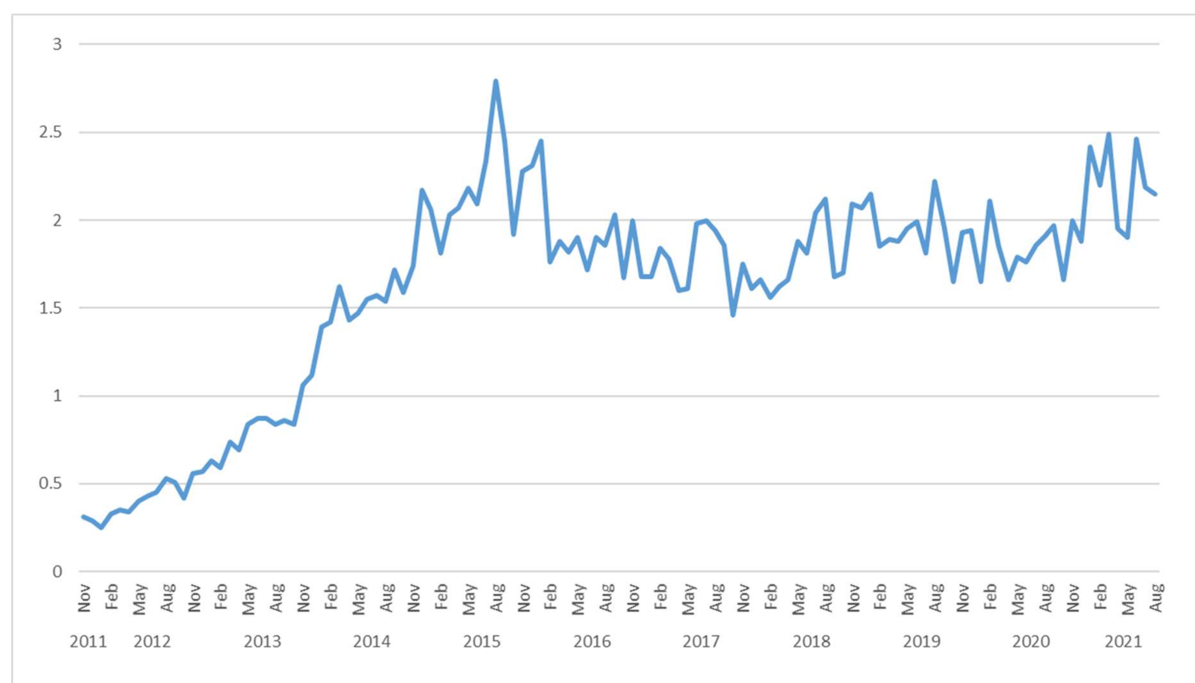


Source: IMI, (2021). *The components of the internationalization index include the following: Proportion of settlement of RMB in world trade; Proportion of RMB overseas credit in international credit; Proportion of RMB securities in announced issues of international bonds and notes; Proportion of RMB securities in in amounts outstanding of international bonds and notes; Proportion of RMB direct investment in international direct investment; Proportion of foreign exchange reserves in world reserves.

Locating precise figures for RMB-denominated cross-border payments as a percentage of total payments is challenging. However, the payments information mechanism SWIFT accounts for more than 95 per cent of all RMB-denominated cross-border payments (Interview10). Using SWIFT data, we calculate RMB cross-border use from 2011 to April 2021 (see below Figure 4.2). Confirming Renmin University data, RMB cross-border use reached a peak in August 2015, when the RMB briefly surpassed the Japanese yen to become the fourth most used currency for international payments. In April 2021, the RMB ranked sixth after the US dollar, the euro, the

pound sterling, the Japanese yen and the Canadian dollar. The RMB ranking third in cross-border trade financing, but at only 2.09 per cent of the total, while the US dollar ranked first at 88.07 per cent (SWIFT RMB Tracker, September 2021). In addition, the chart shows that after a sharp increase during the first five years of activity, the international use of the RMB experienced a significant drop from August 2015 and then fluctuating increases and decreases for a number of years.

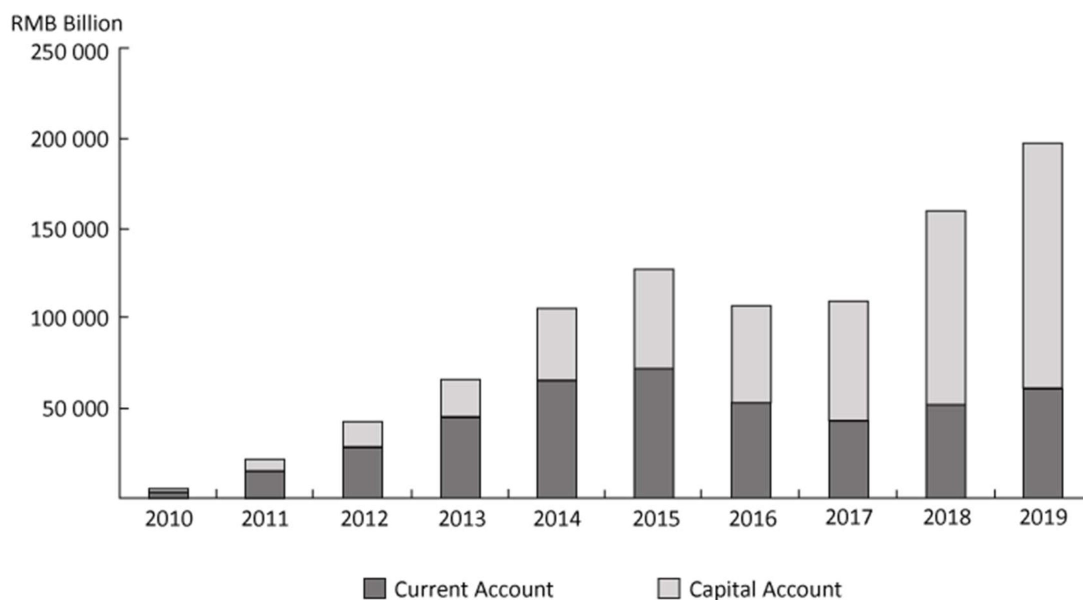
Figure 4.2. RMB internationalisation as a percentage of total cross-border payments to and from China



Source: Authors, elaborated from SWIFT RMB Tracker (November 2011 – August 2021).

The significant decrease in internationalization in 2016 and 2017 did not concern all RMB activities but rather was principally due to the current account—notably trade settlement—and reflected domestic Chinese economic difficulties from the summer of 2015, with the national stock market plunging and massive capital outflows (see below Figure 4.3). In late 2015, the Chinese central bank had to spend over US$ 415 billion supporting the national currency (Prasad, 2016). The rapid increase of RMB internationalization was on the capital account—which both these Renmin University and SWIFT figures fail to isolate—and the increased use of the RMB as a reserve currency notably since the IMF included the RMB in its SDR basket on 1 October 2016, announced in November 2015 (IMF, 2016).

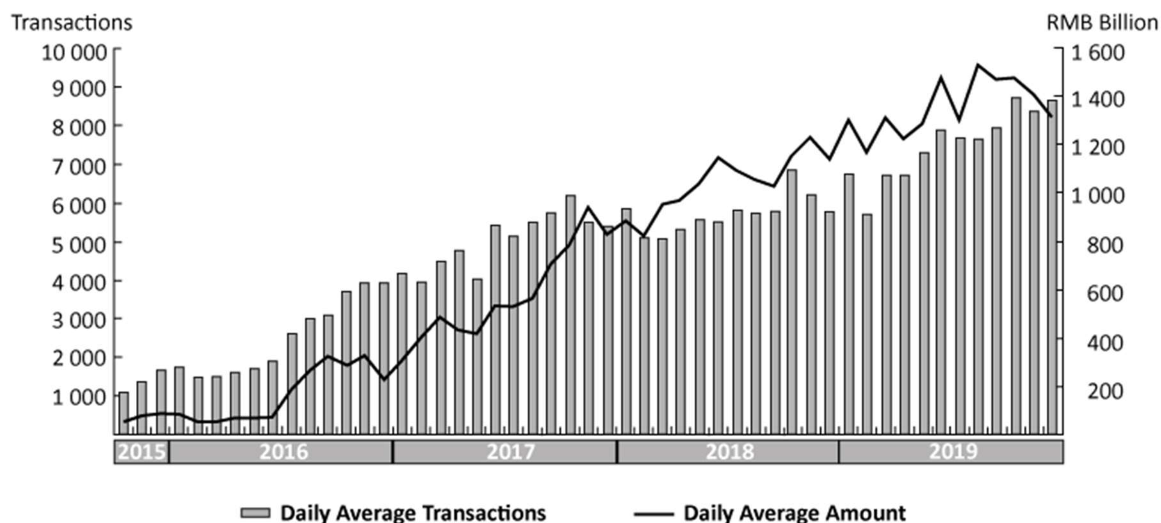
Figure 4.3. RMB Cross-border receipts and payments 2010-2019



Source: PBC, 2020

The flow of RMB-denominated investments into China's security markets—as recorded by the Cross-border Interbank Payment System (CIPS) and shown below in Figure 4.4—grew substantially from 2015 to 2017, at a time that overall RMB internationalization slowed, compensating in part from the decline in trade and offshore bond issuance were decreasing. In 2020, China's cross-border RMB receipts and payments totaled RMB 28.4 trillion, a year-on-year increase of 44 per cent. Among them, the scale of cross-border RMB trade settlement was 6.77 trillion, and RMB direct investment settlement was 3.81 trillion, with an increase of 12.1 per cent and 37.1 per cent over the previous year respectively. In the cross-border receipts and payments of Chinese banks on behalf of customers, the use of RMB accounted for 37.5 per cent, which was the highest level in history (Bank of China [BOC] Research, 2021).

Figure 4.4. Daily average of RMB cross-border business in the CIPS



Source: PBC, 2020

There are no precise figures on investment flows as a percentage of RMB international use. However, a number of figures combined show how investments grew significantly in importance with regard to RMB internationalization. First, the RMB internationalization report by the PBC (2020) shows how the total amount of cross-border RMB settlement under the securities investment item increased almost 50 per cent year-on-year, to RMB 9.51 trillion, accounting for about 70 per cent of China's capital account in 2019. Securities investments thus accounted for 48.35 per cent of total RMB cross-border use in 2019. Second, in 2019, direct investments settled in RMB reached the amount of RMB 2.78 trillion (US$ 430 billion), or 20 per cent of the capital account, of which RMB 2.02 trillion were inward direct investments into China. Third, in 2019, cross-border funding settled in RMB amounted to RMB 95 billion or 7 per cent of China's capital account. Fourth, if we combine these figures, the total amount of RMB settlements identified as 'investments' reached RMB 13.24 trillion, or 63.7 per cent of the total RMB cross-border use in 2019. This shows how the investment item in RMB internationalization became more relevant than trade settlement.

Despite the Covid-19 Pandemic and the global economic difficulties of 2020 and 2021, the increase in RMB-denominated investment flows continued apace. A number of sources attest to an investment 'boom' in RMB-denominated assets driven by a number of factors, including fear of US and EU sanctions (Loeb, 2021). However, profit was the principal motivating factor. One

Italy-based portfolio manager (Interview 7) claimed that in the months following January 2020 investments into Chinese sovereign bonds 'skyrocketed' (see also BOC, 2021; Zhou, 2021). BlackRock and the Hongkong Shanghai Banking Corporation (HSBC) were two of the most active providers of services for investors in RMB-denominated assets. The increase of investments into RMB-denominated instruments owed to their being more profitable than the same instruments denominated in the other world leading currencies. Using the example of an investment fund by BlackRock, the interviewee noted that 'buying a 10-year Chinese bond in US dollars offered a return of about 1 per cent; buying the same security in RMB offered a return of about 5 per cent'. This trend affected the overall cross-border use of RMB and worked to increase the foreign exposure to China's domestic bond market. According to a FTSE Russell's China Bond Report (2021), however, the overall exposure of foreign investment to China's sovereign bond market is still limited—only 11 per cent—especially if compared to foreign exposure to the US market (26.4 per cent) and Germany (44 per cent, non-EU investors). This implies large room for market expansion potential in the future.

THE AGENTS AND MECHANISMS OF INVESTMENT INTO CHINA: PULL AND PUSH

A number of agents within and outside China and mechanisms created by the Chinese government have contributed to increased foreign investment in China and RMB-denominated investment in particular. We highlight the role of four main groups of agents, both Chinese including Chinese banks and other investors and, non-Chinese, notably the fund industry and a number of large US/Europe headquartered banks. We examine four recent Chinese government-created mechanisms to encourage foreign financial firms seeking to invest in the country and one mechanism directed at Chinese investors seeking to invest outwith the country. Finally, we examine the growing importance of foreign indices listing Chinese securities which we describe as actor-mechanisms—and their contribution to the rise of RMB-denominated debt markets[16].

[16] We understand RMB clearing centres (banks) as facilitating institutions for settlements involving RMB-denominated transactions (see Pacheco Pardo et al., 2019). However, these are not mechanisms that encourage RMB denominated investments.

THE AGENTS OF INVESTMENT

The main Chinese agents of RMB-denominated investment into the PRC have been State-owned Banks (SOBs) and private and part-private banks operating both inside and outside of Mainland China. Chinese private investors have only very recently come to play a more important—albeit still limited—role. The main non-Chinese agents have been the investment fund industry—with a particularly important role for funds managed and based in Luxembourg—and a small number of—notably Luxembourg-based—subsidiaries of large US / European headquartered banks.

Chinese state-owned commercial banks were privileged actors to obtain RMB funding and thus promote RMB internationalization because of their 'offshore RMB pricing ability' and their ability to offer 'RMB products supported by onshore institutions' (Interview 10). These Chinese banks were engaged in the same range of activities as foreign banks: 'RMB settlement, RMB payment, RMB financing, RMB derivatives, intermediate of RMB investment, etc.' (Interview 9). However, Chinese banks did not yet advertise their products outside of Mainland China. Thus, in Europe, investors contacted big European banks like HSBC or Deutsche Bank to invest in Chinese securities. One Chinese market expert working for one of the big 4 audit/consulting firms noted: 'This is not optimal, as Chinese banks know their market better than foreign banks' (Interview 8). The subsidiaries of Chinese banks in Europe and the US focused their activities almost entirely upon funding the operations of Chinese companies (Interview 14)[17].

As for private investors based in Mainland China, their contribution to RMB internationalization remained limited, but this too was beginning to change during the 2010s. The Chinese government retained tight control over the outflow of capital. In May 2021, the PRC government relaxed rules limiting outbound capital flows for Chinese investors, which was expected to increase RMB cross-border use in Hong Kong (Yeung, 2021) and in turn result in an increase in RMB internationalization. The PRC government approved small but increasing amounts of investment to leave the country through the Qualified Domestic Institutional Investor (QDII) programme—a mechanism examined further below—reaching a total of $147bn worth by the end of 2020 (Hale and Lockett, 2021). The limits imposed restricted the contribution of both Mainland Chinese investors and the subsidiaries of Chinese banks outside of Mainland China to RMB internationalization.

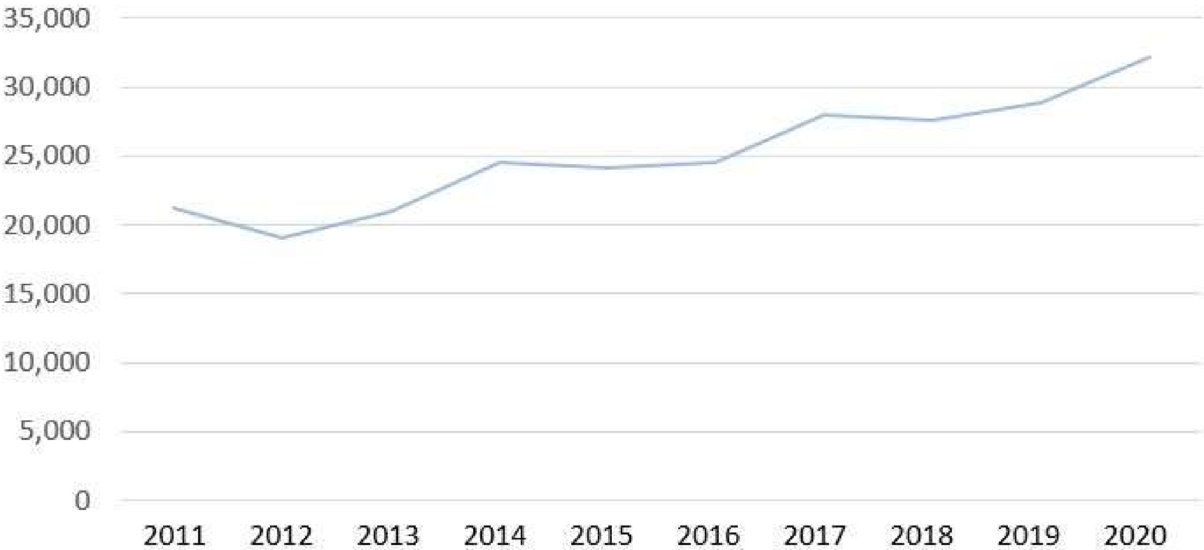
Outside of China, the fund industry and a number of large US/Europe headquartered banks have played an important role in RMB internationalization, with financial services based in

[17] For example, the Chinese banks with subsidiaries in Luxembourg note in their Pillar III annual reports that most of their lending is to corporations (see, for example, Bank of China (Luxembourg) S.A. Pillar III Disclosure Report 2020, https://www.bankofchina.com/lu/en/aboutus/ab4/202106/t20210630_19667354.html; ICBC (Europe) S.A. Pillar III Disclosure Report, http://europe.icbc.com.cn; CCB (Europe) S.A. Pillar III Disclosure Report, http://eu.ccb.com/europe/uploadfile/685456/20210804142235833951.pdf.

Luxembourg uniquely well-placed to contribute to this role. The Grand Duchy was selected by most Chinese banks as headquarters of their European Union subsidiaries and was home to subsidiaries and branches of a range of European and US banks. There are three main attractions for Chinese banks in coming to Luxembourg: the presence of the fund industry; the local specialization in the design of special purpose vehicles; the importance of Luxembourg as a bond-listing centre. Despite the limited activity of Chinese banks in promoting RMB-denominated investment products, a number of interviewees working at and with these banks in Luxembourg confirmed that it was only a matter of time before they did so (Interview 2; Schmit, 2021). According to these interviewees, 'everything is set'—that is, all the channels and the services for RMB business were in place, but Chinese banks did not advertise them, following Chinese government policy (Interview 8). Investors interested in RMB investments still turned to large US and EU universal and investment banks, which was 'not optimal' for either non-Chinese investors or Chinese banks (ibid.). These bankers and other financial sector employees agreed that RMB internationalization would take place cautiously with no unplanned initiatives by Chinese banks—'step by step'—and that it would 'take ten to fifteen years to see real progress' (Interview 10).

The UK-headquartered bank HSBC is an important example of this growing RMB-denominated business. HSBC was confirmed for ten years in a row as the 'best overall global RMB products/services' bank by the financial affairs magazine Asiamoney (2021). One of its Luxembourg-based subsidiaries, HSBC Investment Funds (Luxembourg) SA, was the recognized leader in RMB business and specifically investments in RMB-denominated securities. While only one of this HSBC subsidiary's 141 investment funds—as of end July 2021—as explicitly focused in its entirety on the RMB market (the HSBC GIF RMB Fixed Income), many of its other funds invested into RMB-denominated securities, including A-shares, with a variable exposure, as the funds' prospectuses show (HSBC Global Investment Funds, 2021). A-shares are RMB-denominated equities issued in Mainland China and listed on Chinese stock exchanges. Echoing a development found in a number of the largest European and US headquartered banks, HSBC increased its RMB structural foreign exchange exposure (see below Figure 4.5). HSBC (2018: 83) noted that 'the structural foreign exchange exposures represent net investments in subsidiaries, branches and associates, the functional currencies of which are currencies other than the US dollar'. An entity's functional currency is normally that of the primary economic environment in which the entity operates' (HSBC, 2018: 83). In 2020, the RMB was the HSBC's third functional currency, following the Hong Kong dollar and pound sterling—respectively, with an exposure of US$ 47,623 million, 35,285 million and 32,165 million, while the euro ranked fourth with an exposure of US$ 15,672 million.

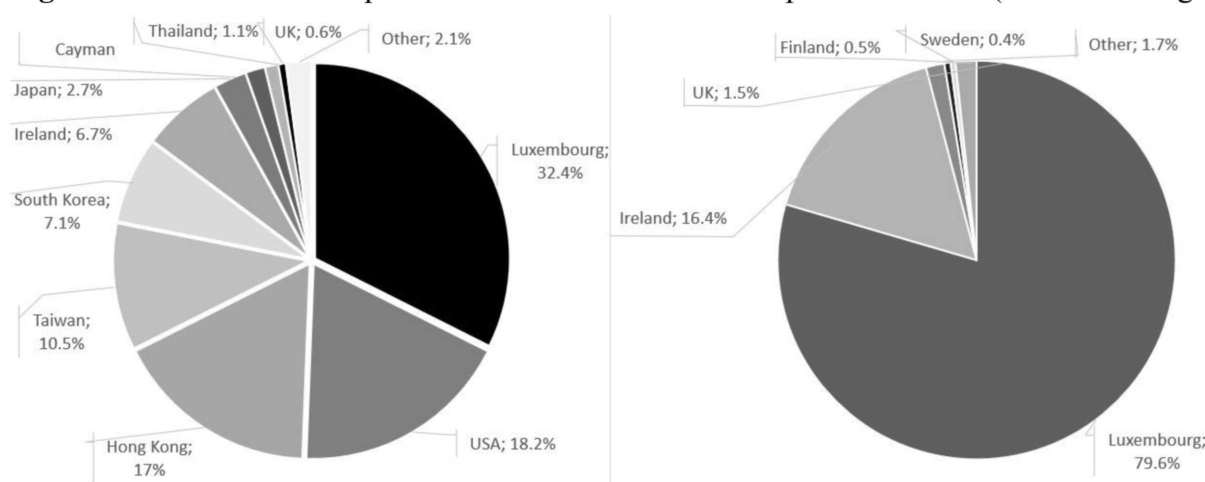
Figure 4.5. HSBC’s RMB Structural Foreign Exchange Exposure 2011-2020 (RMB mn)



Source: Authors, elaborated from HSBC Annual Reports (2011-2020).

A range of data show the growing importance of RMB-denominated investments in European financial markets and the central role of the Luxembourg-based fund industry in promoting these investments. Chinese A-shares, accessible from 2003, were exempted from capital gains tax in Luxembourg thanks to the Luxembourg-China double tax treaty of 1994. According to a PwC (2021) report, the overall EU portfolio investment stock into China increased by an average of 10.4 per cent annually during the previous two decades, increasing €56.7 billion in 2001, €335.4 billion in 2019, and €298.2 billion in the first half of 2020. As of April 2020, Luxembourg’s financial centre hosted more than 80 per cent of assets under management of European investment funds with an exposure into China’s domestic RMB-denominated securities, up from 66.8 per cent in April 2017. Luxembourg hosted 56.2 per cent of all global investment funds with an exposure into China’s domestic RMB-denominated securities, up from 33.1 per cent in April 2017. These numbers dwarfed other European financial centres including London, and surpassed key players in RMB business, such as Hong Kong and Singapore. Figure 4.6 demonstrates the importance of Luxembourg to investment into China and RMB internationalization.

Figure 4.6. World and European investment funds with an exposure to China (end of 2018 figures)



Source: Luxembourg for Finance (LFF), 2019.

The important role of the Luxembourg-based fund industry to RMB internationalization owed to both size—22 per cent of global funds under management were based in the Grand Duchy—but also deliberate strategy by the Luxembourg government which, in 2013 allowed funds to invest in Chinese A-shares, and in 2014 to invest a hundred per cent in Chinese bonds through the China Interbank Bond Market (CIBM), thus becoming the first jurisdiction outside of China and Hong Kong to do so (LFF, 2019). This was important is important because it gave to Luxembourg a first mover advantage, improving its overall reputation and in turn attracting business. Luxembourg government efforts to support the domestic fund industry—and to attract Chinese banks to the Grand Duchy—thus paralleled the efforts of a number of governments to establish offshore RMB trading centres but were more specifically focused on RMB-denominated investment (Pacheco Pardo et al., 2019; Interview 1). In 2012 the Luxembourg financial supervision, the CSSF, signed an MoU with the China Securities Regulatory Commission (CSRC) to ease the trading of Chinese securities in Luxembourg. Figures for the overall exposure of the Luxembourg fund industry to RMB-denominated securities are not available but accessible data from specific funds suggests the significance of these securities both to the operation of the fund but also to RMB internationalization. As of June 2019, in Luxembourg there were twenty-seven RMB Qualified Foreign Institutional Investor (RQFII) funds with total assets under management of about €5.1 billion (Deloitte, 2020). The majority of these funds also used the RQFII quota granted to entities from other jurisdictions, such as the UK, Singapore or Hong Kong—thus demonstrating their relative importance in the RQFII scheme. This might seem a limited contribution to the overall foreign exposure to China's domestic securities market if compared to total foreign holdings in stocks and bonds in China, which accounted for US$737.5 billion as of June 2020. However, yearly growth following the qualification of these funds was exponential. Moreover, in addition to

these RQFII funds, a range of other Luxembourg-based investment funds—representing the bulk of over €5 trillion of assets under management in Luxembourg's fund industry—also invested in China's domestic market. The exposure of each of these investment funds to China's domestic securities market differed according to its risk management, varying from a minimum of 10 per cent of total assets. The contribution of this RMB-denominated investment-fund business to the internationalization of the RMB also included the foreign exchange operations of funds.

CHINESE GOVERNMENT-CREATED MECHANISMS TO PROMOTE CROSS-BORDER INVESTMENTS

The Chinese government created five main investment mechanisms which worked to increase RMB internationalization. Four of these were directed at foreign financial firms seeking to take advantage of the PRC government's cautious opening of the Chinese financial sector: the Qualified Foreign Investors Index (QFII) and the RMB QFII (RQFII), which merged in 2020; the China Interbank Bond Market (CIBM) Direct, Stock Connect and Bond Connect. These four mechanisms are summarized in Table 4.2. The QFII is the oldest of these mechanisms, created in 2003. While created in 2010, the CIBM rapidly became the most important mechanism for foreign inward investment. There is also one Chinese government mechanism directed at investors in Mainland China seeking to invest outside the country that has been potentially important to support RMB internationalization: the PRC's Qualified Domestic Institutional Investor (QDII) scheme.

Table 4.2. Main channels to China's capital markets

	QFII / RQFII*	**CIBM Direct**	**Stock Connect**	**Bond Connect**
Who has access	Selected institutional investors; including smaller retail investors, and notably investment funds and asset managers	Selected large institutional investors	Hong Kong and overseas investors (Northbound trades from Hong Kong to China's mainland stock markets)	All institutional investors
Creation and significant reform dates	2003, 2007, 2012-13, 2016, 2019, 2020	2010, 2015, 2016	2014, 2016	2017

Products	All securities listed on SSE and SZSE Securities investment funds, ETFs Warrants, index futures, IPOs, FX derivatives and others	Cash bonds and other products permitted by the PBC	Selected A-shares and H-shares	All cash bonds
Currency	CNH and other FX (convert to CNY)	CNY and CNH	CNH, HKD, USD	CNY and CNH
Regulators	CSRC**, SAFE*** and PBC	PBC	CSRC and SFC****	PBC and HKMA*****

Source: Authors, adapted from Bank of New York (BNY) Mellon (2018), LFF (2019) and Asia Securities Industry and Financial Markets Association (ASIFMA) (2021).
Notes: *Chinese regulators unified these two channels in 2020. Today, they are both referred to as Qualified Foreign Investors (QFI). However, the distinction remains according to FX operations. QFI refers to the onshore market if the investment is in CNY transactions or offshore market if the investment is in CNH transactions. **China Securities Regulatory Commission. ***State Administration of Foreign Exchange. ****Securities and Future Commission. *****Hong Kong Monetary Authority.

From the perspective of non-Chinese investors there were two major issues of concern related to the limited 'openness' of China's securities markets and thus of relevance to RMB internationalization. First, there remained important limits on inward investment flows through Stock Connect which had a trading daily limit of US$ 7.66 billion (RMB 52 billion)—even though these flows never reached the cap on either total flows or quotas[18]. Second, the PRC government ensured that the channels of investment open to foreign investors were distinctive and mutually exclusive. Thus, investors who bought instruments from one channel could not sell them through another. Third, when investors placed their investments, they faced a lock-in period, which limited their ability to withdraw, thus discouraging the investment of large sums (Economist Intelligence Unit [EIU], 2019; ASIFMA, 2021). However, lock-in rules for all the channels were relaxed and removed over time. A fourth disincentive for non-Chinese investors, especially for medium and small institutional and non-institutional investors, was the limited availability of information about

[18] QFIIs had individual quota limits (a minimum of US$ 20 million and maximum of 5 billion), with no trading daily limits. RQFIIs had no individual limitations. The quota system was abolished at the end of 2020, following which investors filing for eligibility (to SAFE) received their own quota on a case-by-case basis.

and lack of knowledge on Chinese securities and different practices for placing orders (Interview 9; Interview 8).

As noted above, the PRC government introduced separate investment channels through which capital flows into the country could be controlled more easily and separately. The main four channels created were the two QFII and RQFII schemes, which were later merged, CIBM Direct, Stock Connect and Bond Connect. China's bond market became the second largest worldwide after the US from 2019 onwards (Yi, 2019). The CIBM accounted for more than 90 per cent of this market from its establishment in 2010, while the remaining 10 per cent was managed by the exchange bond market (Shanghai and Shenzhen stock exchanges), and the commercial bank counter market. China's bond issuance volumes surged considerably from 2015. By 2021, the combined share of SOBs (development banks and state-owned commercial banks) reached 21.86 per cent of the total market (Bloomberg, 2021). Development bank bonds were investment grade rated. The largest bond issuer in China was the National Development Bank, the largest SOB in China.

The Qualified Foreign Institutional Investors (QFII) scheme was launched in 2003 to meet China's WTO agreement to progressively open its domestic stock exchanges (Töpfer, 2017). This scheme was complemented from 2011 by the RMB QFIIs (RQFII), which invest directly in RMB using offshore RMB (CNH). These two schemes were then merged in September 2020. In 2003, to support the operation of the QFII scheme, the PRC government agreed to open the first offshore RMB clearing center in Hong Kong. The schemes were open to five different types of investors: asset management companies, insurance companies, security firms, commercial banks, other financial institutions such as foundations, sovereign funds and pension funds. The selection was originally based on three criteria: experience (in years of activity), net assets, and assets under management. QFII/RQFII were the main channels for smaller retail investors, and notably investment funds and asset managers (BNY Mellon, 2018). QFIIs/RQFIIs were allowed to invest in securities listed on China's National Equities Exchange and Quotations System including warrants listed on stock exchanges and fixed-income investments listed on the CIBM, as well as privately offered investment funds, financial futures, commodities futures and options. From 2012, QFIIs/RQFIIs were allowed to invest in exchange-traded funds (ETFs)—an important and fast-growing market in Hong Kong—and derivatives (Dillon Eustace, 2014). They were also allowed to participate in bond repos, as well as margin securities lending and securities refinancing loan transactions on securities exchanges.

While the government set the cap for individual and aggregated investment, the CSRC granted the license and defined investment assets, and the SAFE granted the quotas, which were ended in

September 2019. Initially, a QFII could hold up to 10 percent of the A-shares[19] in a listed company and the aggregated overseas ownership could not exceed 20 per cent. In 2012, in one of the reforms for the progressive opening of China's security markets, the latter cap was extended to 30 per cent (He, 2015). Investments suffered a period of lock-up of one year (which was lowered to three months in 2009 and then removed in 2016) and there were restrictions on the repatriation of principal and remittances. The QFII could choose a custodian from a list provided by the CSRC. The latter controlled the outflow of invested capital. After a series of reforms in 2007, 2012-13, 2016 all these restrictions were relaxed and further clarification of the rules were undertaken with the explicit aim of attracting foreign investors and strengthening the international position of the RMB (PBC, 2018a, 2018b). In September 2020, the Chinese government and the PBC announced a further reform of the QFII and RQFII schemes (CSRC, 2020). This reform unified the two investment schemes, relaxed entry requirements, eliminated restrictions on the number of entrusted intermediary institutions, reduced data submission requirements, and eased the overall process of accreditation.

In 2020, the largest QFIIs were the Swiss universal bank, UBS, and the US investment bank, JP Morgan Chase. To obtain a QFII license there had to be in place an agreement between the investor's home supervisory body and the CSRC. In 2020, there were 558 investors registered under the schemes, up from 250 in 2013. According to PBC (2020) statistics, by the end of 2019 just before the quota system was abolished in June 2020, 21 countries and regions were granted with RQFII quotas, for a total of RMB 1.99 trillion. 223 investors were registered under the RQFII scheme for a total of RMB 694.1 billion invested, which was about one third of the aggregated quota—which suggests that abolishing the quota system probably did not have a huge impact on the market. By the end of the first half of 2020, there were 322 foreign institutions with US$115.98 billion of investments under the QFII scheme. Furthermore, there were 231 foreign institutions investing RMB 721.992 billion under the RQFII scheme, for an increase of 14.4 per cent compared to the end of 2019 (China Banking News [CBN], 2020).

Direct access to the CIBM was limited to large foreign institutional investors—banks, sovereign wealth funds and pension funds—while mid- and small institutional investors and retail investors needed to use other channels to access this market. Smaller retail investors only used the QFII/RQFII schemes. The CIBM Direct, created in 2010, was generally considered to be the fastest and most efficient channel to invest into China's bond market with, for example, few constraints on the repatriation of principal. As a result, the CIBM Direct was the fastest growing channel for inward investment in the late 2010s and early 2020s. As of June 2020, 796 foreign institutions entered the CIBM, with 435 doing so directly, 491 via Bond Connect, including 130 using both

[19] Prior to 2003, since 1992, overseas investors could invest only in US$-denominated B-Shares in Shanghai and HK$-denominated B-Shares in Shenzhen.

channels. In March 2021, total foreign holdings in the CIBM reached RMB 3.56 trillion (about US$ 550 billion) (EIU, 2021).

The Hong Kong-Shanghai Stock Connect and Hong Kong-Shenzhen Stock Connect were launched respectively in 2014 and 2016 to funnel investments from overseas jurisdictions through Hong Kong to purchase RMB-denominated securities. The PBC allowed the use of both RMB and foreign currencies to invest through these two channels. Overseas investors using foreign currencies needed an eligible broker to conduct currency conversion with a designated settlement bank in Hong Kong. The limit to this market was, as of February 2021, defined by a daily investment quota of RMB 52 billion (about US$ 7.66 billion) for each channel (Hong Kong Stock Exchange, 2020). This quota identified net buying of eligible stocks while selling had no restrictions. Data released by the PBC indicates that in the first half of 2020 investment via the QFII and RQFII schemes as well as the Shanghai-Hong Kong and Shenzhen-Hong Kong Stock Connect schemes collectively totaled RMB 2.5 trillion, accounting for around 4 per cent of all A-share market value (CBN, 2020)—reaching US$ 10 trillion—and nine per cent of freely circulating A-share market value (Lockett, 2020). The Chinese government also created Bond Connect as another channel to enter the CIBM. In March 2021, Bond Connect reached a transactions daily average of RMB 24.8 billion.

From early 2019, the PRC government—due in part to growing trade pressures from the US Trump Administration—moved to reform and further open domestic financial markets. The National People's Congress fast-tracked the foreign investment law, which had been initially announced in 2015 (NDRC, 2019). This law introduced a number of important changes including: ending investment quota restrictions for QFIIs and RQFIIs; granting permission to overseas financial institutions—banks, pension companies and currency brokerage firms—to establish subsidiaries in China; removing regulation that foreign ownership of shares in domestic insurance companies could not exceed a quarter of the total; relaxing access conditions for foreign insurance companies—including the abrogation of the thirty-year operating period requirement; and granting permission to foreign institutions to conduct credit ratings in China—including all bonds on both the CIBM and the conventional market. This last development would facilitate foreign investment in the CIBM. Furthermore, the date for the elimination of restrictions on foreign shareholding in Chinese securities companies, fund management companies, future companies, and insurance companies was brought forward from 2021 to 2020. However, despite the reduction in restrictions on investment into the PRC, there remained a number of significant obstacles. For example, the range of securities available to foreign investors was limited and foreign investors were unable to switch investment channels.

We also briefly present the one Chinese government mechanism directed at investors in Mainland China that was potentially important to support RMB internationalization. The PRC's

Qualified Domestic Institutional Investor (QDII) scheme—which allowed investors to access assets outside mainland China through banks and other institutions—reached a cumulative total of US$147bn worth of approvals by mid-2021 (Hale and Lockett, 2021). In mid-June 2021, the PRC's government approved a record amount of investment—worth US$10bn—to leave the country (Hale and Lockett, 2021). The move reflected a number of concerns including rapidly rising asset prices in China. However, it must also be seen in terms of the Chinese government's gradual opening of the country's capital account, in support of renminbi liberalisation (Hale and Lockett, 2021). This expansion of the QDII scheme complemented a number of established Hong Kong-linked programmes that allowed investment to flow out of China (Zhou, 2021). In terms of boosting RMB internationalization, all outflows via these schemes had to eventually be converted back to RMB. The development thus highlighted the role of trade and investment finance to renminbi internationalization.

NON-CHINESE MECHANISMS: FOREIGN INDICES LISTING CHINESE SECURITIES

Efforts to open China's security markets to foreign investment have also come from European and US financial firms which since 2019 have created foreign indices listing Chinese Securities. Since 2019, a number of major financial firms started to list Chinese securities in their indexes (Hale and Lockett, 2020; Weinland, 2019). We list the most important in Table 4.3.

Table 4.3. Major US and European Indices listing Chinese Securities

Company	Date	Index	Financial Product
Citibank Group	March 2017	Emerging Markets Government Bond Index; Asian government Bond Index; Asia Pacific Government Bond Index	China's government bonds
JP Morgan	March 2018	Global Aggregate Index	China's government and development bank bonds
Morgan Stanley Capital International (MSCI)	March 2019	MSCI Indices	China's A-shares (RMB-denominated stocks)
Bloomberg	April 2019	Bloomberg Barclays Global Aggregate Index (BBGA)	Chinese RMB-denominated government bonds and development bank bonds

Financial Times Stock Exchange Group	June 2019	FTSE Global Equity Index Series	Chinese A-shares
JP Morgan Chase	September 2019	Government Bond Index-Emerging Markets (GBI-EM)	Chinese government bonds
Standard and Poor's Dow Jones Indices	September 2019	S&P Emerging Broad Market Index (BMI)	A-shares mid-cap stocks
MSCI	November 2019	MSCI Indexes	China's A-share mid-cap stocks

Source: Authors' own compilation.

By the end of 2019, China's bond market reached RMB 99 trillion, of which the holding of foreign investors were RMB 2.3 trillion, with an increase of 26.7 per cent over the year. China's stock market reached RMB 59.3 trillion, of which RMB 2.1 trillion was held by foreign investors, with an increase of 82 per cent over the year (PBC, 2020). By the end of 2019, the total of RMB-denominated financial assets held by overseas entities in China increased to RMB 6.41 trillion from RMB 5 trillion a year earlier (The Asian Banker and CCB, 2020). There have also been a number of infrastructural developments that have worked to increase RMB cross-border business. In 2019, the London Stock Exchange (LSE) in collaboration with the Shanghai Stock Exchange (SSE) launched the London-Shanghai Stock Connect, to ease investments between the two markets.

CONCLUSIONS

We recognize the potential importance of a number of other factors contributing to RMB internationalization and notably Chinese outward investment via the Belt and Road Initiative and via Dim Sum bonds. The Belt and Road Initiative (BRI) has often been considered as a driver for RMB internationalization reinforcing the strong commercial relationship between China and many BRI countries in Asia (Cai, 2020; Ly, 2020; Zhang et al., 2017). A recent report, shows how China's SOBs grant government concessional loans denominated in RMB to BRI countries (Gelpern et al., 2021). However, official figures for this BRI-related lending remain largely unavailable and thus the significance of this factor contributing to RMB internationalization is impossible to determine. Dim Sum bonds are RMB-denominated bonds listed in offshore markets and regulated by the Hong Kong Monetary Authority (HKMA). As of mid-2021, the Dim Sum bond market was not yet important for RMB internationalization — with a market value of only approximately US$ 16 billion or only 0.15 per cent the onshore bond market. Nonetheless, this market had considerable potential for rapid growth in future years (Deloitte, 2020; Chaw and Law, 2019).

In this contribution, we have highlighted a long-neglected dimension of currency internationalization in the IPE and economics literature — the investment role of an international currency — in order to explain the ongoing RMB internationalization despite Chinese government's steadfast refusal to liberalize the country's current account — and the national economy more generally — and to relax controls on monetary policy. The country's large current account surplus has failed to date to contribute to RMB internationalization. IPE and economic analyses of both currency internationalization more generally and RMB internationalization more specifically have focused on the real or potential contribution of increased foreign exchange, trade invoicing, government / central bank intervention, digitalization, a currency's anchor role in relation to other currencies and/or as a reserve store of value. We understand RMB internationalization as a reflection of both push and pull factors that encourage the purchase and sale of RMB-denominated investments. This internationalization has involved the PRC government, a range of Chinese and foreign investors and Chinese government-created mechanisms as well as indices created by US and European firms listing Chinese Securities.

We argue that RMB internationalization, especially since 2015, has been driven by both inward investment to China and growing Chinese private sector investment abroad — investment flows involving both Chinese and non-Chinese financial institutions but above all the latter. RMB internationalization reflects PRC government objectives — a point highlighted by Pacheco Pardo et al. (2019) and a number of other authors. However, we recognize the importance of foreign pressure, notably coming from US administrations and from foreign investors and the reluctance of the Chinese government to accept the kinds of reforms necessary to promote RMB internationalization. We also demonstrate that there are a number of surprising features of RMB internationalization via investment flows. Pacheco Pardo et al. (2019) point to the efforts of the UK and German governments to set up RMB clearing centres. We point to the important role of the Luxembourg government in encouraging RMB-denominated investment and the crucial importance of the Luxembourg-based fund industry. We also note the — to date — surprisingly limited role of public and private Chinese banks despite their size and rapidly growing global commercial presence. While focused on RMB internationalization, our study is of potential relevance to the internationalization of currencies from a number of emerging market economies, which do not otherwise demonstrate the main factors that contribute to currency internationalization.

Given the growth of total Chinese exports manufactured by Chinese companies as a percentage of the country's total exports — and thus in relation to non-Chinese firms with operations in China — we would also expect continued growth in RMB-denominated investment from outside China — but through a limited range of channels. This will continue to be a major factor in the rise of RMB-denominated investments. However, interest rate differentials on RMB-denominated

financial products continue to explain a significant part of the attraction of foreign investors to these products. Large financial institutions headquartered in the US, Europe, Japan and elsewhere will — in their never-ending search for good return on investment — include increasing amounts of RMB-denominated securities in their indexes. At the same time, there remain a number of factors that will continue to limit RMB internationalization for some time and ensure ongoing Chinese currency exceptionalism. One factor is the current absence of hedging instruments in RMB (Interview 10). A second factor is the ongoing restrictions place on Chinese citizen to engage in cross-border investments. A third factor concerns the inadequate transparency of Chinese-owned companies. A fourth factor is the persistent importance of foreign firms in Chinese exports. While below levels of a decade ago — 41 per cent in 2007 — the foreign presence remains significant (see Ma et al., 2015). This wide presence of foreigners involved in Chinese production and export helps to explain why the use of RMB is limited in trade settlements and financing. Further study should examine if there is a clear correlation between the ownership of Chinese exports and the use of RMB in trade. The demonstration of such a clear correlation would further emphasize the role of investment in the increased internationalization of the RMB and Chinese currency exceptionalism.

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Interview 5: Chinese Bank official, 30 January 2020, Luxembourg.

Interview 6: Spanish Bank official, 14 November 2020, Luxembourg.

Interview 7: Portfolio Manager, 26 November 2020, Rome, Italy.

Interview 8: Big Four Auditing firms official, 17 February 2021, Luxembourg.

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Interview 10: Chinese Bank official, 19 March 2021, Luxembourg.

Interview 11: Portfolio Manager, 21 March 2021, Rome, Italy.

Interview 12*: Luxembourg civil servant, 25 June 2021, by Skype.

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CONCLUSION

CHINESE FINANCIAL SPACES IN EUROPE

This dissertation has analysed different dimensions of Chinese financial activities in order to demonstrate the ability of Chinese banks to create new financial spaces in Europe. It started with the assumption that socioeconomic interactions, which I ascribed to the combinations of network-place and structure-agency, construct (financial) space. On the one hand, the conceptualisation of a network-place nexus helped me to identify the territory where Chinese banks ground their activities in Europe, which highlighted the role of Luxembourg as China's largest bank headquarters and financial hub in Europe. On the other hand, the structure-agency nexus helps to outline formal and informal socioeconomic mechanisms that limit or facilitate actors' power and operations. The two combinations are important because interactions in places, in part determines the 'rules of the game' (North 1990) that actors follow while they are embedded in a multiscale dimension of local, regional and global interactions. The multiscale dimension suggests that Chinese bank networks are responding to different logics simultaneously (cf. Sheppard 2002). Importantly, place conditions the socioeconomic interactions that actors engage in within and across networks. Powerful actors in turn influence and reshape places. This conception of interdependencies between networks, places, structures, and agency framed my analysis of how Chinese banks organised their networks in Europe as powerful actors capable of reshaping European financial spaces. I addressed this analysis by answering the overarching questions: What are Chinese banks doing in Europe? How are they spatially organised? Are they reshaping European financial spaces? In order to answer, I selected three different dimensions of Chinese financial activity in Europe, namely bank networks, investments and currency, which I addressed in four chapters/publications.

BANK NETWORKS, INVESTMENTS, AND CURRENCY: FINDINGS FROM THE FOUR CHAPTERS/PUBLICATIONS

The first chapter applied the concept of geoeconomics to the financial activities of Chinese state-owned commercial banks headquartered in Luxembourg and operating in the EU. Starting from the observation that Chinese bank networks primarily provide a platform for the implementation of direct investments to Europe by Chinese companies, the chapter identifies the mechanisms that Chinese banks have organised to facilitate the flow of capital. This organisation is the result of coordination and co-operation between Chinese and local, state and private actors. The chapter highlights the role of both the Chinese and Luxembourg states in building the conditions for banking and other financial businesses. Geoeconomics helps to understand power relations in the network-place nexus across a multiscale dimension. However, its application as a continuum of the concept of geopolitics in the age of globalisation, in a strict Luttwakian sense, results quite limited to understand the complexities of China's economic expansion. The chapter advances a more nuanced understanding of geoeconomics through an economic (and political) geography connotation. The chapter suggests that Chinese banks are not seeking control of European financial structures and financial flows, and that they are mostly committed to facilitate the operations of Chinese corporations in Europe. I show how EU member states along with China's state collaborate to build the normative structures that help Chinese banks to operate in Europe. On the one hand, EU member states, particularly Luxembourg, attract Chinese investments and financial activity, while on the other China seeks to enhance economic cooperation to enlarge its potential access to knowledge and advanced technology. This implies cooperation between states—as shown throughout the entire dissertation (see also Rogers 2022)—which however could experience potential change and imbalances due to recent geopolitical frictions between the West and China (Babić and Dixon 2022). An intriguing paradox emerges from this study. While the geoeconomic power of Chinese banks is limited by strict adherence to Chinese state guidelines, the organisation of Chinese banking networks in the EU helps Chinese banks to circumvent regulatory restrictions. In other words, Chinese banks are to a certain extent limited by their domestic structures, while their global structures—those organised along with local and regional actors in Europe—seem to facilitate their corporate banking operations (cf. Chapter 2). Furthermore, while their networks make it possible to further enlarge their banking business, Chinese banks have adopted a cautious, slow expansion strategy, which does not meet international business expectations.

Chapter 2 explains why Chinese banks have clustered in Luxembourg and how they have organized their networks of branches and subsidiaries across the EU to facilitate mergers and

acquisitions (M&A) of European firms by Chinese corporations via special purpose vehicles. This study finds that Chinese banks in Luxembourg have established complex branch-subsidiary structures to serve both their large Chinese and European corporate clients. The mechanisms that these structures operate allow Chinese banks to overcome regulatory and operational constraints when serving Chinese corporations in their M&A business in the EU. This chapter confirms the findings from Chapter 1, in the sense that Chinese banks have built financial spaces in co-operation with local and regional state and private actors. Even though they are limiting their efforts to the corporate banking sector for the time being, their organisation suggests that Chinese banks are set to enlarge their business in the near future. This chapter advances the application of global financial networks as a conceptual tool to better identify the role of specific actors in economic networks and places. The chapter shows how states have a fundamental role in organising the normative structures and the actual mechanisms that allow financial and corporate players to expand their business across national boundaries. The chapter suggests the existence of different types of global financial networks and also highlights the importance to define their function, which in turn helps to better identify actors and power relations in networks and the importance of specialisation in international financial centres. This approach would provide, from a theoretical perspective, new nuances to better understand how finance is spatially organised beyond the hierarchical organisation of the global financial network (Wójcik 2013; Wójcik et al. 2021) and challenge the hierarchical classification of international financial centres (Cassis and Wójcik 2018).

Chapter 3 shifts the focus from commercial to development banks and analyses how Chinese national development banks organise their investments and manage their assets in Central and Eastern European (CEE) countries through Luxembourg-based alternative investment funds. It shows how part of Chinese financial globalisation is grounded in both policy-driven and profit-driven logics. This chapter uses the concept of externalisation (Henderson et al. 2013; Henderson et al. 2021), which disaggregates the political from the economic to better understand how globalisation is unravelling, to scrutinise how China 'externalises' its socio-political and economic formations through investments and by building economic networks in Europe. The chapter shows how Chinese externalisation to Europe results from cooperation with European financial institutions—both multilateral and national. It confirms that both Chinese and European actors contribute to the creation of Chinese financial spaces in Europe. Interestingly, the chapter finds that collaboration between Chinese and European state actors in the context of alternative investments is part of broader understandings. Beyond partnerships, the organisation of such interdependencies also reveals traits of 'systemic rivalry' (EU Commission 2019)—namely, expansionary use of the RMB and new Chinese international litigation courts—with implications for EU-China economic and political relations in the future. From a theoretical perspective, this study suggests that more scrutiny is needed to understand the boundaries between developmental

and market logics, which, in a time of increasing state intervention in the economy, assume the traits of a false dichotomy. This assumption stretches beyond the case of Chinese NDBs to encompass the increasing relationship between development banking (states) and commercial banking and other financial services (markets) in contemporary economy.

Finally, Chapter 4 starts with the observation that despite tight controls on capital markets in China, the international use of the RMB has increased significantly, with the RMB becoming the fifth most used currency in global trade and financial markets. The chapter finds that the RMB has followed an unusual process of internationalisation. The Chinese government has created specific investment channels for non-Chinese investors that allow a controlled flow of capital to enter China's securities markets. Consequently, the RMB has internationalised despite the refusal of the Chinese government to liberalize the current and capital accounts and the domestic financial market. The major players promoting the international use of the RMB are not Chinese but Western banks, the investment fund industry and financial services firms that have included Chinese securities in their indices. The chapter highlights the role played by Luxembourg, which has emerged as one of the major centres of RMB internationalization thanks to its fund industry. Again, the chapter shows how Chinese financial spaces result from the coordination and co-operation between Chinese and European actors—in this case mostly Luxembourg-based global operating investment banks. This shows how Chinese financial spaces are co-produced and, sometimes, such as in this specific case, mostly produced by non-Chinese actors seeking new financial markets. This chapter contributes to further theorise the framework of currency internationalisation by highlighting the role of the investment role of money, which most of the related literature has overlooked so far.

These four studies identify different agents at play in the creation of Chinese financial spaces—or in the reproduction of existing structures—in Europe, namely Chinese and Western banks, and Chinese and European state agencies. In addition to these, a wide set of financial and business services operate along banks and states to help them implementing their strategies. The dissertation suggests that to understand state agency, the state should be disaggregated into its wide set of different agencies, regulators, and government offices. They coordinate with their foreign counterparts, and together they model the functioning and usability of financial structures through the implementation of double tax agreements, memoranda of understanding, swap lines, etcetera. This thesis further suggests that Chinese banks' agency in Europe follows domestic guidelines while adapting to European hosting structures. This results, for instance, into operational limitations for Chinese commercial banks, as shown in chapters 1 and 2, and interestingly in some sort of non-agency—referring to the voluntary limitation in promoting currency internationalisation—as shown in chapter 4.

Furthermore, the thesis suggests that places, and specifically international financial centres, in this case Luxembourg, implement their own agency. Luxembourg's financial centre offers an interesting example of how the complexities of socioeconomic interactions condense into a form of aggregated agency. This agency assumes a more evident example in the physical form of state agencies involved in marketing operations to attract financial actors and activities to enlarge their scope and consolidate their position as financial centres. They do so by commercialising their sovereignty (Dörry 2022). A concrete example in Luxembourg is the state agency Luxembourg for Finance, which was established in 2008 with the aim of promoting Luxembourg's international financial centre. The creation of a Chinese banking cluster in Luxembourg is an example of these dynamics and suggests the future potential of Luxembourg as a bridge between China and the EU: a role that would increase Luxembourg's weight as a strategic node in the global financial network, which I discuss in the last section of this conclusionary chapter.

In summary, the key findings from these four chapters can be summarised in three main points. First, Chinese financial spaces in Europe are co-constructed by Chinese and Western actors that are working in coordination to build new financial markets and enhance economic cooperation between China and Europe. Second, Chinese financial spaces conceived as the spaces where Chinese financial actors have extended their networks, do not well represent the real extent of China's financial activity in Europe. Indeed, China's financial activity is still rather limited while networks are well extended. This suggests that, third, Chinese financial networks in Europe are set to widen their business in the near future. These three points imply a set of potential implications that I will discuss after answering the overarching research questions of this dissertation in the next section.

ANSWERING THE OVERARCHING RESEARCH QUESTIONS

In this section, I answer the overarching research questions in light of the findings from the four chapters/publications of the thesis. First, the questions aim to understand what Chinese banks—both commercial and development banks—are doing in Europe. Chinese commercial banks are mostly engaged in corporate banking, which is lending to large European and Chinese corporations in Europe. Development banks, beyond their state-state contracting for economic development and fixing market imperfections, are investing in infrastructure—particularly in alternative power generation—and private equity in CEE countries. Answering this question helps to understand the purposes for which Chinese banks are building these networks in Europe. In particular, it helps to understand why Chinese banks have chosen Luxembourg as a regional hub for their financial activities in Europe (Chapter 2). In turn, a reflection on the network-place nexus identifies the

(regulatory, economic, political, financial) structures that limit or facilitate Chinese financial activity in Europe. These examples of commodification of law (Pistor 2019) and space (Lefebvre 1991) shed light on the nature of Chinese financial spaces in Europe, on how they are co-constructed and somewhat circumscribed in specific businesses—e.g. lending to large corporations—and specific practices—e.g. the use of special purpose vehicles in the M&A business.

Responding to the second question—how are Chinese banks spatially organised?—is a complementary exercise with regard to the first question, as their spatial organisation well resembles what they are doing in Europe. The spatial organisation of Chinese bank networks have revealed traits of path dependency—especially with regard to the decision of commercial banks to cluster in Luxembourg (cf. Introduction and Chapter 2). Chinese banks have concentrated their financial activities in Luxembourg, including development banks' cross-border alternative investments to CEE countries (Chapter 3). The organisation of Chinese commercial banks' branch-subsidiary mechanisms—headquartered in Luxembourg—(Chapter 2) reveals their governance structures. The study of these spatial organisations, including the establishment of RMB clearing centres across Europe (Chapter 4), suggests potential trajectories for the future. Overall, the four chapters show how Chinese financial activity is rather limited, while the physical presence of networks and banks in many European countries is rather broad. In other words, Chinese banks have established both a broad physical presence and soft infrastructures that allow them to operate across many financial sectors in Europe—the enabling institutions (cf. Turner and Johnson 2017)—while they are not using them at full potential. This contrast shows traits of long-term expansionary plans by Chinese banks, as I discuss in the next section.

Finally, the third question asks if Chinese banks are reshaping European financial spaces. The answer is far from being definitive, as it is possible to answer in different ways. For instance, I may argue that any new financial actor operating in a specific territory—an important example is the EU—would create new financial spaces by organising networks and businesses in cooperation and competition with other local, regional and global actors operating in the same space. Alternatively, I could claim that Chinese banks have not the strength to reshape financial spaces in Europe for at least two reasons. First, they are constrained by China's state control and they operate within a very narrow segment of financial activity: lending to large European corporations. In other words, they are mere and tiny intermediaries in the ocean of European financial markets. Second, they do not engage in market-based banking. They do not produce, market and distribute, nor influence the creation of, sophisticated financial instruments the way Western banks do, and they are not systemically important in Europe, thus they are not 'agents of change' (Hardie and Howarth 2013), meaning that they are mostly passive actors and do not have a significant part in shaping financial spaces.

However, there is a more nuanced perspective that could be adopted, considering banks' infrastructural power and China's long-term strategies to intensify financial cooperation with the EU, not least considering the process to reach the EU-China Comprehensive Agreement on Investment (EU Commission 2020). This perspective deserves more research at both the theoretical and empirical levels. It starts from the observation that banks have infrastructural power. Differently from any other type of firm, they strengthen this power when they become an essential part of a network of banks (Werner 2022), especially with regard to the interbank market, where the interdependency between banks reveals their constant financial interactions—interbank borrowing and lending—to manage their reserves and hence operate in the economy. This resembles the 'order that exists beneath the chaotic surface of space' (Lefebvre 1991: 366). Being part of this financial infrastructure might be the goal of all Chinese banks operating in Europe; however, their conditions are actually very different one from the other. Bank of China, for instance, is definitely at an advanced level of cooperation with the EU banking system, as the participation in the state-guarantee Covid-19 loan scheme in Luxembourg has demonstrated. Being part of such mechanisms does not mean 'reshaping' financial spaces, but surely means participating in the co-construction of financial spaces in Europe. In the next section, I discuss the potential implications of this point.

CHINA'S UTOPIAN PROJECT AND LUXEMBOURG'S POSITIONALITY

Chinese financial activity in Europe is still limited, but Chinese bank networks are wide and physically present in many European countries. Hence, Chinese bank networks in Europe are still at an embryonic stage and are set to increase their financial activity in the coming years. Arguably, Chinese banks operating in Europe in general, and the newcomers in particular, are still in a learning process. They need to compensate for the lack of knowledge, especially with regard to the fragmentation of the EU financial sectors (Howarth and Quaglia 2016), with the help of local globally operating financial and legal advisors. Concomitantly, this early stage involves reputation building. Chinese banks' reputation in Europe has been hit by scandals (Aguado and Pinedo 2020) and failure (Marques et al. 2017). However, Chinese banks are increasingly attractive, according to interviewees, because they are highly profitable and are a potential gateway to Chinese domestic financial markets. This attractiveness suggests that Chinese banks could expand part of their business despite geopolitical tensions.

Even though Chinese banks in Europe are at an embryonic stage, this does not mean that they do not have a long-term project that entails the reshaping of European financial spaces. Building a 'financial bridge' between the EU and China that would increase economic and financial

cooperation between the two markets implies an expansion of Chinese financial activities, including, for example, the increasing use of the RMB. Beyond the acquisition of strategic assets and the concerns this has raised in the EU (cf. Svetlicinii 2020), the expansion of RMB businesses can be ascribed to 'those forces that run counter to a given strategy and occasionally succeed in establishing a "counter-space" within a particular space' (Lefebvre 1991: 367). The creation of this counter-space as an 'initially utopian alternative' (Lefebvre 1991: 349) resonates in the conceptualisation of China's financial spaces in Europe being at an embryonic stage that I advance in this dissertation. It seems unlikely that Chinese banks will create a counter-space—here meaning a hostile consolidation of financial practices aimed at, for instance, systematically increasing the use of the RMB and eventually substituting the US dollar or lay the foundations of a new axis in the global financial network, which would result complementary to the New York-London (NY-LON) axis (cf. Wójcik 2013). While these hypotheses may result true in a very long run, the limited amount of activity detected in this dissertation suggests that Chinese financial agency in Europe cannot challenge the NY-LON power for the time being. However, these practices will increase in volume in the future, not least because of Western investors willing to expand into new financial markets (see Chapter 4). In turn, China's financial spaces—as the spaces where Chinese financial actors cooperate and compete in Europe without any explicit hostility—will expand along with the interconnection between European and Chinese financial markets.

In this perspective, places where Chinese banks ground their financial activity, such as Luxembourg, are likely to consolidate their positionality—understood 'as a way of capturing the shifting, asymmetric, and path-dependent ways in which the futures of places depend on their interdependencies with other places' (Sheppard 2002: 308). Luxembourg is well-positioned to develop new 'Chinese' financial markets and increase its weight as an emerging key financial centre in the EU and a platform to channel Chinese investments to Europe and vice versa. Luxembourg's positionality and China's financial spaces in Europe depend, in part, on how geopolitical frictions between China and the West will evolve in the near future. However, this dissertation provides only a partial picture of China's presence in European financial spaces. To better understand potential future scenarios other case studies deserve to be explored.

First, the acquisition of European commercial banks by Chinese corporations deserves more attention. By acquiring European banks, Chinese corporations take control of key actors and financial infrastructures in Europe. These acquisitions have already produced start-ups and collaborations in various sectors such as fintech and regtech. In turn, the potential access to Chinese financial markets for these European actors is clearly a great opportunity. A second important research avenue envisions Chinese development banks' investment in Europe. Chinese development banks are expanding their investment activity in Europe and increasingly use European stock exchanges—the Luxembourg Green Exchange, for instance—to list their bonds

and raise capital for their operations beyond Europe. This increasing financial cooperation between Europe and China depends on future economic and (geo)political developments, and analysing it may help to better understand potential future scenarios.

Beyond contributing to the literature on China in Europe, this dissertation advances a theoretical contribution on the importance of banks—of their spatial organisation and their role as financial infrastructure—to understand the mechanisms that enable capital to flow across regions. Banks are systemically important for several reasons. Importantly, they are creators of credit and not only credit intermediators (Werner 2005, Ryan-Collins et al. 2017). Despite work on bank power (e.g., Macartney et al. 2020), banks' infrastructural power in connecting territories via networks of branches and subsidiaries has attracted little attention. In this dissertation, I provide the example of banks as financial infrastructure—the branch and subsidiary networks that enable capital to flow across regions (Chapter 2). Starting from this study on banks' infrastructural power and considering banks as the source of credit, I suggest that analysing banks' spatial organisation provides a clear starting point to 'follow the money', a method often invoked by scholars from various disciplines to understand uneven development and more in general how economies are organised. Banks' spatial organisation, combined with their capability to create credit, provides a powerful tool to follow the money and understand how economies are organised. This assumption needs to be tested consistently through both theoretical and empirical work. Further research on and beyond the example of China's economic expansion to Europe through wide bank branch and subsidiary networks can be valuable to better understand the basic mechanisms of capitalism. An analysis of how banks strategically place their affiliates across regions to produce and allocate resources is a valuable starting point to understand how money flows—or not—and how both private and state-owned banks use the same essential capability to create credit and shape (financial) spaces.

By acknowledging the role of banks in creating new financial spaces and sustaining economic expansion beyond national borders, the geopolitical dimension of banking arises fundamental questions about the agency of Chinese banks in Europe. While the attention of scholars, policymakers and mass media is mostly focused on Chinese corporations and the infrastructure projects of the BRI, the commercial and development banking system is the lynchpin on which the entire Chinese expansionary architecture stands, as this dissertation well demonstrates. Consequently, the organisation of Chinese bank networks in Europe is a sensitive topic for European observers as it is directly connected to the geopolitical dimensions of Chinese economic expansionism through the BRI and the quest for knowledge and technology advancement in China. Chinese banks, directly or indirectly, sustain China's BRI. In the meanwhile, increasing geopolitical frictions are changing the relationship between China and Europe in general (Babić and Dixon 2022). The BRI is suffering unexpected events such as the war in Ukraine, economic

crises, and social unrest in countries such as Pakistan and Sri Lanka or deteriorating political environment in the Horn of Africa. Even though the circumstances may bring the BRI to an end, at least as we know it today, China's interest in connecting Europe to China via enhanced usability of air- and seaports and logistics will not decrease, as the continuous placement of FDI suggests (MERICS 2022). Chinese banks with their wide European networks will keep on sustaining the evolution of economic cooperation between China and Europe. They have set their networks in a way that make them able to progressively open new avenues of economic and financial 'integration'. Chinese banks and China's state are in the position to decide the pace and setting the agenda of this progressive opening, which in turn represents the benefit of having Chinese banking heavyweights physically clustered in European jurisdictions such as Luxembourg. Against this background, it is not surprising that Luxembourg, in 2022, granted China the right to offer financial services as an EU-equivalent country (Luxembourg Times 2022, July 28).

The findings in this thesis suggest that the mismatch between the timing expected by European political and economic actors and the slow progresses of Chinese banks' business expansion represent an underlying cause of friction and potential misunderstanding between the parties. China's 'utopian' project to connect China to Europe through strong financial ties is linked to a hypothetical Luxembourg's 'utopian' project—here again, in a Lefebvrian sense, referring to a project, in this case to build a financial bridge between China and Europe, alternative to the existing hierarchical structure of the global financial network—to become the gatekeeper to Chinese financial markets in Europe. Space / time asymmetries between Chinese and European state and financial actors influence socioeconomic interactions, and in turn influence the evolution of structures as both the means to build economic systems and the outcome. These dynamics develop in a multiscale dimension where Chinese banks and Luxembourg are embedded and strictly intertwined to global geopolitical frictions. This thesis demonstrates that economic and financial geography contribute to the understanding of how economy and finance are organised and particularly to how China-Europe economic integration is developing with its potential implications in a world in transition towards a post-globalisation order.

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ANNEX

CHRONOLOGY OF CHINA-LUXEMBOURG FINANCIAL RELATIONS

YEAR	KEY EVENTS
1972	China-Luxembourg diplomatic relationship established
1979	First Luxembourg State visit to China by Grand Duke Jean Adolphe Frank donates rail patents to Mao Zedong Bank of China (BOC) establishes a branch in Luxembourg
1991	BOC establishes a subsidiary in Luxembourg
1998	First MoU on securities between financial regulators CSSF and CSRC The Industrial and Commercial Bank of China (ICBC) establishes a representative office in Luxembourg
1999	ICBC's representative office becomes a bank branch
2006	Agreement between Luxembourg Stock Exchange (LuxSE) and Shanghai Stock Exchange
2008	MoU on banking between CSSF and CBRC (It allows QDIIs to invest in CSSF's regulated financial products and opens UCITS distribution through the QDII scheme in Mainland China
2010	Luxembourg's pavilion (designed by Luxembourg architect Valentini) at the Expo in Shanghai receives more than 7 million visitors.
2011	ICBC establishes a subsidiary in Luxembourg, which in turn establishes 5 branches in Europe (Madrid, Paris, Amsterdam, Brussels, Milan) First UCITS RMB bond fund to invest up to 100% of its assets in Hong Kong RMB OTC bond market
2012	CSSF and CSRS sign a new MoU on securities

2013	China Construction Bank (CCB) establishes a branch and a subsidiary in Luxembourg LuxSE and Shenzhen Stock Exchange (SZSE) sign an MoU China-Luxembourg Chamber of Commerce is established Launch of the first RQFII UCITS First UCITS to invest up to 100% of its assets in China A-share under the RQFII scheme
2014	Agriculture Bank of China (ABC) establishes a branch and a subsidiary in Luxembourg The People's Bank of China (PBC) grants ICBC the license for RMB clearing in Luxembourg ICBC signs an MoU with LuxSE BOC issues the first Schengen bond on LuxSE Luxembourg's government sells 35% of Cargolux to China's HNCA Cargolux performs the first direct flight from China (the so-called 'Air Silk Road') CSSF regulates investments into the China Interbank Bond Market (CIBM) Investment fund associations ALFI and AMAC sign an MoU Luxembourg UCITS receive authorisation to invest through SH-HK Stock Connect British Columbia is the first foreign government to issue a RMB bond on LuxSE
2015	China Merchants Bank (CMB) establishes a branch in Luxembourg Establishment of the Asian Infrastructure Investment Bank (AIIB): Luxembourg is the first to join from the Eurozone $50 bn RQFII quota granted to Luxembourg First Luxembourg-based Chinese investment fund to use the RQFII quota First use of CIPS (China's international payment system) for a RMB clearing transaction in Luxembourg
2016	AIIB opening ceremony - Luxembourg Ministry of Finance (Pierre Gramegna) is the first Western representative to speak Launch of Luxembourg Green Exchange (LGX) BOC is the first Chinese bank to issue a green bond on the LGX MoU between ACA (Luxembourg) and IAC (China) China Everbright Bank (CEB) and Shanghai Pudong Development Bank (SPDB) confirm the opening of a branch in Luxembourg

	China Bank of Communications (CBC) establishes a branch and a subsidiary in Luxembourg and signs an MoU with LuxSE CMB signs an MoU with LuxSE First two Chinese RQFII UCITS ETFs - both listed in LuxSE and London Stock Exchange Qianhai Financial Holdings and LuxSE sign an MoU
2017	CEB establishes a branch and a subsidiary in Luxembourg The PBC does not grant SPDB the license to open office in Luxembourg LuxSE and SZSE launch the CUFE-CNI Green Bond Index Series Luxembourg Prime Minister (Xavier Bettel) and Ministry of Finance (Pierre Gramegna) in China - MoU between NIFA and LHoFT Luxembourg RMB Forum PingPong establishes a subsidiary in Luxembourg
2018	Cooperation agreement between Luxembourg Ministry of Economy and CNSA The European Investment Bank launches the EU-China investment platform under the Juncker Plan China UMS (payment services) establishes a subsidiary in Luxembourg AliPay establishes a subsidiary in Luxembourg Luxembourg and China bank associations, ABBL and CBA, sign an MoU Legends Holding acquires Luxembourg's bank BIL Saxo Payments Banking Circle establishes a subsidiary in Luxembourg (China's Geely owns a 52% share of Saxo Bank) LHoFT and China's DeepBlue Technology sign an MoU LuxSE and China Central Depository and Clearing sign an MoU
2019	Luxembourg hosts the firs AIIB's global summit outside of Asia China Finance Forum (former Luxembourg RMB Forum) LuxSE and SSE launch the Green Bond Channel
2020	BOC participates to Luxembourg's state-guaranteed Covid-19 loan scheme
2021	CMB establishes a subsidiary in Luxembourg
2022	Luxembourg grants China the right to offer financial services in Luxembourg as an EU-equivalent country

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