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Systemic Risk Transmission and Stratified Resilience in China's Banking Sector under Trade Frictions: Evidence from Executive Interviews across Different Types of Banks

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Abstract

Since 2018, the China–U.S. trade war has become a major source of uncertainty in the global economy and has also had significant implications for China's financial system. This paper examines how the spillover effects of the trade war translate into systemic risk within the banking sector, with particular attention to the heterogeneous responses of banks of different sizes and ownership structures. Based on in-depth interviews with senior executives from large state-owned banks, national joint-stock banks, and small local banks, this study applies thematic analysis to identify two main transmission channels through which external economic shocks affect banks, including disruptions in export-related demand and client repayment capacity. The findings suggest that large state-owned banks are relatively less exposed due to their diversified client base and stronger risk-buffering capacity, whereas local banks face more pronounced credit risk pressures, largely driven by their concentrated sector exposure and more limited access to stabilizing financial instruments during periods of stress.

Keywords

trade war, systemic risk, banking, qualitative interviews

1. Introduction

Since 2018, following the Trump administration's launch of the "Section 301 Investigation" targeting Chinese imports, China–U.S. trade relations entered a new phase of sustained friction. This period has been widely regarded as marking a resurgence of protectionist measures at the global level.

The evolution of trade tensions can be broadly divided into three stages. The first stage began in July 2018, when the United States imposed a 25% tariff on approximately $34 billion of Chinese goods, signaling the formal onset of large-scale trade confrontation. During this period, the impact was primarily concentrated in export-oriented firms directly exposed to U.S. markets.

The second stage emerged in May 2019, when tariffs on roughly $200 billion of Chinese exports were increased from 10% to 25%. At this point, the effects began to propagate more deeply through global value chains, affecting not only final exporters but also upstream and midstream suppliers.

The third stage started with the signing of the "Phase One" economic and trade agreement in January 2020. Since then, the bilateral relationship has gradually shifted from tariff escalation toward a more persistent form of strategic economic competition, including technology restrictions and regulatory measures.

Table 1: Comparison of Asset Quality of Chinese Commercial Banks in 2024

Category	Indicator	Value	Source
Industry Overall	Average NPL Ratio of Commercial Banks	1.50%	(NFRA, 2024)
Bank Type	NPL Ratio of Large Commercial Banks	≈1.25%	(NFRA, 2024)
Bank Type	NPL Ratio of Rural Commercial Banks	≈3.34%	(NFRA, 2024)
Key Industry	NPL Ratio of Real Estate Sector (affected by both trade and macro cycles)	4.94%	(PBOC/Bank Annual Reports, 2024)
Risk Coverage	Provision Coverage Ratio of Commercial Banks	211.19%	(NFRA, 2024)

Amiti et al. [1] (2019) argue that U.S. tariffs on China generate significant indirect economic effects, with a substantial portion of the costs ultimately borne by the importing country and transmitted to the real economy through higher prices of intermediate and final goods. This transmission compresses corporate profit margins and leads firms to scale back investment in the context of weaker demand and heightened uncertainty. Similarly, Caldara et al. [2] (2020) show that trade policy uncertainty dampens economic activity and increases macroeconomic volatility through expectation channels, while also affecting risk premia in financial markets. Together, these findings suggest that trade shocks operate not only through real economic channels but also through financial market mechanisms that influence systemic risk.

As the literature has expanded, the analytical focus has gradually shifted from individual firms to production networks and supply chain structures. Huang et al. [3] (2019) emphasize that within global value chains, firms are more strongly affected by indirect trade exposure than by direct export shocks, highlighting the importance of industrial linkages in risk transmission. Li Zheng et al. [4] (2024) further show that trade policy uncertainty increases tail risk across Chinese industries, with more pronounced effects in sectors characterized by higher network connectivity. From a theoretical perspective, Acemoglu et al. [5] (2012) in the American Economic Review demonstrate that micro-level shocks can be amplified through production networks and propagate into aggregate fluctuations, providing a key framework for understanding the diffusion of trade shocks along supply chains.

In the financial sector literature, most studies examine the interaction between bank behavior and macro-financial conditions. Angeloni et al. [6] (2015) argue that accommodative monetary policy may increase bank leverage by reducing financing costs, thereby amplifying systemic risk. Roy [7] (2025) further decomposes trade-related shocks into multiple channels, including credit, market, and liquidity risk. Building on this perspective, Caldara et al. [2] (2020) find that trade policy uncertainty affects bank lending behavior by tightening firms' financing constraints and altering perceived risk exposure, thereby reshaping risk allocation within the financial system.

With regard to bank heterogeneity, Carletti et al. [8] (2024) show from a market power perspective that larger banks tend to adopt more conservative strategies. Li Feifei and Xue Ruile [9] (2025) find that local government debt expansion exerts stronger risk pressure on small and medium-sized banks. Yue Hua et al. [10] (2020) further suggest that managerial capability plays a decisive role in banks' ability to create liquidity.

Interview evidence further indicates that different types of banks have developed a differentiated risk-buffering structure in response to trade shocks. Large state-owned banks maintain relatively low non-performing loan (NPL) ratios of around 1.25%, which is largely associated with their scale advantages and diversified business portfolios. Joint-stock banks appear more sensitive to market fluctuations, as they are able to capture changes in export orders through supply chain finance instruments and mitigate exchange rate exposure using foreign exchange hedging tools. By contrast, rural commercial banks and city commercial banks, whose operations are more closely embedded in local export-oriented industrial chains and who have more limited access to risk management instruments, exhibit higher NPL ratios of up to 3.34% (NFRA [11], 2024).

Building on this empirical observation, several gaps in the existing literature become more apparent. First, the transmission channels through which trade shocks propagate into the banking system have not been systematically mapped. Most studies treat trade shocks, corporate risk, and bank risk as separate layers, without fully addressing the intermediary role of supply chain networks. Second, micro-level evidence on how banks perceive and process risk remains limited. Existing research largely relies on macro data or econometric inference, while the internal process through which banks interpret signals such as order flows, payment terms, and industrial chain positions is still not well understood, leaving the formation of risk largely as a "black box." Third, although differences in bank behavior are widely documented, much of the literature focuses on outcome heterogeneity rather than the underlying mechanisms driving differences in risk perception and strategic decision-making.

To address these gaps, this paper draws on frontline interview data and develops an analytical framework of "macro shock–network transmission–risk perception–strategic response." The framework is used to trace how trade friction shocks are transmitted within the banking system and to explain how heterogeneous banking institutions generate differentiated forms of systemic resilience.

2. Research Design and Interview Methodology

2.1 Sample Selection and Interview Process

The sample was selected with consideration of institutional coverage, regional variation, and relevance to foreign trade exposure. It includes major state-owned commercial banks (Industrial and Commercial Bank of China, Agricultural Bank of China, Bank of China, China Construction Bank, and Bank of Communications), as well as national joint-stock banks, city commercial banks, and rural commercial banks. To capture perspectives at the decision-making level, interviewees were mainly senior executives, including bank presidents and heads of risk management and corporate banking departments, drawn from approximately 9 to 12 banks. The selected institutions cover both economically developed export-oriented regions such as the Yangtze River Delta and Pearl River Delta, as well as central and western provinces. Banks with relatively large asset scales and significant overseas exposure were also included to improve representativeness.

The interviews were conducted primarily in a semi-structured format, using a combination of online and in-person modes. Each interview lasted approximately 40 to 60 minutes. Prior to data collection, participants were contacted through industry associations or direct professional networks, and the purpose of the study was explained. With consent, all interviews were audio-recorded and supplemented with field notes. After each session, recordings were transcribed and merged with notes to form a consolidated dataset for subsequent analysis.

2.2 Interview Outline Design and Ethical Considerations

The interview guide was developed on the basis of existing literature and the specific research questions of this study. It focuses on participants' perceptions of trade war impacts, mechanisms of risk transmission, bank-level risk management practices, understandings of systemic financial risk, and the heterogeneous effects on different types of financial institutions. A combination of structured and open-ended questions was used to ensure consistency in core information while allowing space for interviewees to elaborate on their experiences and interpretations. Prior to the formal fieldwork, a pilot interview was conducted to refine question clarity and reduce potential ambiguity.

Ethical considerations were integrated throughout the research process. Before each interview, participants were informed of the purpose of the study, the procedure, and their rights as respondents, and informed consent was obtained on a voluntary basis, including the option to withdraw at any time. To protect confidentiality, both institutional and personal identifiers were anonymized in all transcripts and subsequent analysis, with real names replaced by categorical labels. All data were used exclusively for academic purposes, stored in encrypted form, and managed in accordance with standard research data protection requirements.

2.3 Data Coding and Thematic Analysis

The coding process was guided by the analytical framework of "macro shock–network transmission–micro response" developed in the literature review, and further adjusted in line with the specific research questions. To assist the organization and visualization of qualitative data, structure mapping tools were used during the analytical process. To improve reliability, a dual-coding procedure was adopted in which two researchers independently coded the same interview transcripts and subsequently compared their results. Any discrepancies were resolved through discussion until consensus was reached.

Open coding was first conducted on the interview materials. After removing filler expressions, repetitions, and irrelevant content, the transcripts were examined line by line to identify meaningful statements. Key expressions related to shock perception, transmission channels, risk management practices, and institutional characteristics were extracted and assigned preliminary codes, with attention paid to preserving variation in respondents' wording and avoiding unnecessary aggregation at this stage.

Axial coding was then used to reorganize the initial codes in relation to the analytical dimensions derived from the literature, including real economy transmission, financial condition adjustment, and bank heterogeneity. These were gradually consolidated into four main thematic categories: "Perception of Trade War Shocks," "Risk Transmission Channels," "Risk Management Strategies," and "Differences Among Bank Types." The resulting categories were reviewed to ensure that no major conceptual dimension of the interviews had been overlooked.

Thematic analysis was ultimately oriented toward addressing the gaps identified in the literature, particularly the mechanisms through which risk perceptions are formed and translated into action across different types of banks. Rather than treating these categories as fixed structures, the analysis focused on their interconnections and variations across institutions, thereby providing an empirical basis for the subsequent discussion.

3. Theoretical Expectations

In the context of global production networks, the effects of trade frictions on the financial system are unlikely to remain confined to firms directly engaged in import and export activities. Instead, they tend to propagate through production and transaction linkages within industrial chains. When tariff shocks reduce external demand, export-oriented firms experience rising operational pressure, which is then transmitted to upstream and downstream partners through reduced order volumes, longer payment cycles, and cost adjustments. Such processes generate a network-based diffusion of risk along the supply chain. The transmission of tariff shocks is not uniform across firms. Differences in bargaining power, technological capabilities, and positions within the value chain lead to asymmetric adjustment patterns. Firms with stronger technological advantages or upstream positioning are generally better able to pass costs downstream, whereas firms in lower value-added or more competitive segments are more likely to absorb shocks through margin compression. As a result, the impact of trade frictions on bank credit risk is more plausibly reflected in the accumulation of indirect pressures transmitted through supply chain networks, rather than being driven by isolated shocks from individual exporting firms.

Against this background, banks differ significantly in how such risks are perceived and managed. Large banks, characterized by diversified client portfolios and more stable funding structures, tend to rely more on macroeconomic conditions and industry-wide indicators in their risk assessment. Market-oriented banks, with deeper involvement in supply chain finance, are more sensitive to micro-level signals such as order flows and settlement patterns, which allows them to capture emerging risks earlier along the industrial chain. By contrast, regional banks are more closely tied to local economic structures and small and medium-sized enterprises, making their risk exposure more directly linked to regional industrial conditions. Taken together, these differences suggest that the banking system does not respond to trade shocks in a uniform manner. Instead, heterogeneous institutions absorb and process risk through distinct channels, resulting in a stratified pattern of risk absorption that contributes to the overall resilience of the financial system under external shocks.

4. Data Analysis

Drawing on the perceptions of frontline banking employees regarding trade frictions and systemic risk across different types of financial institutions (see Tables 2, 3, and 4), and based on a comparison among state-owned banks, joint-stock banks, and city commercial banks, the evidence suggests that the impact of trade frictions on China's banking system is not best understood as a uniform shock. Rather, it operates through a set of structurally embedded and heterogeneous risk formation processes. Across different types of banks, there are noticeable variations in how risks are perceived, how potential vulnerabilities are identified, and how responses are organized. These differences do not eliminate systemic exposure, but they shape distinct pathways through which risks are absorbed and managed within the banking system, contributing to a differentiated pattern of resilience under external shocks.

Table 2:

Interview Module	Research Question	Representative Original Statements (Evidence)	Inductive Concept	Theme	Core Code
Perception of Trade Shocks	Risk Transmission Mechanism	"Risk does not exist in isolation; it spreads through upstream and downstream relationships in the industrial chain."	Trade shocks diffuse level by level through the industrial chain	Networked risk transmission via supply chains	Industrial chain; risk transmission
Perception of Trade Shocks	Supplier Risk Exposure	"Suppliers of export enterprises are more obviously affected, with extended accounts receivable cycles."	Non-direct export enterprises are also affected by trade shocks	Implicit supply chain risk exposure	Network effects; supply chain risk
Perception of Trade Shocks	Tariff Cost Pass-through Capacity	"Many enterprises cannot fully pass on tariffs and can only compress profit margins."	Enterprises' bargaining power determines the degree of cost pass-through	Profit margin compression	Price transmission; profit compression
Bank Risk Management	Risk Identification Mechanism	"Banks not only focus on individual enterprises but also identify risks from an industrial chain perspective."	Banks identify potential risks from an industrial chain perspective	Industrial chain perspective in risk control	Industrial chain identification; risk assessment
Bank Risk Management	Credit Process Control	"The three checks (investigation, review, inspection) form a closed-loop credit risk control."	Standardized processes strengthen risk control	Credit process governance	Three checks on loans; credit closed loop
Bank Risk Management	Risk Customer Management	"For customers showing risk signals, we implement list-based management and one-account-one-policy."	Personalized risk resolution and dynamic monitoring	Refined risk management	List-based management; one-account-one-policy
Macro Policy Influence	Monetary Policy Influence	"Banks adjust resource allocation according to central bank policies, such as developing inclusive finance."	Monetary policy is transmitted to the real economy through banks' strategies	Policy-oriented strategic adjustment	Monetary policy; resource allocation
Macro Policy Influence	Foreign Exchange Risk Management	"Banks can provide enterprises with hedging products such as forward contracts."	Foreign exchange derivatives are used to reduce trade risks	Exchange rate risk management	Forward contracts; exchange rate hedging
Systemic Risk Cognition	Risk Sources	"Trade shocks are mostly transmitted indirectly through supply chains."	Indirect supply chain risks outweigh direct export risks	Indirect risk exposure	Supply chain transmission; asset quality
Bank Operating Pressure	Sources of Profit Pressure	"Deposit growth is sluggish, liability costs are rising, and loan spreads are narrowing."	Dual squeeze on both asset and liability sides	Balance sheet structural pressure	Liability costs; narrowing spreads

Future Risk Judgment	Banking Sector Risks	"Credit risk remains the main risk for the banking system in the future."	Bank risks exhibit structural characteristics	Credit risk dominance	Credit risk; structural risk

Table 3:

Analysis Dimension	City Commercial Banks	Large State-owned Banks	Joint-stock Banks	Cross-case Comprehensive Conclusion
Risk Transmission Mechanism	Risks mainly transmitted through local industrial chain upstream and downstream	Impacts more pronounced in technology-intensive industrial chains	Rising risks for SMEs in upstream supply chains	Trade shocks exhibit networked diffusion through supply chains
Price Pass-through Capacity	Most enterprises struggle to fully pass on tariffs	Enterprises' bargaining power depends on technological barriers	Leading enterprises have stronger pass-through capacity	Industrial chain position determines price pass-through capacity
Credit Risk Management	Emphasis on industrial chain identification and list-based management	Strengthened cash flow analysis and post-loan management	Adjusted credit structure to reduce foreign trade exposure	Banks generally strengthened industrial chain perspective in risk management
Foreign Exchange & Policy Response	Resource allocation adjusted according to central bank policies	Strict implementation of regulatory policies and provision of hedging products	More prudent cross-border fund management	Monetary and foreign exchange policies are important institutional constraints on bank risk management
Systemic Risk Cognition	Systemic risk depends on local industrial structure	Overall stability of the banking system is strong	Industry risks diffuse through supply chains	The banking system as a whole has relatively high resilience
Sources of Operating Pressure	Dual squeeze on asset and liability sides	Stable deposit base	Balancing pressure between regulatory indicators and risk control	Different banks differ in liability structure and scale advantages
Competition & Strategic Positioning	Leverage localization advantages to improve decision-making efficiency	Steady operation relying on scale and institutional advantages	Enhance competitiveness through product innovation	Bank competitive advantages stem from scale, institutions, and localized services
Future Risk Judgment	Credit risk is the main source of risk	Trade shock impact is limited but shows industry differences	Structural risks related to government debt	Bank risks exhibit structural characteristics

Table 4:

Theme No.	Core Theme	Theoretical Keywords
T1	Networked risk transmission via supply chains	supply-chain transmission
T2	Asymmetric bargaining power and profit compression	bargaining power, profit compression
T3	Industrial chain perspective in credit decision-making	supply-chain credit assessment
T4	Institutional policy constraints	institutional governance
T5	Bank asset-liability pressure	balance-sheet pressure
T6	Institutional resilience of the banking system	systemic resilience
T7	Structural evolution of trade shocks	structural risk transformation

Interview evidence suggests that the transmission of trade frictions to bank credit quality is not primarily driven by firms directly engaged in import and export activities. Instead, it unfolds gradually through supply chain networks, operating as a form of network-mediated risk propagation. Among state-owned bank employees, trade frictions are not perceived as triggering abrupt systemic stress through asset price volatility

or liquidity shocks. Rather, risk is understood as being passed along industrial linkages in a stepwise manner. Several interviewees pointed out that upstream firms with stronger bargaining power are often able to transfer tariff costs downstream, while midstream processors face simultaneous pressure from cost transmission and delayed payments. Risk therefore tends to accumulate at structurally vulnerable nodes within value chains rather than spreading evenly across sectors. A key factor shaping this process is the heterogeneity in firms' ability to absorb or pass through tariff shocks. According to interviewees, this capacity is closely linked to firms' position in the industrial chain and the level of technological barriers in their industry. Firms with stronger technological capabilities or market dominance are more likely to shift costs downstream, whereas firms operating in more competitive or low-margin sectors tend to absorb shocks through profit compression.

Despite a shared recognition of these transmission channels, banks differ markedly in how such risks are observed and interpreted. Large state-owned banks tend to assess risk primarily through industry structure and macro-level changes, relying on broad sectoral performance rather than individual export exposure. Interviewees noted that high-tech manufacturing and "specialized, refined, distinctive, and innovative" firms generally exhibit stronger resilience to trade frictions, while asset-light service industries are more sensitive to external demand fluctuations. Joint-stock banks, by contrast, are more directly exposed to supply chain finance activities and therefore place greater emphasis on network-based risk signals. Their risk perception is closely tied to developments at logistics, order, and settlement nodes, allowing earlier identification of delayed or embedded risks within supply chains. City commercial banks exhibit a more regionally embedded risk perception pattern. Their exposure is largely concentrated within provincial industrial chains, and risk transmission is mainly associated with local small and micro enterprises, making the effects more localized rather than nationally diffused.

Differences are also evident in risk identification logic. State-owned banks rely less on single indicators such as export dependence and more on long-term relational banking practices, incorporating cash flow stability, credit history, and overall business structure into their assessment framework. City commercial banks have increasingly incorporated an industrial chain perspective, extending analysis beyond individual firms to upstream and downstream conditions, and adopting list-based credit management to enhance screening precision. Joint-stock banks, in comparison, rely more heavily on high-frequency data and market signals, including order fluctuations, logistics indicators, and exchange rate sensitivity, and adjust their credit exposure accordingly by reducing lending to high-risk export-oriented firms and reallocating resources toward domestic demand and technology-driven sectors.

In terms of risk governance, institutional constraints and organizational flexibility shape distinct response patterns. State-owned banks tend to operate within centrally aligned regulatory frameworks, relying on conservative credit approval processes, strengthened post-loan monitoring, and increased field inspections to manage emerging risks rather than adjusting credit strategies aggressively. Joint-stock banks combine regulatory compliance with market-oriented instruments, including foreign exchange hedging, credit restructuring, and portfolio adjustment. City commercial banks, benefiting from relatively decentralized decision-making structures, are able to respond more quickly in credit approval and risk disposal, relying on differentiated lending practices and higher liquidity buffers to maintain local credit stability.

At the system level, these differentiated behaviors contribute to distinct functional roles within the banking sector. Large banks, supported by scale advantages and sovereign backing, play a stabilizing role during periods of external shock, providing counter-cyclical credit support. Joint-stock banks operate through a balance between market responsiveness and risk control, supported by diversified funding structures. City commercial banks, however, are more tightly bound to local economic conditions, and their risk-bearing capacity is largely shaped by regional industrial structure and the financial health of small and micro enterprises.

Interview evidence suggests that the effects of trade frictions on China's banking system are not primarily reflected in abrupt financial market volatility. Instead, they tend to be absorbed and redistributed within the system through industrial chain linkages, bank–enterprise relationships, and institutional arrangements. Across different types of banks, variations in risk perception, identification practices, and governance approaches jointly shape a differentiated resilience structure under the interaction between state influence and market mechanisms. While this structure contributes to short-term financial stability, it may also be associated with

the gradual accumulation of pressures in weaker segments of industrial chains and more vulnerable regional economic nodes, where risks tend to emerge in delayed and less visible forms.

Based on the systematic organization and thematic coding of semi-structured interview data from practitioners across the three categories of banks, several core themes were identified. The analysis began with interview responses concerning trade war impacts, risk management practices, and the macro policy environment. These materials were progressively condensed into analytical categories, moving from descriptive statements to more abstract thematic patterns. The final coding results highlighted several recurring dimensions, including supply chain-based risk transmission, differences in price pass-through capacity, bank-level risk management strategies, institutional and regulatory constraints, and overall banking system stability.

Taken together, the findings indicate that trade shocks extend beyond firms directly engaged in import and export activities. Their effects are transmitted through industrial networks, ultimately influencing bank credit quality, liquidity conditions, and profitability structures. At the same time, banks have generally strengthened their reliance on industrial chain-based analysis in credit assessment, enhanced both pre-loan screening and post-loan monitoring, and increasingly used foreign exchange hedging instruments to manage exposure. Institutional factors—including central bank monetary policy, macro-prudential regulation, and internal governance mechanisms—also play an important role in moderating risk transmission and providing a stabilizing buffer for the banking system. Rather than serving as a purely descriptive summary, this section reflects how interview material was transformed into analytical categories and, subsequently, into conceptual relationships. It provides the empirical basis for the analytical framework developed in this study, which links trade shocks, risk transmission processes, bank-level behavioral responses, and institutional governance mechanisms.

5. Discussion and Implications

The trade friction between China and the United States is not simply a macroeconomic shock. Interview evidence suggests that its effects operate through industrial chain linkages and are gradually transmitted across different layers of the banking system, where they are absorbed and reallocated rather than immediately reflected in financial aggregates. In this sense, the risks associated with trade frictions extend beyond tariff impacts on exports and are more clearly reflected in slower-moving channels such as payment cycles, profit compression, and the financial conditions of upstream and downstream firms that are indirectly exposed to international trade.

This pattern of transmission helps explain why the resilience of China’s banking system appears differentiated rather than uniform. Large state-owned banks, supported by stronger balance sheets and long-standing relationships with large corporates, tend to maintain stability through broad sectoral exposure and continued credit support in strategic areas. Their role is often described in practical terms by interviewees as providing a stabilizing function during periods of external uncertainty. Joint-stock banks, with closer ties to market activity, are more sensitive to high-frequency signals such as order changes and cash flow fluctuations. They adjust credit allocation more actively and make use of financial instruments such as hedging products to manage exposure. City commercial banks, by contrast, are more closely embedded in local economies, where risk control relies heavily on proximity to clients and more granular lending arrangements, including differentiated credit policies at the account level.

Overall, the interviews suggest that external shocks are rarely transmitted directly into the core of the banking system. Instead, they are gradually filtered and redistributed through multiple institutional and organizational layers. This process does not eliminate risk, but it changes its form and timing, shifting from immediate exposure to more delayed and localized manifestations.

These findings also imply a shift in how risk is perceived within banks. Traditional indicators such as export dependence or balance sheet ratios appear insufficient to fully capture emerging vulnerabilities. Interviewees increasingly emphasized the importance of understanding firms within their broader industrial and relational context, including their position in supply chains, their dependence on key counterparties, and the stability of their business networks. From this perspective, risk assessment is gradually moving away from isolated financial indicators toward a more network-oriented understanding of firm behavior and interdependence. This

shift reflects an attempt to better capture the complexity of risk transmission under conditions of heightened external uncertainty.

6. Policy Recommendations

This study contributes to the understanding of how trade frictions affect the banking system by focusing on the micro-level perceptions of frontline practitioners. Rather than treating banks as a homogeneous entity, the analysis highlights differences in how state-owned banks, joint-stock banks, and city commercial banks perceive and respond to external shocks. These differences help to illustrate how risk is transmitted across borders and regions, and how it is gradually absorbed within industrial chains rather than concentrated at a single point in the financial system. From this perspective, the findings offer an empirically grounded account of how risk is distributed in a more layered and uneven manner across China's banking structure, complementing existing macro-level studies with more granular evidence from practice.

In practical terms, the results suggest that risk management strategies may benefit from greater differentiation across bank types. For large state-owned banks, this may involve further refinement of counter-cyclical credit allocation, particularly in strategic sectors. For joint-stock banks, improving the use of market-based risk management tools, including hedging instruments and portfolio adjustment mechanisms, appears increasingly important. For city commercial banks, the emphasis remains on strengthening their capacity to monitor and manage risks within local industrial chains, where exposure is more concentrated and directly tied to regional economic conditions. At the regulatory level, the findings point to the value of more targeted supervision that takes institutional heterogeneity into account, rather than relying on uniform policy frameworks.

Several limitations should be acknowledged. The empirical evidence is based on interviews with frontline branch employees from a limited number of banks and regions, which constrains the generalizability of the findings. In addition, the analysis relies primarily on qualitative perceptions, without incorporating large-sample quantitative data to further test the observed patterns. The absence of perspectives from head office-level decision-making also means that some aspects of strategic formulation are not fully captured.

Future research could address these limitations by expanding the dataset to include a broader range of regions, bank types, and time periods, allowing for more systematic empirical testing of the patterns identified in this study. It may also be useful to examine how emerging financial technologies and supply chain finance tools are reshaping banks' ability to respond to external trade shocks, particularly under increasingly complex geopolitical and economic conditions.

7. Conclusions

This paper examines how trade frictions affect China's banking system by focusing on the experiences of practitioners in large state-owned banks, joint-stock banks, and city commercial banks. The findings suggest that the impact of trade frictions is not primarily reflected in immediate financial market volatility. Instead, it tends to emerge more gradually through changes in real economic activity, particularly declining export orders, shifting cost structures, longer payment cycles, and the transmission of pressure along supply chains. These processes do not affect banks uniformly. Rather, risks tend to become more visible in firms and regions with weaker bargaining positions and thinner profit margins.

The interviews also suggest clear differences in how banks perceive and respond to these pressures. Large state-owned banks generally approach risk from a system-stability perspective, with an emphasis on maintaining credit continuity and absorbing fluctuations through scale and diversification. Joint-stock banks are more sensitive to market signals and tend to adjust their credit exposure more actively, making use of pricing tools, hedging instruments, and portfolio adjustments. City commercial banks, given their closer ties to local economies, tend to rely on detailed knowledge of local firms and industrial chains, which allows them to identify risks at a more granular level. Taken together, these differences point to a banking system that absorbs external shocks in a differentiated and layered manner rather than through a single uniform mechanism.

One of the main contributions of this study is to provide micro-level evidence on how trade shocks are transmitted through the banking system in practice. The findings highlight that such shocks are not confined

to direct trade-related firms but are gradually passed through networks of firms, banks, and industrial linkages. This perspective helps to complement existing macro-level analyses by showing how risk is perceived and managed at the operational level of banks.

Several limitations should be noted. The empirical basis of the study is limited to interviews with frontline staff in selected banks and regions, which restricts broader generalization. The analysis does not incorporate large-sample quantitative data, which limits the ability to formally test the observed transmission patterns. In addition, the study mainly reflects branch-level perspectives and does not fully capture decision-making processes at the headquarters or regulatory levels.

Future work could build on these findings by incorporating more diverse regional samples and combining interview evidence with bank-level and firm-level datasets. This would allow for a more systematic examination of whether the transmission patterns identified here hold more generally. It may also be useful to explore how digital technologies, supply chain finance, and evolving policy tools are reshaping how banks identify and manage risks under prolonged external uncertainty.

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