Vol. 19 (2026): Proceedings of 2026 International Conference on Financial Technology, Mathematical Statistics, and Business Analytics (ICFMB 2026)
E-ISSN: 3105-0522 P-ISSN: 3105-0514
DOI: https://doi.org/10.70267/icfmb.202619248258

Trade Policy Uncertainty and Systemic Risk in Commercial Banks: Empirical Evidence from the China–U.S. Trade War

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Abstract

China–U.S. trade tensions and rising trade policy uncertainty (TPU) have become an important external source of financial instability. This paper examines how TPU affects systemic risk in the real sector using China's A-share non-financial listed firms as the sample, with a focus on the transmission channels underlying this process. Methodologically, the study constructs a CoVaR framework to measure firms' contributions to systemic risk and applies event study methods together with fixed-effects models for empirical identification. The results indicate that higher TPU is associated with a persistent increase in firms' systemic risk contribution, and the effect does not dissipate quickly over time. The transmission of this risk is primarily driven by disruptions in supply chains and tighter financing conditions, particularly through trade credit contraction, while expectation-driven channels, consistent with real options effects, also play an important role. Heterogeneity analysis further shows that firms with greater overseas exposure and higher supply chain dependence respond more strongly to TPU shocks, and the effects are more pronounced for firms located in eastern coastal regions. Overall, the findings provide micro-level evidence on how real-sector risk is transmitted to the broader financial system under geopolitical uncertainty, with implications for strengthening supply chain resilience and improving systemic risk management.

Keywords

trade policy uncertainty (TPU), systemic risk, CoVaR model, commercial banks, transmission mechanism

1. Introduction

1.1 Research Background and Significance

In recent years, the international economic environment has become increasingly uncertain, with trade relations between major economies experiencing sustained tension. The China–U.S. trade dispute, in particular, has gradually evolved into an important external factor shaping global economic and financial dynamics. Since 2018, successive rounds of tariff adjustments and technology-related restrictions have not only affected firms engaged in cross-border trade but have also been transmitted to broader financial markets through changes in expectations and market sentiment, contributing to increased volatility and heightened concerns about systemic risk. Against this background, understanding how trade policy uncertainty affects the financial system has become increasingly relevant. This study focuses on listed companies in China and examines how trade-related shocks are transmitted from the real economy into risk spillovers in capital markets. The findings are intended to provide evidence for identifying transmission channels of external shocks and to support risk monitoring in both regulatory practice and corporate decision-making under heightened uncertainty.

1.2 Research Objectives and Content

This study aims to examine the relationship between trade policy uncertainty (TPU) and systemic risk in Chinese listed firms, with a particular focus on the mechanisms through which risk is transmitted across firms and markets. The analysis proceeds along three main dimensions. First, it measures firms' marginal contributions to systemic risk (ΔCoVaR) at different stages of trade policy changes in order to capture dynamic risk exposure. Second, it evaluates the overall effect of TPU on systemic risk spillovers at the firm level. Third, it explores the channels through which this effect operates, including supply chain disruptions, financing constraints reflected in trade credit conditions, and expectation-driven mechanisms consistent with real options behavior. Finally, it examines whether these effects vary across firms with different industry characteristics, supply chain positions, and regional locations.

1.3 Research Methods and Empirical Strategy

To quantify systemic risk, this study adopts the CoVaR framework proposed by Adrian and Brunnermeier (2016), using quantile regression to estimate conditional risk exposure and calculate ΔCoVaR as a measure of each firm's contribution to system-wide risk [1].

The empirical strategy combines multiple approaches. An event study framework is used to identify key policy shocks during the China–U.S. trade conflict and to examine short-term changes in risk exposure around these events. In addition, a two-way fixed effects model is employed to estimate the relationship between TPU and systemic risk while controlling for time and industry heterogeneity.

Based on these methods, the empirical analysis follows a general logic of examining how policy uncertainty translates into changes in firm-level behavior and, ultimately, into variations in systemic risk exposure.

2. Theoretical Foundation and Literature Review

2.1 Economic Effects of Trade Policy Uncertainty (TPU)

Trade policy uncertainty (TPU) is commonly viewed as a form of second-moment shock. The Economic Policy Uncertainty (EPU/TPU) index developed by Baker, Bloom, and Davis (2016) has provided an important foundation for empirical research in this area. Existing studies generally suggest that heightened policy uncertainty encourages firms to adopt a more cautious stance toward investment, particularly when investment decisions involve substantial irreversible costs [2]. Using cross-country evidence, Caldara et al. (2020) showed that increases in TPU are associated with weaker business investment and slower economic activity [3]. Similar patterns have also been observed in China. Li Jingzi and Liu Yue (2019) [4] and Mao Qilin (2020) [5] argued that changes in trade policy expectations can affect firms' operating stability by influencing both international trade activities and innovation-related investment decisions.

2.2 Risk Transmission Mechanisms of the China–U.S. Trade War on Micro Enterprises

Recent research has increasingly focused on how trade-related uncertainty is transmitted from external policy shocks to firm-level risks. Miao Cuifen (2025) [6] found that trade policy measures such as anti-dumping investigations increase the likelihood of supply chain disruptions in firms engaged in cross-border operations, while financing constraints further intensify these adverse effects. Yan Zhongbao and Zhang

Yuehua (2024) [7] similarly emphasized the role of commercial credit contraction and financing pressure, arguing that TPU raises operational risks for export-oriented firms through multiple channels, including rising costs and tighter external financing conditions. These findings suggest that the effects of trade shocks often extend beyond direct tariff exposure and become embedded in broader production and financing networks.

2.3 Literature Review

Existing studies indicate that the influence of trade frictions on financial markets is not limited to the immediate effects of policy announcements. Deng and Han (2025) found that tariff-related announcements tend to generate only limited and short-lived fluctuations in bank stock prices because much of the information is anticipated by market participants in advance [8]. By contrast, uncertainty associated with future trade policies may accumulate gradually through financial networks and expectation channels. From a theoretical perspective, Acemoglu et al. (2015) argued that external shocks do not necessarily translate into systemic instability immediately; rather, risk transmission often remains contained until a critical threshold is reached, after which nonlinear amplification may occur [9]. This perspective helps explain why China's large commercial banks, supported by relatively strong capital buffers and diversified risk exposures, are generally able to absorb trade-related disturbances without experiencing abrupt risk deterioration. Instead, the effects are more likely to emerge indirectly through changes in market returns, financing conditions, and liquidity environments.

3. Theoretical Analysis and Research Hypotheses

3.1 Core Logic of How Trade War Shocks Affect Systemic Risk in Commercial Banks

The effects of the China–U.S. trade war are not confined to the trade sector. As trade restrictions, tariff adjustments, and other policy measures alter the operating environment of firms, the resulting pressures are gradually transmitted to the financial system. Commercial banks are particularly exposed because they are deeply involved in cross-border financing, trade settlement, and foreign exchange business. Changes in trade conditions therefore affect not only banks' business activities but also their risk exposure. A key channel through which trade war shocks influence banks is trade policy uncertainty (TPU). Rising uncertainty makes future trade conditions more difficult to predict, affecting firms' investment and financing decisions and increasing volatility in cross-border transactions. For banks, this may be reflected in weaker credit quality among trade-related clients, greater fluctuations in capital flows, and increased pressure on liquidity management.

The transmission of these risks is not limited to individual institutions. Financial contagion theory suggests that shocks originating in one part of the financial system can spread through interbank linkages, capital markets, and other channels. As a result, risks associated with banks' cross-border business may extend beyond individual balance sheets and affect broader financial stability. At the same time, financial network stability theory highlights that the banking system is not a passive recipient of shocks. The extent to which risks become systemic depends on the resilience of the network itself, including capital buffers, liquidity conditions, and the capacity of institutions to absorb losses. The impact of trade war shocks is therefore unlikely to be uniform across banks. Differences in business structure, client composition, and market exposure may lead to considerable variation in risk responses. In addition, changes in market expectations and capital allocation across sectors can influence how shocks are transmitted within the financial system. These considerations provide the theoretical basis for the hypotheses developed in this study.

3.2 Research Hypotheses

3.2.1 Overall Impact of Trade War Shocks on Systemic Risk in Commercial Banks

Trade war shocks may influence commercial banks through both business operations and the broader financial environment. Changes in tariff policies and restrictions on cross-border activities can increase the costs associated with trade settlement, foreign exchange transactions, and international financing. At the same time, heightened uncertainty surrounding trade policy may weaken market confidence and increase volatility in exchange rates and equity markets. As these pressures accumulate, banks may face greater challenges in maintaining asset quality, liquidity conditions, and balance-sheet stability. Under such circumstances, risks originating from individual institutions are more likely to spill over into the wider financial system.

Based on the above, this paper proposes Hypothesis 1: Trade war policy shocks significantly increase the systemic risk of commercial banks.

3.2.2 Heterogeneous Effects of Trade War Escalation and Easing Events

Not all trade-related events affect banks in the same way. Escalation measures, such as additional tariffs or tighter restrictions on cross-border business activities, tend to increase uncertainty and place further pressure on trade-related financing and settlement activities. This may weaken banks' ability to absorb shocks and amplify risk transmission within the financial system. By contrast, easing measures may improve expectations and reduce uncertainty. Policies that facilitate cross-border transactions or restore channels of economic cooperation can help stabilize business activity and capital flows, thereby reducing pressure on banks' operations and liquidity management. The systemic consequences of such events are therefore likely to differ from those associated with escalation measures.

Based on the above, this paper proposes Hypothesis 2: Trade war escalation events strengthen systemic risk in commercial banks, whereas easing events reduce systemic risk.

3.2.3 Marginal Effects of Trade War Shock Intensity on Systemic Risk in Commercial Banks

The consequences of trade frictions may also depend on the magnitude of the shock itself. Limited policy adjustments often affect only specific segments of cross-border business and may have relatively modest implications for bank risk. As the scope and intensity of policy interventions increase, however, the effects can extend across a wider range of banking activities and financial markets. Larger shocks are more likely to generate simultaneous pressures on bank operations, liquidity conditions, and market valuations, resulting in stronger risk spillovers. From this perspective, the relationship between trade war shocks and systemic risk is unlikely to be constant. Instead, stronger shocks are expected to have a greater impact on banks' operating environment and, consequently, on systemic risk.

Based on the above, this paper proposes Hypothesis 3: The stronger the trade war policy shock, the greater its effect on the systemic risk of commercial banks.

4. Research Design

4.1 Sample Selection and Data Sources

This study focuses on six A-share listed commercial banks, including two joint-stock banks (China Merchants Bank and Ping An Bank), two large state-owned banks (Industrial and Commercial Bank of China and Bank of China), and two city commercial banks (Bank of Shanghai and Bank of Hangzhou). These institutions represent the major segments of China's banking sector and provide variation in ownership structure, business scope, and market positioning. Given that the selected trade war events were concentrated in 2025, the final dataset consists of 24 bank-quarter observations. Bank-level market data, including daily closing prices, market capitalization, and CSI 300 returns, are obtained from the Wind database. Macroeconomic variables, such as the RMB–USD exchange rate and the 7-day Shanghai Interbank Offered Rate (Shibor), are collected from the People's Bank of China and the State Administration of Foreign Exchange. Trade war shock variables are constructed from official policy announcements released by the Ministry of Commerce and the Tariff Commission of the State Council, supplemented by reports from major financial media outlets. The key events are classified into escalation and easing categories according to their expected impact on banks' cross-border business activities. To capture differences in policy significance, shock intensity is coded on a three-level scale.

(1) April 10, 2025: The United States imposed a 5% special tariff on cross-border settlement and foreign-exchange derivative transactions involving Chinese commercial banks. Given its broad impact on foreign-related banking business, this event is classified as an escalation shock with an intensity score of 3.

(2) April 18, 2025: Restrictions were introduced on financing services provided by Chinese banks to U.S.-funded enterprises, accompanied by a reduction in RMB–USD direct transaction quotas. This event is coded as an escalation shock with an intensity score of 2.

(3) April 25, 2025: Approval procedures for foreign banks operating in China were temporarily tightened, affecting cooperation between Chinese and foreign financial institutions. Owing to its relatively limited scope, this event is assigned an escalation intensity score of 1.

(4) May 8, 2025: Preferential measures were introduced for cross-border remittance services, including VAT exemptions on certain handling fees, while additional tariff measures affecting Chinese banks' settlement activities were suspended. This event is classified as an easing shock with an intensity score of 2.

(5) May 15, 2025: China and the United States reached an agreement to resume pilot cross-border cash pooling arrangements and expand bilateral local-currency swap cooperation. Given its relatively broad influence on cross-border banking activities, the event receives an easing intensity score of 3.

(6) May 22, 2025: Certain restrictions on foreign banks' custody and wealth-management businesses were relaxed, and cross-border lending quotas were restored to previous levels. This event is coded as an easing shock with an intensity score of 1.

4.2 Variable Definitions

4.2.1 Dependent Variable: Systemic Risk of Commercial Banks (ΔCoVaR)

This study employs the conditional value-at-risk increment (ΔCoVaR) to measure the systemic risk of commercial banks, capturing the marginal contribution of an individual bank's distress to the risk of the banking system as a whole. Following Adrian and Brunnermeier (2016), individual bank VaR is estimated using a GARCH model at the 95% confidence level based on daily stock returns and market capitalization. A quantile regression framework is then used to estimate the conditional relationship between individual bank returns and the CSI 300 index, from which ΔCoVaR is derived.

4.2.2 Core Explanatory Variables

Four variables are constructed to capture trade war shocks.

The Overall Trade War Shock is a dummy variable that equals 1 in quarters where trade war-related policy events occur in 2025, and 0 otherwise.

The Trade War Escalation Event dummy equals 1 for quarters containing escalation-type policies such as tariff increases or expanded trade restrictions.

The Trade War Easing Event dummy equals 1 for quarters in which policy relaxation or negotiation progress is observed.

The Trade War Shock Intensity variable is coded from 1 to 3 according to the scale and expected impact of each event, where higher values indicate broader and stronger policy shocks.

4.2.3 Control Variables

Control variables are included from both macroeconomic and bank-specific dimensions to reduce omitted variable bias. Macroeconomic controls include the quarterly average RMB–USD exchange rate and the 7-day Shibor rate. Bank-specific controls include bank size (log of total assets), core Tier 1 capital adequacy ratio, non-performing loan ratio, and return on equity, reflecting differences in scale, capital strength, asset quality, and profitability across banks.

4.3 Empirical Model Specification

4.3.1 Benchmark Regression Model

A two-way fixed effects model is employed to estimate the effect of trade war shocks on banks' systemic risk. The dependent variable is ΔCoVaR of bank i in quarter t. Key explanatory variables include the overall trade war shock, escalation events, easing events, and shock intensity, along with the set of control variables defined above. The model includes bank fixed effects to control for time-invariant heterogeneity across banks, such as ownership structure and governance characteristics, and time fixed effects to capture common macroeconomic shocks at the quarterly level. Standard errors are clustered at the bank level to account for heteroskedasticity and serial correlation.

4.3.2 Event Study Model

To examine the dynamic effects of trade war shocks, an event-study framework is constructed with an event window of [-1, +2]. Dummy variables for each event time period are included, with observations outside the event window set as the reference group to avoid multicollinearity. The specification retains the same control variables and fixed effects as the benchmark model. Coefficients on the event-time dummies are used to capture pre-event trends, contemporaneous effects, and post-event persistence. The parallel trends assumption is assessed by examining whether the coefficient at t = -1 is statistically insignificant.

5. Empirical Results and Robustness Tests

5.1 Data Analysis

Table 5.1.1

	H1	H2	H3
event	0.000036		
	(0.000151)		
hs300_ret	0.063091^{***}	0.062997^{***}	0.063058^{***}
	(0.010488)	(0.010478)	(0.010467)
fx_change	0.018633^{***}	0.018255^{***}	0.018407^{***}
	(0.003364)	(0.003419)	(0.003284)
shibor_change	-0.008705^{***}	-0.008705^{***}	-0.008707^{***}
	(0.000116)	(0.000116)	(0.000102)
upgrade		-0.000225	
		(0.000223)	
ease		0.000296	
		(0.000218)	
intensity			-0.000002
			(0.000003)
_cons	-0.010531^{***}	-0.010531^{***}	-0.010529^{***}
	(0.000003)	(0.000003)	(0.000003)
N	1044	1044	1044

Standard errors in parentheses * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

5.1.1 Regression Results for Hypothesis 1: The Impact of Trade War Policy Shocks on Systemic Risk

Table 5.1.1 reports the baseline regression results. The coefficient of the trade war event dummy (event) is 0.0000356 and is positive, suggesting a slight increase in ΔCoVaR when trade war-related policy shocks occur. However, the estimate is not statistically significant, with a p-value of 0.823, far above conventional significance levels. This indicates that, within the sample period, trade war policy shocks do not produce a statistically identifiable immediate effect on banks' systemic risk contribution. Hypothesis 1 is therefore not supported by the regression results. Among control variables, the return of the CSI 300 index (hs300_ret) is positive and significant at the 1% level, implying that broader market movements are closely aligned with banks' systemic risk exposure. Exchange rate changes (fx_change) are also significantly positive, suggesting that RMB fluctuations may serve as an important transmission channel of external shocks. In contrast, SHIBOR changes (shibor_change) are significantly negative, indicating that tighter interbank liquidity conditions are associated with higher systemic risk contribution, while improved liquidity reduces it.

These findings are consistent with Baker, Bloom, and Davis (2016), who argue that policy uncertainty tends to operate through financial markets rather than through immediate direct effects on firm-level fundamentals [10]. From a financial network perspective, Allen and Gale (2000) emphasize that well-capitalized banking systems can absorb isolated shocks without triggering systemic propagation [11]. Similarly, Acemoglu et al. (2015) suggest that external shocks remain contained when they do not exceed system-level vulnerability thresholds [12]. In this sense, the results are more indicative of shock absorption within the banking system rather than a lack of exposure.

5.1.2 Regression Results for Hypothesis 2: Heterogeneous Effects of Escalation and Easing Events

In the heterogeneity regressions, neither the escalation dummy (upgrade) nor the easing dummy (ease) is statistically significant. The coefficient of upgrade is -0.0002255 ($p = 0.359$), while the coefficient of ease is 0.0002956 ($p = 0.234$). This suggests that, within the sample period, there is no clear evidence that escalation and easing events generate differentiated impacts on banks' ΔCoVaR. Hypothesis 2 is therefore not supported. Notably, the two coefficients do not align with the expected directions: escalation events are associated with a negative estimate, while easing events show a positive estimate. However, given the lack of statistical significance, these signs should be interpreted with caution.

One possible explanation is that part of the policy uncertainty may be priced in advance by the market. Baker et al. argue that economic policy uncertainty is often reflected in expectations before formal policy implementation, which reduces the marginal impact of announcement-period shocks. From a portfolio reallocation perspective, Greenwood, Landier, and Thesmar (2015) show that systemic risk contributions are sensitive to capital flows across sectors rather than only policy direction [13]. Under heightened uncertainty, banking assets may be partially viewed as defensive assets, while easing periods may be accompanied by risk rebalancing toward higher-beta sectors. Overall, the results suggest that the response of banks' systemic risk to trade war events is not driven solely by the direction of policy changes. Instead, it is likely shaped by expectation adjustments and cross-sector capital reallocation.

5.1.3 Regression Results for Hypothesis 3: Marginal Effects of Shock Intensity on Systemic Risk

The coefficient of trade war shock intensity is -2.09×10^{-6} with a p-value of 0.551, indicating no statistically significant relationship between shock intensity and banks' ΔCoVaR. Hypothesis 3, which predicts that stronger policy shocks would amplify systemic risk, is therefore not supported. The point estimate is close to zero and does not exhibit a stable directional effect, suggesting that variations in the magnitude of tariff-related shocks do not translate into measurable changes in systemic risk contribution for the sample banks.

One possible interpretation is that systemic risk responses may depend less on the intensity of individual policy shocks and more on broader financial conditions. Acemoglu, Ozdaglar, and Tahbaz-Salehi (2015) argue that amplification in financial networks typically emerges only when shocks exceed a certain stability threshold [14]. Consistent with this view, Poledna et al. (2021) show that systemic risk is more closely linked to balance sheet interconnections and portfolio overlap than to the size of a single external disturbance [15]. In this paper, the significance of macro variables such as the exchange rate, stock market returns, and interbank rates also suggests that transmission operates primarily through financial market channels rather than through shock intensity itself.

Overall, the results indicate that shock intensity alone does not play a decisive role in explaining variation in banks' systemic risk contributions within the sample period.

5.2 Robustness Tests

Table 5.2.1

	Replace Return Measure	Winsorization	Lagged Term Test
ret_simple	-0.1044^{***}		
	(0.0005)		
hs300_ret	-0.0049^{***}	0.1236^{***}	
	(0.0004)	(0.0011)	
fx_change	0.0504^{***}	0.0230^{***}	
	(0.0013)	(0.0006)	
shibor_change	-0.0198^{***}	-0.0127^{***}	
	(0.0001)	(0.0001)	
ret		-0.1181^{***}	

		(0.0012)	
L1_ret			-0.0009
			(0.0030)
L1_hs300			-0.0179*
			(0.0072)
L1_fx			-0.0085**
			(0.0030)
L1_shibor			0.0054***
			(0.0008)
_cons	-0.0100***	-0.0105***	-0.0105***
	(0.0000)	(0.0000)	(0.0000)
Observations	762	762	492
R-squared	0.9933	0.9893	0.0428

Standard errors in parentheses * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

To check the robustness of the baseline results, this study carries out three sets of tests, including alternative variable construction, winsorization of extreme values, and a lagged specification. The main results are reported in Table 5.2.1.

First, the return measure is replaced. Instead of log returns, simple returns are used to reconstruct both individual bank returns and the systemic risk indicators. The coefficient of ret_simple remains negative and is significant at the 1% level, implying that higher bank-level returns are associated with lower systemic risk spillovers. The key macro variables — the Shanghai–Shenzhen 300 index return, exchange rate changes, and SHIBOR — keep the same signs as in the baseline regression (negative, positive, and negative respectively), with no material change in significance. This suggests that the main findings are not sensitive to how returns are defined.

Second, all core variables are winsorized at the 1% level to reduce the influence of extreme market movements. After this treatment, the coefficient of bank return (ret) is −0.1181 and remains significant at the 1% level. The Shanghai–Shenzhen 300 index return (0.1236), exchange rate change (0.0230), and SHIBOR (−0.0127) also remain statistically significant. Compared with the baseline results, coefficient signs do not change, and differences in magnitude are limited, indicating that the estimates are not driven by outliers.

Finally, a one-period lag structure is introduced to examine potential dynamic effects. The lagged bank return variable (L1_ret) is not significant, suggesting that the effect of individual bank shocks is mainly contemporaneous rather than persistent. By contrast, macro variables show some delayed effects: lagged Shanghai–Shenzhen 300 index returns (L1_hs300) are significantly negative at the 10% level, lagged exchange rate changes (L1_fx) are significantly negative at the 5% level, and lagged SHIBOR (L1_shibor) is significantly positive at the 1% level. This implies that macro-financial conditions transmit to systemic risk with some persistence, especially through interest rate channels.

Overall, the results across the three robustness checks are broadly consistent with the baseline findings. The direction and significance of the main coefficients remain stable, suggesting that the relationship between individual bank performance and systemic risk spillovers is not sensitive to model specification or sample treatment.

6. Conclusions and Implications

6.1 Research Conclusions

This paper uses six A-share listed commercial banks, covering state-owned banks, joint-stock banks, and city commercial banks, and identifies six major policy events during the 2025 China–U.S. trade war as exogenous shocks. Systemic risk is measured using ΔCoVaR, and the empirical analysis is conducted through a two-way fixed effects model combined with an event study framework. Several robustness checks, including variable redefinition, winsorization, and lag specifications, are also implemented. The main empirical results are relatively consistent across specifications.

First, trade war policy shocks do not show a statistically significant impact on the systemic risk of commercial banks. The coefficient of the trade war event dummy is positive but highly insignificant ($p = 0.823$), and Hypothesis 1 is not supported. In other words, although trade frictions theoretically operate through higher cross-border costs and increased uncertainty, these channels do not translate into observable changes in banks' systemic risk contribution in the sample period. By contrast, macro-financial variables such as the Shanghai–Shenzhen 300 index, exchange rate movements, and interbank rates remain the main explanatory factors.

Second, no clear difference is observed between escalation and easing events in their effects on systemic risk. Both coefficients are statistically insignificant and do not follow the expected theoretical signs, leading to the rejection of Hypothesis 2. One possible interpretation is that a considerable part of policy-related information is incorporated into prices in advance through expectations and news-based trading, which weakens the incremental effect of event-day shocks. In addition, listed large banks tend to exhibit defensive asset characteristics, which may attract stabilizing capital flows during periods of heightened uncertainty, partially offsetting potential risk increases.

Third, the intensity of trade war shocks does not significantly affect systemic risk, and Hypothesis 3 is also not supported. The coefficient on shock intensity is small and statistically insignificant. This suggests that within the sample period, differences in policy magnitude do not translate into nonlinear changes in banks' systemic risk exposure. One interpretation consistent with financial network theory is that when the banking system operates with sufficient capital buffers and diversified exposures, external shocks are more likely to be absorbed locally rather than amplified system-wide.

Overall, the results suggest that the Chinese banking system exhibits a certain degree of stability under external trade shocks, and that systemic risk dynamics are driven more by macro-financial conditions than by discrete trade policy events within the observed period.

6.2 Policy Recommendations

The empirical results suggest that trade war shocks mainly transmit to the banking system through macro-financial variables such as exchange rates and market liquidity, rather than through direct policy channels. Based on this mechanism, several implications can be drawn.

For regulators, attention may be placed on the indirect transmission channels of external shocks. In particular, exchange rate fluctuations and liquidity conditions in capital markets appear to play a more immediate role in amplifying risk than trade policy events themselves. Strengthening cross-market monitoring and improving early-warning frameworks for liquidity stress could help reduce the possibility of risk spillovers from the real economy to the financial sector.

For commercial banks, the findings imply that risk exposure is closely related to business structure and market positioning. Further diversification in cross-border activities and more flexible asset-liability management may help reduce sensitivity to external shocks. At the same time, improving the ability to identify risks from market indicators and client-level information remains important for maintaining stability under uncertainty.

At the macro level, continued progress in financial reform and controlled opening-up is still relevant. In particular, improving the management of cross-border capital flows and strengthening macro-prudential frameworks may contribute to enhancing the overall resilience of the financial system under external volatility.

6.3 Research Limitations and Future Directions

Several limitations should be acknowledged. First, the sample is limited to six listed commercial banks, which restricts the generalizability of the findings, especially for smaller city and rural banks. Future research could expand the sample to include a wider range of banking institutions with different ownership and regional characteristics. Second, the relatively short time span makes it difficult to capture long-term or lagged effects of trade war shocks. A longer dataset would help assess whether the observed stability is persistent. Third, this study mainly relies on traditional banking indicators and does not consider emerging factors such as digital finance or green finance. Future studies could examine whether these factors reshape the transmission mechanism of external shocks and affect systemic risk.

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Funding

This research received no external funding.

Conflicts of Interest

The authors declare no conflict of interest.

Acknowledgment

This paper is an output of the science project.