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From "Rule Taker" to "Rule Maker"?

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Table of Contents

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Acronyms and Abbreviations

AIIB	Asian Infrastructure Investment Bank
BCBS	Basel Committee on Banking Supervision
BRICS	Brazil, Russia, India, China and South Africa
CBA	China Banking Association
CBIRC	China Banking and Insurance Regulatory Commission
CBRC	China Banking Regulatory Commission
CIRC	China Insurance Regulatory Commission
CSRC	China Securities Regulatory Commission
FSAP	Financial Sector Assessment Program
FSB	Financial Stability Board
FSDC	Financial Stability and Development Committee
FSF	Financial Stability Forum
G7	Group of Seven
G20	Group of Twenty
GFC	global financial crisis
IAIS	International Association of Insurance Supervisors
IMF	International Monetary Fund
IOSCO	International Organization of Securities Commissions
JMC	Joint Ministerial Committee
MMoU	Multilateral Memorandum of Understanding Concerning Consultation and Cooperation and the Exchange of Information
NAIC	National Association of Insurance Commissioners
NDB	New Development Bank
PBoC	People’s Bank of China
RCG	Regional Consultative Group
SSBs	standard-setting bodies
UAE	United Arab Emirates

Executive Summary

Following the global financial crisis (GFC), international financial standard-setting bodies (SSBs) granted emerging economies unprecedented representation. Some observers expected the existing system of international financial regulation to be undermined by the larger number of players and their diverging interests from the traditional standard setters. This paper examines whether China, the largest emerging economy, has influenced the international financial regulatory regime. It finds that China has, by and large, been a "rule taker" so far, but points out some important signs of change. It argues that with improved technical capacity, greater stakes in international financial standards and rising structural power, China is poised to increase its participation in the making of international financial standards.

Introduction

In the wake of the GFC, Western industrialized economies became more interested than ever before in strengthening international financial regulations. Policy makers in the United States and European countries believed that better regulations would help reduce the risks in the financial system and the likelihood of another serious international financial crisis. At the same time, they recognized the need to expand the organizations making international financial standards to include emerging economies, which had become important players in international finance. Following the GFC, the Group of Twenty (G20) overtook the Group of Seven (G7) as the premier forum for international economic cooperation. The Financial Stability Forum (FSF), which had been created by the G7 in 1999 to promote international financial stability, evolved into the Financial Stability Board (FSB), which incorporated emerging economies. Various international SSBs expanded their memberships by including emerging economies. Some observers speculated that the involvement of the emerging economies would bring an end to an era in international financial regulation because of the larger number of decision makers and greater diversity of interests (see, for example, Singer 2010; Wade 2011; Helleiner and Pagliari 2011).

With their new "seats at the table," have the emerging economies reshaped international financial standards? This paper examines the case of China, which is by far the strongest emerging economy. If any newcomer were capable of having an impact on international financial standards, it would be China. Earlier studies found China exerted little influence over the existing international financial regulatory regime (Walter 2010, 2016; Chey 2016; Kempthorne 2016). A decade has passed since the GFC. This paper takes a fresh look at China's relationship with international financial standards. It also explores the prospect of change in the medium-term future, in particular how likely it is that China will move from the position of a "rule taker" to that of a "rule maker."

The terms ruler taker and rule maker have appeared frequently in the literature on China's rise and its relationship with the existing international order (Lee, Chan and Chan 2012; Wang 2015; Wang 2017). They are used to distinguish between a status quo power and a revolutionary power. In this paper, the meaning of each term is more specific. A rule maker is a country that plays an important role in making the rules and complies with the rules once they are made. A rule taker is country that has no role, or a very limited role, in making the rules, but accepts the rules anyway. These are not the only roles countries occupy vis-à-vis an international regime. As Table 1 shows, a country can also be a "hypocrite" if it plays an important role in making the rules but then defies the rules, or a "bystander" if it neither participates in making the rules nor complies with the rules.

The discussion in this paper will follow the specific content of the terms of rule taker and rule maker. It first examines China's participation in the making of international financial standards. It then probes China's compliance with those standards. The final part of the paper discusses the prospect of change in China's approach in the coming years.

Table 1: Ideal-Type Approaches to International Regimes

	High compliance	Low compliance
High participation in rule making	Rule maker	Hypocrite
Low participation in rule making	Rule taker	Bystander

Table 2: FSB Standing Committees Chairs, 2013–2018

Standing Committees	Chair		
Assessment of Vulnerabilities	Mexico (March 31, 2013–March 31, 2015)	Australia (April 1, 2015–August 31, 2016).	Netherlands (September 1, 2016–August 31, 2018)
Supervisory and Regulatory Cooperation	United States (March 31, 2013–March 31, 2015)	United States (April 1, 2015–March 31, 2017)	Hong Kong (April 1, 2017–March 31, 2019)
Standards Implementation	Singapore (March 31, 2013–March 31, 2015)	Singapore (April 1, 2015–March 31, 2017)	South Africa (April 1, 2017–March 31, 2019)
Budget and Resources	Germany (October 2012–January 2016)	Brazil (February 1, 2016–June 9, 2016)	Italy (September 1, 2016–August 31, 2018)

Sources: FSB (2015b, 2015c, 2016, 2017).

China and International Financial Standard Setting

Following the GFC, the FSB emerged as the chief international forum to monitor and make policy recommendations about global financial stability. Comprised of the major industrialized countries and the emerging economies, it works with national financial authorities and international SSBs in developing regulatory, supervisory and other financial sector policies. The FSB has 68 member institutions, including ministries of finance, central banks, and supervisory and regulatory authorities from 25 jurisdictions, and 10 international organizations and SSBs. The FSB uses a three-stage process to carry out its mission: identifying systemic risks; framing financial sector policies to address the risks; and overseeing the implementation of the policies.

China joined the FSB as a founding member in 2009, represented by the Ministry of Finance, the People's Bank of China (PBoC) as well as the China Banking Regulatory Commission (CBRC). The inclusion of China and members from other emerging economies was a major distinction between the FSB and its predecessor, the FSF. The idea was to give the fast-growing developing countries a stake in the preservation of global financial stability. Chinese presence at the FSB has been quite low key. China (referring to mainland China) has not played a leading role in any of the four standing committees (see Table 2). Nor has it led the Regional Consultative Group (RCG) for Asia, which in recent years has been chaired by Japan, the Philippines, Australia and Malaysia. Moreover, according to a recent study, Chinese nationals have only been involved in 17 of the 42 documents issued by the FSB. In contrast to other BRICS (Brazil, Russia, India, China and South Africa) members such as Brazil, India and South Africa, China has not had its nationals lead the drafting of any of the documents (Wang, Cheng and Ma 2018).

The Basel Committee on Banking Supervision (BCBS) is the main SSB in banking. Created in 1974 by the Group of Ten (industrialized countries) to enhance financial stability by ensuring adequate and consistent supervision of banks operating across borders, the BCBS significantly expanded its membership after the GFC. Currently, it has 45 member institutions from 28 jurisdictions. Its main focus has been on capital adequacy, measured as a ratio between capital to risk-weighted assets. Over the years, members of the Basel Committee kept tinkering with the definitions and measurements of capital and risks.

Table 3: BCBS Groups Chairs (Co-chairs), 2014 and 2018

Group	2014	2018
Policy Development	BCBS	BCBS
Macroprudential Supervision	Singapore, United States	United States, European Central Bank
Accounting Experts	South Africa	Spain
Basel Consultative Group	United Arab Emirates (UAE)	BCBS (UAE)
Supervision and Implementation	Spain	China

Sources: Wang, Cheng and Ma (2018); www.bis.org/bcbs/mesc.htm.
Note: Data for other years is not available.

Their accords on capital adequacy are popularly known as Basel I (1988), II (2004) and III (2012).

China joined the BCBS in 2009 alongside other G20 countries that had not been part of the BCBS before — Argentina, Indonesia, Saudi Arabia, South Africa and Turkey — as well as Hong Kong and Singapore. Two institutions represent China at Basel — the PBoC and the CBRC. Although China gained representation, like other emerging economies, it was quite passive initially. For example, together these countries provided little input in the deliberation and the making of Basel III (Chey 2016; Kempthorne 2016).

This began to change slowly after Basel III. The BCBS consists of a number of standard-setting and research-based groups, and under each group there are different working groups and task forces. Between 2012 and 2015, Liu Chunhang, the Chinese representative from the CBRC, chaired the Leverage Ratio Working Group (under the Policy Development Group). This working group played an important role in making Basel III's Leverage Ratio Framework. Since 2015, Liu has been the chairman of the Supervision and Implementation Group, which is charged with fostering the timely and effective implementation of BCBS standards and guidelines and monitoring the implementation of the rules among member countries.[1] Table 3 shows the countries that have chaired the groups at the BCBS. However, Chinese influence at the BCBS is still quite limited. According to Wang Gang, Cheng Mengfan and Ma Siyu (2018), the BCBS has issued 62 regulatory documents and Chinese nationals have only participated in the drafting of 33 of them.

1 See www.cf40.org.cn/html/CF40guandian/xingming32/200807/16-149.html.

The main international SSB in the securities sector is the International Organization of Securities Commissions (IOSCO). Established in 1983 by 11 securities regulatory agencies from North and South America, IOSCO now brings together securities regulators in more than 115 jurisdictions regulating more than 95 percent of the world's securities markets. IOSCO seeks to facilitate cross-border cooperation by making its members implement the Objectives and Principles of Securities Regulation (IOSCO Principles) and the Multilateral Memorandum of Understanding Concerning Consultation and Cooperation and the Exchange of Information (MMoU). The IOSCO Principles aim to protect investors, to ensure that the financial markets are fair, efficient and transparent, and to reduce systemic risks. They include principles for the regulators, securities issuers, auditors, credit-rating agencies and market intermediaries. The MMoU is designed to promote cross-border enforcement and information flow.

China became a member of IOSCO in 1995 and a member of the executive board in 1998. But it was not until 2009 that China — along with Brazil and India — was invited to join the Technical Committee, the actual maker of the international securities regulatory standards. At that time, the China Securities Regulatory Commission (CSRC), which represented China at IOSCO, proudly claimed that it would have a greater voice in the international securities regulatory field as a result (CSRC 2009). However, that ambition has not been translated into reality. Table 4 shows the countries that have led IOSCO's eight policy and standard-setting committees. China only served as the vice chair of the Investment Management Committee for a while. Moreover, Wang, Cheng and Ma (2018) report that of the 34

Table 4: IOSCO Standard-Setting Committees Chairs (Vice Chairs), 2012–2018

Committees	2012	2013	2014	2015	2016	2018
Issuer Accounting, Audit and Disclosure	US	US	US (France)	US (France)	India (US)	India (US)
Regulation of Secondary Markets	Germany	Germany (South Africa)	Germany (South Africa)	Germany (Canada)	Canada (Malaysia)	Canada (Malaysia)
Regulation of Market Intermediaries	Hong Kong	Hong Kong (Pakistan)	Hong Kong (South Korea)	Hong Kong (South Korea)	Germany (Australia)	Germany (Australia)
Enforcement and Exchange of Information	UK	UK(Dubai)	US (Canada)	UK (Canada)	Canada (UK)	Canada (UK)
Investment Management	France	France (China)	France (China)	France (Japan)	UK (France)	UK (France)
Credit Rating Agencies	US	US (Chinese Taipei)	US (Japan)	US (Japan)	US (Israel)	US (Israel)
Derivatives	US and UK	US (UK)	US (UK)	UK (US)	US (UK)	US (UK)
Retail Investors	--	Canada (Brazil)	Canada (Brazil)	Canada (Brazil)	Brazil (Australia)	Brazil (Italy)

Sources: IOSCO (2012, 2013, 2014, 2015, 2016).
Note: Data for 2017 is not available.

regulatory documents made by IOSCO, Chinese nationals only participated in the making of 15.

Unlike the case of the BCBS, China's peripheral position does not seem to have changed. Currently, there is no Chinese representative serving in any leadership capacity in the policy and standard-setting committees. Indeed, China does not even play a leadership role in the Growth and Emerging Markets Committee (chaired by Malaysia, with the UAE, Turkey and South Africa serving as vice chairs). It is only a vice chair of the Asia-Pacific Regional Committee, which is chaired by Japan.[2]

In the field of insurance regulation, the most prominent transnational organization is the International Association of Insurance Supervisors (IAIS). Founded in 1994 with the main impetus coming from the National Association of Insurance Commissioners (NAIC) in the United States, it now consists of supervisors and regulators from more than 200 jurisdictions, constituting 97 percent of the world's insurance premiums. The IAIS aims to develop globally consistent principles and standards for the supervision of the insurance sector. Its Insurance Core Principles — revised over the years — seek to develop and maintain fair, safe and stable insurance markets that protect policy holders and contribute to global financial stability. The IAIS also provides a forum for its members to share their experiences as well as assist with the implementation of their agreed-upon principles and standards.

China — represented by the China Insurance Regulatory Commission (CIRC) — joined IAIS in 2000. In 2008, China became a member of the executive committee; overall, however, China has kept a very low profile. As Table 5 shows, no Chinese representative has performed a leadership role in any of the working groups of the Policy Development Committee of IAIS. According to Wang, Cheng and Ma (2018), Chinese nationals only participated in the making of one of nine regulatory documents issued by the IAIS.

2 See www.iosco.org/.

Table 5: IAIS Policy Development Committee Working Groups Chairs (Vice Chairs), 2014–2018

Working Groups	2014	2016	2017	2018
Accounting and Auditing	Germany (US)	Germany (US)	Germany (US)	Germany (US)
Governance	Netherlands (UAE)	Norway (US)	Netherlands (US)	Netherlands
Insurance Groups	Germany (Switzerland)	UK(US)	UK (US)	UK(US)
Market Conduct	Canada (South Africa)	France (Australia)	Australia (UK)	Australia (UK)
Resolution	Switzerland (US)	Switzerland (US)	Switzerland (US)	US

Sources: Wang, Cheng and Ma (2018); IAIS (2016); www.iaisweb.org/page/about-the-iais/organisational-structure//file/75208/iais-committees-and-members-public.

Note: Data for 2015 is not available.

As a possible sign of change, in early 2018, a vice chairman of CIRC was elected vice chair of the executive committee of IAIS. According to the CIRC (2018), this is the first time a vice chair of the executive committee has come from an emerging economy, making it an important milestone of China's involvement in global financial governance.

To summarize, during the last decade, China has gained or improved its representation at the FSB and the major SSBs. However, there is little evidence that China has exercised any significant influence in setting international financial standards. Of late, Chinese officials have moved into some leadership roles, especially at the BCBS and the IAIS. This opens the door for China to have a louder voice in the making of international financial standards.

China's Compliance with International Financial Standards

Although China has not played a major role in making international financial standards, has it been compliant with those standards? There are many international financial standards made by various SSBs. The FSB singles out the most important standards for a sound, stable and well-functioning financial system to include in its list of key standards. In the area of financial regulation and supervision, these key standards are the core principles and guidelines set out by the BCBS, IOSCO and the IAIS for the banking, securities and insurance sectors, respectively.

As a member of the FSB as well as the SSBs, China has been subject to international assessments of its compliance with these standards. Two recent reviews capture the international community's evaluation of China's record of compliance — the FSB's peer review of China (FSB 2015a) and the International Monetary Fund (IMF) and World Bank's Financial Sector Assessment Program (FSAP) for China (IMF and World Bank 2017). The overall evaluation of these reviews is that China shows a high degree of compliance with international standards. The reviews are especially complimentary about China's strong compliance with the BCBS's rules — including introducing Basel III early and achieving a high degree of compliance with the Basel Core Principles for Effective Banking Supervision. This is significant because China's financial system is heavily dominated by the banking sector. The reviews also offer praise for China's improvement of oversight of securities market products and adoption of a risk-oriented solvency standard for insurers.

However, as in many other countries, there are gaps in China's compliance with international standards. The FSB, the IMF and the World Bank all note the fast growth of the financial sector in China in recent years and its greater complexity. Banks are increasingly engaging in wealth management and short-term wholesale funding. Many kinds of non-bank financial institutions are operating in the financial market (ibid.). In this context, both the FSB and the IMF identify a number of areas where financial regulation needs to catch up. They urge the Chinese government to gather more comprehensive data on financial institutions and their activities, improve the methods of risk assessment, shift from institution-based to activity-based supervision and, above all, strengthen coordination among regulatory agencies. The Chinese government has been remarkably receptive of such international input. As the IMF report notes, "in the FSAP meetings, the authorities responded positively to the FSAP team's findings and recommendations" (ibid., 8). Immediately after the IMF released its FSAP report, the PBoC, the CBRC, the CSRC and the CIRC all issued their responses, largely in agreement with the report (Institute of Economics, Chinese Academy of Social Sciences 2017).

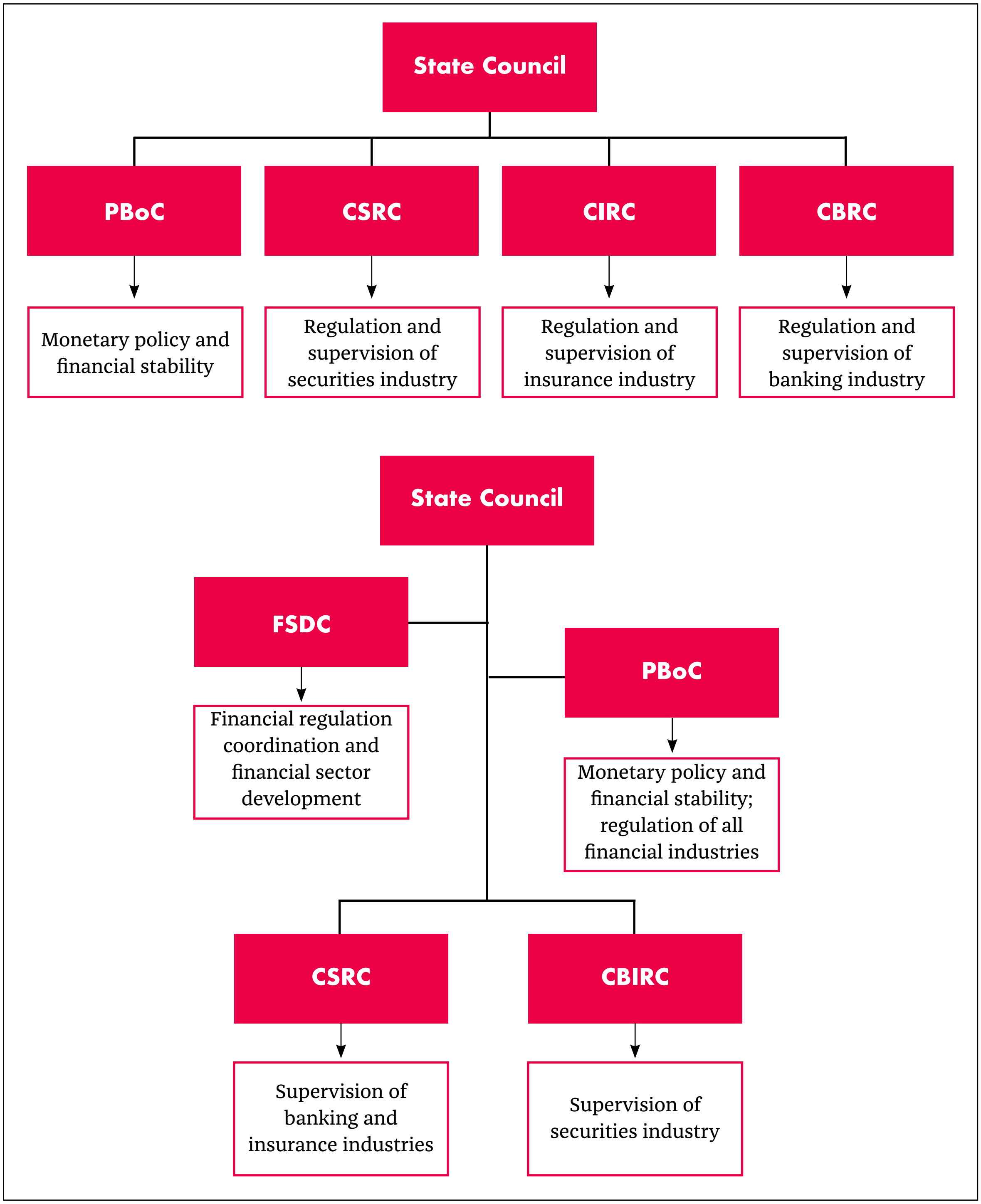
It is particularly noteworthy that China has restructured its financial regulatory institutions along the lines recommended in these international reviews. In an earlier financial system stability assessment, the IMF and the World Bank already suggested that China should establish a "permanent committee on financial stability" with the PBoC serving as its secretariat (IMF and World Bank 2011, 8). In 2013, the Chinese State Council established the Financial Regulatory Coordination Joint Ministerial Committee (JMC). Chaired by the governor of the PBoC and attended by the heads of the CBRC, the CSRC, the CIRC and the State Administration of Foreign Exchange, the JMC was designed to improve interagency coordination. In practice, it did not bring about significantly better coordination and remained largely a formality (Xia 2018, 354). The FSB's peer review of China in 2015 reiterated this recommendation and further emphasized the importance of coordination among different agencies to ensure financial stability. In addressing the issue of interagency cooperation, it suggested "relevant bodies with a system-wide remit (such as the JMC or the State Council) to be used more formally as a coordination mechanism" (FSB 2015a, 7). In late 2017, the Chinese government created a Financial Stability and Development Committee (FSDC) under the State Council. This was a decision made at the highest level of the leadership. As President Xi Jinping puts it, the mission of this "super financial regulator" is to "strengthen financial regulatory coordination and make up for regulatory shortcomings," and to "strengthen the People's Bank of China's macro-prudential regulation and systemic risk prevention role, strengthen the regulatory role of financial regulatory departments, and ensure the safe and stable development of the Chinese financial sector" (Xi 2017).

In April 2018, the CSRC and the CSIR merged into the new China Banking and Insurance Regulatory Commission (CBIRC). The new commission is charged with the supervision and regulation of the banking and insurance industries. The securities industry remains under the supervision and regulation of the CSRC. Meanwhile, the function of making regulatory laws and important rules for all these industries has shifted to the PBoC. The new framework aims to reduce the fragmentation of the pervious regulatory framework. It grants the PBoC a more central role in financial regulation (see Figure 1). This reform is consistent with the FSB's view that China needs to better integrate macroprudential management across sectors and give the PBoC stronger tools for maintaining overall financial stability (FSB 2015a, 7).

However, the Chinese government has certainly not embraced all the international standards and the SSBs' policy recommendations. A good example of Chinese disagreement with international standards is on the issue of shadow banking. Shadow banking, which the FSB defines as credit intermediation by entities outside the regular banking system, has been a main concern and target for international financial regulation since the GFC. Seen as a main cause of the GFC, shadow banking has been subject to strict regulation in developed countries and by the SSBs.

Chinese policy makers have been supportive of the FSB's objective of controlling the risks of shadow banking, a task they see as quite relevant to China since shadow banking took off in China after 2010. However, they do not think the particular benchmarks or regulatory tools of the FSB are appropriate for China. They point to the growing risks in credit expansion through interbank business rather than non-bank intermediation. The "bank's shadow" poses a bigger threat to financial stability in China than shadow banking (Zheng 2015, 7). They argue the different reality in China makes it difficult for China to agree on particular international regulations. For example, trust-based lending in China has a lower leverage than in Western countries, and thus does not pose the same level of risks as the latter. Furthermore, because this kind of

Figure 1: China's Changing Financial Regulatory Framework before and after the 2018 Restructuring



Source: Author.

lending is often closely related to the debt of local governments, implementing the FSB's standards in this regard would be impractical (ibid., 10).

China's position may well have contributed to a broader pushback against the FSB's shadow banking regulations. In 2014, the FSB's RCG for Asia issued a report on shadow banking in Asia, arguing that "in order for members to be able to effectively implement the FSB's policy framework, it is important that this is tailored to the unique features of the financial markets in Asia, taking into account the varying stages of economic development in the jurisdictions, differing socio-economic characteristics and the unique roles played by NBFIs (non-bank financial intermediaries — author) in Asia" (FSB RCG 2014).

In addition, in their reviews, the FSB, the IMF and the World Bank have repeatedly urged the Chinese government to downplay the goal of maintaining a high economic growth rate, which had led to excessive credit expansion in recent years. They have also called for increasing the transparency of the financial system and developing market-based financing (see, for example, FSB 2015a; IMF and World Bank 2017). So far, progress in these areas has been slow and limited. Chinese leaders have not fully embraced these suggestions because they require fundamental reforms of the Chinese financial and economic system, which the government is not ready for (Zheng 2015, 10).

To summarize, China has complied well with the major international financial standards set by various SSBs, in particular the banking standards set by the BCBS. Given the fast changing and increasingly complex financial system in China, international SSBs have identified new gaps and set forth additional expectations for financial regulation in China. The Chinese government has been receptive of many of their recommendations; however, China has also taken exception to some of the existing standards and recommendations.

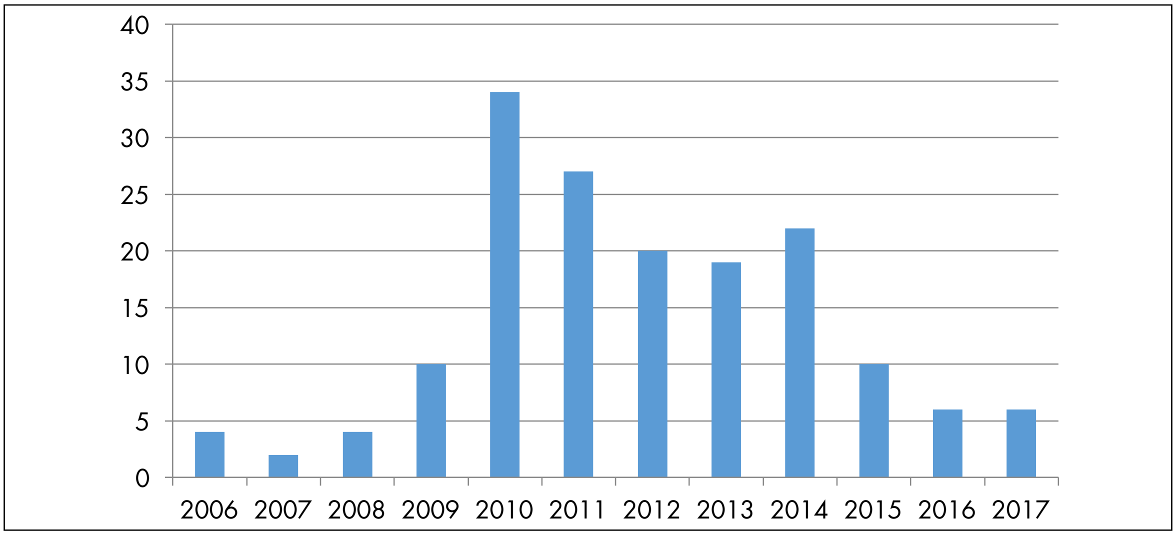
From Rule Taker to Rule Maker?

As the previous sections suggest, in the area of international financial regulation, China has been a rule taker so far. Its participation in standard making has been low while its compliance with the standards has been quite high. This runs counter to the expectation of some observers after the GFC that the emerging economies would bring major changes to international financial standard making (Singer 2010; Wade 2011; Helleiner and Pagliari 2011). Rather than disrupting the making of international financial standards or defying them, China has been a passive and cooperative newcomer. Is this likely to change in the future? To shed light on these questions, it is necessary to understand the conditions that have shaped China's approach so far, the most important being technical capacity, interests and structural power. If these conditions remain static, things may stay more or less the same in the foreseeable future. Otherwise, change may be coming.

Technical capacity is an obvious factor that has shaped China's relations with international financial standards. Because China is new to international financial regulation and a modern financial system has a short history in China, it lacks the technical capacity to evaluate and shape international financial standards (Walter 2010, 2016; Liu 2015; Chey 2016; Kempthorne 2016; Zhong et al. 2017; Wang, Cheng and Ma 2018; Zheng 2018). China is not alone in suffering from this problem. The CBRC's Liu Chunhang pointed out a few years ago that despite their new membership at BCBS, "developing countries have played a very limited role in the making of international banking supervision rules because they lack human resources, are unfamiliar with the international financial markets, do not understand the process of international rulemaking, have not mastered the discourse system of international rulemaking, and they can't easily use the international language of English" (Liu 2015, 13).

Almost a decade has passed since China first joined the FSB and the BCBS, as well as the Technical Committee of IOSCO. Chinese expertise on the regulatory matters discussed at these forums has, no doubt, grown. At the same time, Chinese scholars carried out sustained

Figure 2: Number of Publications with "International Financial Regulations" in Title in CNKI Database



Source: www.cnki.net/.

research in this new area for a number of years after China joined the FSB and the SSBs. Figure 2 shows the number of items in the academic publication database China CNKI with "international financial regulations" in the title.

Moreover, China's own financial market has developed significantly in recent years. For instance, according to the IMF, China's equity and bond markets now rank second and third in the world in size (IMF 2017). The financial expertise in the private sector and the regulatory agencies has grown accordingly.

These trends bode well for greater Chinese capacity for participating in international financial standard setting. China's newly acquired leadership positions at the BCBS and IAIS have opened doors for a greater role in the international financial regulatory regime. Chinese policy makers have specifically called for more Chinese nationals to take up key positions in international financial organizations (see, for example, Yi 2015). Although China remains underrepresented among the professional staff at the SSBs, that will likely change in the foreseeable future as more trained personnel from China enter the ranks of international civil servants.

Another factor underlying China's passive approach to international financial standards in the last decade is the compatibility of these standards with its perceived interests. In the early years of its involvement in the FSB and the SSBs, the Chinese government was satisfied by the symbolic rise of China's status in global economic governance. It did not see these standards as threatening to Chinese interests. Because of its capital control, China was not deeply involved in cross-border banking, securities and insurance businesses. Chinese leaders were willing to go along with the rules set by Western industrialized countries. In fact, Chinese policy makers saw international standards as useful templates and tools for financial reform in China. The technocratic regulators were especially keen to borrow the policy recommendations of by these international SSBs to boost their own autonomy and influence in the Chinese political system (Walter 2010; Nölke 2015; Kempthorne 2016).

In recent years, with the rapid growth of China's financial market, the gradual liberalization of the Chinese financial system and the new ambition of Chinese financial institutions to internationalize their businesses, international financial standards have become increasingly pertinent to Chinese economic interests. Policy makers and analysts in China have become quite keen to understand how those standards may constrain, as well as enable, China's financial development and the international operations of Chinese financial institutions. Some Chinese scholars and policy analysts warn that rules made by Western countries could harm the interests of China and other emerging economies. They point out that Western industrialized countries are at different stages of financial development and thus face different challenges. The rules made by Western-dominated SSBs tend to serve the interests of Western countries rather than the interests of developing countries. In fact, they may well disadvantage the latter (Wan, Li and Huang 2014). Some Chinese scholars criticize the steep cost for developing countries in complying with the highly complex international standards, the regulatory challenges they face in establishing financial operations in developed countries and the interference by the so-called "long-arm jurisdiction" of Western regulatory authorities through anti-money laundering mechanisms and financial sanctions. These factors, they argue, could severely undermine the financial market development in China, the competitiveness of Chinese financial institutions, and even national financial security (Zhong et al. 2017; Industry and Commerce Bank of China 2018).

The Chinese financial industry has also paid growing attention to international financial standards in the last few years. For instance, the China Banking Association (CBA) — the banking industry's self-regulation organization established in 2000 — has shown a keen interest in the banking standard making by the BCBS. Since 2016, the CBA has routinely hosted briefings and information exchanges with the CBRC on the revisions of Basel III. In cooperation with the Chinese government, the CBA has worked hard to convey Chinese concerns about certain aspects of the new rules. According to the association, its participation has produced tangible results. For instance, it helped convince the G20 that it would not be appropriate for emerging economies, such as China, to immediately implement the BCBS's 2016 standard concerning banks' total loss-absorbing capacity. As a result, China and other emerging economies gained a six-year extension in meeting this standard, which has protected the interest of China's banking industry (CBA 2016).

China's changing interests are likely to lead to greater divergence in its preferences from those of the traditional standard setters — the developed countries in the West. Of course, China is not monolithic. There are powerful groups in China that strongly advocate international financial standards, especially regulators whose bureaucratic and professional interests align with these standards (Walter 2010; Nölke 2015; Kempthorne 2016; Li 2018). They continue to emphasize the need to turn international standards into domestic laws (see, for example, Liu 2015). However, their voice has to contend more and more with the voices of concern over the potential costs of compliance.

A third major factor behind China's passive approach to international financial regulations, so far, is its weak structural power. As many scholars have argued, despite the decline of its share of global trade and GDP, the United States continues to enjoy overwhelming structural power, especially in the financial realm. The dominance of the US dollar as an international reserve currency, the breadth and depth of the US financial market and the reputation of an open and reliable economic system give the United States unrivalled influence in global financial governance. In making the rules of international financial regulation, the United States has exerted strong influence, turning many of its domestic standards into international standards. In contrast, emerging economies, including China, lack structural power and have been largely unable to influence international financial standards (Drezner 2007; Singer 2007; Chey 2016; Kempthorne 2016).

A decade after the GFC, the structural power balance in international finance has not changed fundamentally. However, China has made important incremental progress toward achieving greater structural power. Besides advances in internationalizing the Chinese currency, Chinese banking and financial markets have expanded significantly.

Chinese banks have grown rapidly in size; the majority of state-owned banks are now the largest in the world by assets. While most of these banks are still not competing against big international banks, they are more internationalized than before. The Industrial and Commercial Bank of China, Agricultural Bank of China, China Construction Bank, and Bank of China are on the FSB's list of "global systemically important banks (G-SIB)." They have experienced greater growth in their overseas lending than lending at home (Yap 2017). In time, this could put China in a situation similar to Japan in the late 1980s. Although Japan's financial market was small then, Japanese banks were strong competitors against banks from the United States and the United Kingdom. International financial regulators had to secure Japan's cooperation to ensure that international standards would not subject US and UK banks to unfair competition with Japanese banks. This gave Japan strong leverages, which Japanese regulators used to obtain important concessions in the making of Basel I standards (Chey 2014).

Meanwhile, China's financial markets have also grown rapidly. As noted earlier, its equity market and bond market are among the biggest in the world. More importantly, as the Chinese government gradually liberalizes the financial market, international investors are increasingly compelled to include China in their portfolio. On May 31, 2018, the global market research and index company, MSCI, began to partially include 226 China large-cap A shares in its Emerging Markets Index. According to the company, "China's equity market accounts for nearly 30% of the emerging markets and is simply too big to ignore" (MSCI 2018). This is a significant step for the internationalization of China's capital market. Funds managing assets in excess of $1.6 trillion are benchmarked to the MSCI Emerging Market Index. The inclusion of China's A shares in this index means funds that follow the benchmark will have to buy Chinese stocks, which market watchers estimate to be $20 billion initially, rising to $300 billion under full inclusion (Reuters 2018). The expansion and internationalization of China's financial markets will likely increase China's structural power and, thus, its leverage in the making of international financial standards.

With improved technical capacity, greater stakes in international financial standards and rising structural power, China is poised to increase its participation in the making of international financial standards. In fact, Chinese government officials, scholars, as well as the financial industries have all called for a greater Chinese voice in this area of global financial governance. For example, in an article published in the Chinese Communist Party's flagship newspaper, *People's Daily*, a deputy head of CIRC stated that "In the past Chinese financial industry has been a follower and complier of international rules, lacking voice in global financial governance. As our financial power and international influence increase, China should actively participate in global financial governance, especially increase our voice and influence in the making of financial supervision rules" (Chen 2016).

Some analysts suggest that China should make effective financial standards at home; publicize and export its domestic financial regulations to other developing countries through bilateral, regional and other minilateral mechanisms, such the Asian Infrastructure Investment Bank (AIIB) and the BRICS; and strengthen the capacity of industry associations and think tanks in information gathering and lobbying (see, for example, Wan, Li and Huang 2014; Zhong et al. 2017; Wang, Cheng and Ma 2018). The coming years may well see attempts to put some of these policy recommendations into practice. However, the path for China to becoming a rule-maker in international financial regulation will be bumpy. If the AIIB and the BRICS' New Development Bank (NDB) are any indication, China (along with other emerging economies) is likely to substantially borrow from international "best practices" while taking tentative steps in developing "next practices" (a phrase used by NDB vice president Leslie Maasdorp, see Maasdorp 2015).

Conclusion

The GFC prompted major international financial SSBs to increase the representation of the emerging economies. A decade has passed, and the emerging economies have not had an obvious impact on international financial regulations. Even China, by far the largest emerging economy, has by and large played the role of rule taker in this area of global financial governance. This situation is likely to change. With improved technical capacity, greater stakes in international financial standards and rising structural power, China has the potential to move from a rule taker to a rule maker in the international financial regulatory regime. Even if this development is not paralleled by other emerging economies, a greater Chinese voice in the making of international financial standards could shake up the status quo. Observers who speculated an end to an era in international financial regulation after the GFC (see, for example, Singer 2010; Wade 2011; Helleiner and Pagliari 2011) may turn out to be right after all, although the process has been more gradual than they expected.

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