Between Confrontation and Assimilation:

China and the Fragmentation of Global Financial Governance

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Introduction

As China's economic and financial power increases, concerns grow about its potential to remake the international economic order in the post-crisis world. The likely impact of China's ascent on the future of the international order is much debated.[1] Optimists hold that China and

[1] On the cautiously optimistic views of Western observers, for example, see G. John Ikenberry, 'The Rise of China and the Future of the West: Can the Liberal System Survive?' *Foreign Affairs* 87:1 (2008), pp.23-37; Zbigniew Brzezinski, 'Clash of the Titans—Make Money, Not War', *Foreign Policy*, January 5, 2005; Daniel W. Drezner, 'Bad Debts: Assessing China's Financial Influence in Great Power Politics,' *International Security* 34: 2 (2009), pp.7-45. On the relatively pessimistic views, for instance, see John Mearsheimer, *The Tragedy of Great Power Politics* (New York: W.W. Norton, 2001); Robert Kagan, 'End of Dreams, Return of History' in Melvyn P. Leffler and Jeffrey W. Legro (eds) *To Lead the World: American Strategy after the Bush Doctrine* (Oxford: Oxford University Press, 2008). For Chinese commentators' discussions of China's revisionist foreign economic policies, for instance, see Yu Zhonghua (2009), 'Peiyu duoji junshi zhiheng meiyuan baquan'[Check the hegemony of the dollar by cultivating multipolar balance], *Guoji Jinrong Bao* [International Financial News], 6 August, 2009 (http://ifb.cass.cn/show_news.asp?id=18591); Zhang Ming, 'China's New International Financial Strategy amid the Global Financial Crisis', *China & World Economy* 17:5 (September–October), 2009, pp.22-35; Pang Zhongying, 'Zhongguo zai guoji tixi zhong de diwei yu zuoyong'[China's Status and Role in the International System], *Xiandai guoji guanxi* [Modern International Relations], no.4, 2006, pp.17-22; Henry Gao, 'China's Ascent in Global Trade Governance: from rule taker to rule shaker and, maybe rule maker?' in Carolyn Deere Birkbeck (ed) *Making Global Trade Governance Work for Development* (Cambridge: Cambridge University Press, 2011), pp. 153-180.

other emerging economies will ultimately integrate into the West-centered liberal order—the eventual assimilation view. In contrast, pessimists contend that China will challenge the United States and the American-led world order—the systemic conflict view. The behavior of international financial institutions is an important indicator of whether a state is pursuing status quo or revisionist foreign policies, an issue of increasing significance in light of China's rise.[2]

This article argues that the dichotomous views fail to capture China's nuanced and balanced attitude towards global financial governance. Beijing's interaction with regional and global financial institutions suggests neither one-way assimilation into an American-centered liberal order nor a collision course with the United States and its Group of Seven (G-7) allies. Beijing seems to be walking a fine line between assimilation and confrontation. Since the early 2000s, China has been pursuing a counterweight strategy to avoid overdependence on existing global institutions by developing a regional supplement (or potential alternative) while maintaining collaborative relations with the G-7 centered global institutions. This strategy has enabled China to better position itself in the evolution of the international monetary order without antagonizing key players outside the Asia-Pacific region. Beijing is hedging its economic bets on the creation of regional institutions and the revision of global institutions. Such behavior will facilitate the emergence of a more fragmented and multilayered form of global financial governance in the twenty-first century.

[2] The eventual assimilation view tends to highlight that Western global economic governance is universally accepted because China and other rising powers have consistently participated in, for example, WTO negotiations or IMF meetings. However, this claim may be partially correct. One cannot rule out the possibility that Chinese behavior may prove to be revisionist, albeit not revolutionary, in that China has been (and will be) gradually counterbalancing Western influence and revising key components of the existing international order from *within*.

The empirical findings of the article also have broader implications for academic and policy debates over power transition in international relations—the rise and fall of great powers and the subsequent impact on international conflict and cooperation. To extend the logic of China's financial multilateralism, one may even cautiously anticipate that if a rising China takes a middle-of-the-road approach towards other dimensions of regional and global governance, such as security, trade, environment and energy, today's power transition would generate a more decentralized and fragmented form of global governance, which challenges the dichotomous views of 'eventual assimilation' and 'systemic conflict.' This point seems to be not sufficiently highlighted by students of Chinese foreign policy and power transition.

Some caveats are in order. This study does not intend to make a systematic test of all the relevant theories[3] or conduct an in-depth case study of specific financial policies. For

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[3] For example, there are at least three prominent theoretical perspectives on the genesis of East Asian financial regionalism—realist, liberal and constructivist perspectives. Scholarly work taking a realist perspective tends to stress the role of structural power or the balance of power in the genesis of the East Asian financial architecture. It traces institutional origins to power rivalry among China, Japan and the United States, which often use institutions as means of statecraft. For example, see William W. Grimes, *Currency and Contest in East Asia: The Great Power Politics of Financial Regionalism*, Ithaca, NY: Cornell University Press (2009); and Jonathan Kirshner, 'Money, Capital and Cooperation in the Asia-Pacific Region,' in G. J. Ikenberry and T. Inoguchi (eds.) *The Uses of Institutions: The U.S., Japan, and Governance in East Asia*, Palgrave Macmillan (2007), pp. 187–216. Liberal approaches highlight the creation of regional institutions to manage the growing economic interdependence of nations in the region and to pursue efficiency. The liberal economic discourse focuses on the functional need for new institutions to resolve common problems and to achieve higher welfare gains for the region. See Jennifer A. Amyx, 'A Regional Bond Market for East Asia? The Evolving Political Dynamics of Regional Financial Cooperation', Pacific Economic Paper No. 342, Australian National University, Australia-Japan Research Centre (2004); and Masahiro Kawai 'East Asian Economic Regionalism: Progress and Challenges', *Journal of Asian Economics*, 16(1): 29–55, 2005. Social constructivists claim that the origins of institutional preferences can be traced to converging norms, identities and legitimacy. They argue that East Asia's normative emphasis on a consultative, flexible and incremental approach,

reasons of space, the article focuses on *politically* high-profile cases which involve Chinese top decision makers, instead of discussing a variety of all the different aspects of the global and regional financial systems. Despite the potential danger of selection bias, hopefully this approach may generate useful insights and hypotheses that can be tested by future research in a more rigorous manner.

The article is organized as follows. The following section provides a brief overview of the key macrostructural changes that have allowed China to bargain with regional and global financial institutions. The focus here is on power, norms and institutions at the international level. The second section discusses Beijing's perception and attitude towards the evolving international monetary order.[4] Specifically, this section highlights China's sense of uncertainty about reforming global institutions and creating regional ones.[5] The third section examines

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as opposed to an ideological, universal and rule-binding one, and a regional identity based upon shared experiences of (semi-) colonial rule and state-led development, have contributed to the voluntary and self-paced nature of Asian financial regionalism. For instance, see Yong Wook Lee, 'Japan and the Asian Monetary Fund: An Identity-Intention Approach', *International Studies Quarterly*, 50(2): 339–66, 2006; and Injoo Sohn, 'Asian Financial Cooperation: The Problem of Legitimacy in Global Financial Governance', *Global Governance*, 11(4): 487–504, 2005.

[4] It should be noted here that this article does neither assume nor claim the Chinese view (or a rising power's view) of the current international financial system is necessarily correct or tenable. The article aims to describe and explain the Chinese view and behavior, instead of engaging in *normative* debates over whether the Chinese perception is appropriate and convincing.

[5] While the students of mainstream international political economy have developed the domestic- politics models of foreign economic policy, the anecdotal evidence I collected indicates that there is no notable influence of non-state actors (e.g. interest groups) or sub-national actors (e.g. local governments) on China's foreign *financial* policy and regionalism policy. Although there is little evidence to challenge the state-centered view of Chinese foreign financial policy, it is inappropriate to reject completely the pluralist (or domestic politics) hypotheses given the limited documentary evidence to us. When new information becomes available, our future research will be able to evaluate whether the pluralist model might have the value-added in explaining China's

what characterizes China's interactions with regional and global financial institutions in the early twenty-first century. This article ends with briefly discussing the implications of the Chinese strategic behavior for the future trajectory of global financial governance.

Power, Norms, and Institutions

Beijing's strategic behavior is related to the following fundamental changes at the international level—*power shifts*, *normative fragmentation*, and *revived regionalism*. These important macrostructural changes have conspired to condition China's perception and behavior regarding the evolving international monetary order.[6] The power shifts include not only China's increasing material power vis-à-vis competing states but also a change from relatively symmetric interdependence to asymmetric interdependence between China and international financial institutions. First of all, there has been a fundamental shift in the global redistribution of wealth. The Chinese economy, which accounted for about one third of world GDP in the early nineteenth century but significantly declined afterwards, is close to resuming its historical position in the global economy.[7] China and other key emerging economies are increasingly regarded as central rather than peripheral players in the global market, while the

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approach toward regional and global financial governance. For a similar view of the limited influence of Chinese society on China's regionalism policy, see Ming Wan, 'The Domestic Politics of China's Asian Regionalism Policy,' in Vinod K. Aggarwal and Seungjoo Lee (eds.) *Trade Policy in the Asia-Pacific: The Role of Ideas, Interests, and Institutions (*New York: Springer, 2010).

[6] It is important to clarify that this study treats the three macro-structural attributes as not key causal factors but permissive conditions that influence China's strategic thinking about international financial governance.

[7] Angus Maddison, *Chinese Economic Performance in the Long Run* (Paris: OECD Development Center, 2008).

developed world's share of world GDP has been shrinking. China has become the world's second largest economy in 2010, and according to the National Intelligence Council, a US government think tank, India will become the world's fourth-largest economy by 2025.[8]

The decentralizing trend in international economic power has reshaped Beijing's bargaining power with not only the United States and other G-7 players but also the key international financial institutions. China and the leading international financial institutions were largely mutually dependent in the 1980s. When China joined the IMF and the World Bank, it did so to acquire concession loans, managerial experience, and technology transfer. For these organizations, China was a big client that helped to boost their legitimacy as global institutions. However, the relative importance of the World Bank and the IMF to China has declined as the Chinese economy has matured and expanded and the country has gained additional sources of capital and advice in the 1990s and the 2000s. For example, China's ability to attract foreign direct investment (FDI) as an engine of growth and restructuring has been unprecedented, as compared with other post-socialist or large developing countries in the 1990s. China was in a league of its own, attracting over $234 billion in net FDI in the 1990s against Brazil's $66.3 billion, Mexico's $61 billion and Russia's $14.3 billion.[9]Moreover, recently China also began to exert creditor power over other developing countries by using its rapidly growing huge cash reserves accumulated through exports and profits at home. As developing countries had the

[8] National Intelligence Council, *Mapping the Global Future: Report of the National Intelligence Council's 2020 Project* (Washington DC: US Government Printing Office, 2004).

[9] World Bank, *Global Development Finance: Analysis and Summary Tables*, 1999 (Washington, D.C.: International Bank for Reconstruction and Development/World Bank, 2000), pp.51.

option of receiving unconditional loans from creditors such as China, the capacity of the World Bank and the IMF to attach conditions to loans declined.[10]Furthermore, the IMF faces a growing need for increased contributions from China to refinance itself in the aftermath of the recent global financial crisis, even though China has not used any of the IMF's financing facilities out of concern about IMF conditionalities. In other words, the World Bank and IMF need China more than China needs them. However, this is not to say that China has achieved the kind of what Susan Strange called "structural power" that hegemonic states could exercise.[11] China is still not capable of setting a new global standard and revising existing institutions on its own. Moreover, the mutual dependence of the Sino-American financial relationship has constrained China's relational power—the capacity of one player to force another to change its behavior—vis-à-vis the United States. The complex interdependence between China and the United States has significantly constrained China's direct leverage over the U.S. financial policy and would generate a "balance of financial terror" (or a peaceful yet nervous coexistence), China's rapidly growing financial muscle notwithstanding.[12]

At this juncture, neither a rising power nor a reigning power appears to be capable of dictating the terms of global financial governance on its own. Today's power transition will make it more uncertain and difficult to predict the future trajectory of the international

[10] Ngaire Woods, 'Whose Aid? Whose Influence? China, Emerging Donors, and the Silent Revolution in Development Assistance,' *International Affairs* 84: 6 (2008), pp. 1205-21.

[11] Susan Strange, *States and Markets* (London: Pinter Publishers, 1994)

[12] Daniel W. Drezner, 'Bad Debts: Assessing China's Financial Influence in Great Power Politics,' *International Security* 34: 2 (2009), pp. 44.

monetary system. China's asymmetric interdependence with the international financial institutions nevertheless could increase China's bargaining power, which would help it translate *financial* power into *institutional* power within both global and regional financial institutions. Because China has become less dependent on the keystone international financial institutions, it has a wider range of policy options and greater capacity to influence or assist international institutions.

The second of the structural changes is related to international norms, specifically, the shift from the "Washington Consensus" to normative fragmentation.[13] There seems to be a decline in hegemonic neo-liberal ideas, and absent a new global consensus, creating a normative vacuum for global financial governance in the twenty-first century. Even when the Washington Consensus was still influential before the late 1990s, there was a mixed picture of China's policy convergence with (or divergence from) international financial institutions. On the one hand, China accepted many of the global (liberal) standards suggested by the IMF, the World Bank, and other global regulatory agencies. On the other hand, Beijing resisted some liberal policy suggestions, notably capital account liberalization. In retrospect, China's noncompliance with capital account liberalization helped China through the Asian financial crisis of 1997-1998 and the global financial crisis of 2008-2009. Beijing has also *selectively* adopted elements of the Basel regime (global banking standards) to achieve domestic financial reform (as will be discussed later). China also criticized the IMF's approach to the Asian financial crisis, while the World Bank and IMF recognized the merit of the Chinese-style gradual

[13] The term Washington Consensus has been commonly used to describe a general orientation towards a market-based approach (e.g. trade liberalization, financial deregulation, and privatization of state enterprises).

approach to economic reform. As Ann Kent aptly notes, their mutual interaction with China led the World Bank and IMF to learn new ways of conceptualizing development and working with member states.[14]

Recently, normative fragmentation driven by international financial crises (especially the recent global financial crisis) has reinforced Chinese skepticism about the Washington-knows-everything (or universal) approach. Beijing's rationale for delegitimizing the universal model, as articulated by the Chinese premier Wen Jiabao at the Forum of China-Africa Cooperation, is worth quoting at length:

"Many people are trying to offer prescriptions for Africa's development, such as the 'Washington Consensus' or the 'Beijing Model'. Yet it seems to me that Africa's development should be based on its own conditions and should follow its own path, that is, the African Model. All countries have to learn from other countries' experience in development. At the same time, they have to follow a path suited to their own national conditions and based on the reality of their own countries."[15]This remark is consistent with China's vision of a 'harmonious world' where multiple civilizations, development modes and social systems coexist.[16]

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[14] Anne Kent, *Beyond Compliance—China, International Organizations, and Global Security* (Stanford: Stanford University Press, 2007), pp.142.

[15] Wen Jiabao, 'FOCAC: Transcript of press conference by Premier Wen Jiabao,' *Pambazuka News*, November 12, Issue 457 (2009) (accessed at http://pambazuka.org/en/category/africa_china/60182).

[16] For a detailed account of 'harmonious world', see Jianfei Liu, 'Sino-US Relations and Building a Harmonious World', *Journal of Contemporary China*, 18 (60), June 2009, pp. 479-490.

The devaluation of the Washington Consensus has significantly undermined the 'soft power' of the United States and other G-7 countries and thereby given China greater bargaining power over the redesign of the global financial governance. The changing normative structure may open up an opportunity for China to become a rule-maker, as opposed to a rule-follower. However, the normative vacuum invites not only opportunity but also challenge. China is neither ready to lead global financial institutional reform as a principal innovator nor certain of the desirability of new overarching global regulations (the one-size-fit-all approach). Like other key players, China is struggling to find a new model of financial governance in the post-crisis world.[17] With the both opportunity and challenge associated with normative fragmentation, China may engage in *mutual* adjustment and learning—two-way, reciprocal interaction—with G-7 centered institutions to create new norms and standards in international finance, as opposed to one-way assimilation or sharp confrontation.

The third of the macrostructural changes involves revived regionalism and the concomitant development of regional governance institutions. Although regionalism and regional institutions have been a consistent feature of the post-World War II global landscape, the end of the Cold War and economic regionalization have contributed to a new emphasis on regional institutions in Europe and other regions.[18] Regarding financial regionalism in East Asia,

[17] Author's interviews with Chinese financial experts in Beijing in December 2008 and August 2010.

[18] Amitav Acharya, and Alastair Iain Johnston, *Crafting Cooperation—Regional International Institutions in Comparative Perspective* (Cambridge: Cambridge University Press, 2007). Recent financial regionalism in the developing world outside Asia includes the Gulf Cooperation Council (GCC)'s plan for a GCC monetary union, the African Union's call for an African Monetary Fund, and the pursuit by the Union of South American Nations (UNASUR)' of a common currency.

the bilateral swap arrangement under the Chiang Mai Initiative (CMI) has been transformed into a multilateral arrangement, which represents a significant step towards the creation of an Asian Monetary Fund. China and other East Asian countries have also sought to develop a vibrant regional bond market through the Asian Bond Fund (or Market) initiative to complement and possibly constrain the U.S.- and Europe-centered global capital markets. The rise of regional financial institutions may complicate collective efforts to establish a strong, inclusive and centralized financial institution at the international level, that is, a World Financial Organization that would be akin to the World Trade Organization.[19] With the growing financial regionalism, the likely success of creating a super global institution would be doubtful and uncertain. Nevertheless, these alternative forms of regional governance could give rising powers a greater voice and more authority than might have been possible within existing global institutions. They might also complement (or even outperform) global institutions in addressing specific pressing regional problems. Regional institutions thus give China a feasible exit option when the existing global institutions become ineffective or irrelevant.

Uncertainty about the Evolving International Monetary Order

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[19] For the notion of a World Financial Organization, see Barry Eichengreen, 'Not a New Bretton Woods but a New Bretton Woods Process,' November 6, 2008. www.econ.berkeley.edu/~eichengr/not_new_bretton_woods.pdf (Accessed on August 10 2010)

China's policy elites are increasingly aware of the usefulness of multilateral cooperation and institutions in dealing with global challenges including international financial problems.[20] Positive-sum views, that are emphasizing international interdependence and joint gains, were increasingly becoming salient in the Chinese discourse from the late 1990s. An increasing number of policy elites began to hold the view that there would be growing space for multilateral cooperation to deal with the common problems of economic security such as international financial crisis. In October 1998, for instance, Dai Xianglong, the then Governor of the People's Bank of China, mentioned that rapid economic globalization and the resulting Asian financial crisis led the international community to share concerns about economic security, and realize the need to strengthen the architecture of international financial governance.[21]In this view, unilateral response would be no longer effective enough to protect its own economy from future international financial turmoil given the interdependent nature of financial globalization; the unilateral strategy of holding a very large stock of foreign exchange reserves to deal with large yet infrequent capital flights is an extremely expensive strategy.[22]As

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[20] For the details of a micro-level process of Chinese ideational change regarding regional multilateralism in the late 1990s, see Injoo Sohn, 'Learning to Cooperate: China's Multilateral Approach to Asian Financial Cooperation', *The China Quarterly*, 194 (2008), pp.309-326.

[21] Xinhua, 'China: China urges strengthening architecture of monetary system,'7 October 1998 (In World News Connection).

[22] A similar view of the limitation of unilateral response was articulated by Hu Jintao in his recent speech entitled "携手合作　同舟共济" [Let Us Join Hands and Tide over Difficulties] at the second Group of 20 (G20) financial summit in London in April 2009. http://www.chinanews.com/gn/news/2009/04-03/1630685.shtml (Accessed on January 9, 2011).

discussed above, many Chinese economists were also aware of the value of China's interaction with the existing global financial institutions (e.g. the IMF, WB and BIS) in terms of obtaining managerial experience, financial support and regulatory knowledge, which may continue to help China to develop its relatively underdeveloped financial markets and regulations. Meanwhile, even some moderate Chinese realists, who tended to highlight a zero-sum form of international competition, have begun to recognize the strategic value of interaction and cooperation with multilateral institutions. For example, Yue Xiaoyong, a researcher of the State Council Research Office claimed that Beijing's promotion of multilateralism diffused the "China threat" perception and thereby created a favorable environment for China's development. Likewise, Yan Xuetong, a professor at the Tsinghua University also argued that China's multilateral diplomacy contributed to consolidating China's reputation as a responsible great power and a favorable external environment for China's rise.[23] In a similar vein, some Chinese financial experts hope that such interaction with multilateral financial institutions will help to insulate China from the destructive policies (e.g., financial protectionism) of irresponsible great powers and alleviate concerns about the "China threat" by showing China's benign behavior in multilateral settings.[24]

Despite such growing positive-sum views and increased awareness of the strategic utility of multilateral diplomacy, however, China confronts deep uncertainty about the evolution of both

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[23] 'Duobian Zhuyi Yu Zhongguo Waijiao' [Multilateralism and China's Diplomacy], *Teaching and Research* 8 (2005), pp. 6-17.

[24] Author's interviews at the Chinese Academy of Social Sciences in December, 2008.

regional and global financial institutions. Uncertainty about the changing international monetary order and the aforementioned structural variables—power shifts, normative fragmentation, and revived regionalism—have influenced Chinese policy. At the global level, the prospects for the fundamental reform of global financial institutions have not been bright, from China's point of view. Although the G-7 has made greater efforts to engage in dialogue with the rest of the world through the Financial Stability Forum (FSF) and the Group of 20 (G-20) since the Asian financial crisis, China's expectations and those of other emerging economies remain unmet. The pre-global crisis FSF featured heavy G-7 representation, with key developing countries (such as China, India, Indonesia and South Korea) excluded. In addition, before the recent global financial crisis, the FSF and the G-20 tended to focus on the domestic aspects of reform (especially in developing countries) rather than international dimensions such as hedge funds, transnational capital flows, and offshore financial centers, which were suspected to be responsible for the speculative frenzy around the Asian crisis. For instance, while examining some of the international aspects of the financial crisis, the FSF resisted recommending any fundamental policy changes in these areas.[25]Similarly, the priority areas of the G-20 during its fifth meeting in 2003—increased financial liberalization, sound domestic financial markets, and the Action Plan on terrorist financing—were significant but had little to do with the primary concerns of China and other developing countries about the structural danger of trans-border capital mobility. One of the key measures of the post-Asian crisis reform was to bring domestic financial system of emerging markets in line with international standards, that is, the Anglo-

[25] Roy Culpeper, 'Systemic Reform at a Standstill: A Flock of 'Gs' in search of Global Financial Stability,' University of Toronto G8 paper series (2000); www.library.utoronto.ca/g7/scholar/culpeper2000/index.html

Saxon model.[26] From the Chinese perspective, however, the diffusion of the neoliberal international standards alone would not necessarily ensure domestic and international financial stability—the devaluation of the neoliberal 'Washington Consensus'. Although Chinese analysts found certain aspects of the Asian development model problematic in application, they tended to emphasize the fundamental problems of extant international economic order and governance as a source of the Asian financial crisis. For instance, an internally circulated Chinese governmental document noted that while 1994 Mexico Peso crisis and 1997 Asian financial crisis mainly resulted from global over-production and volatile international capital mobility, the victims of crises were nation-states in the periphery, rather than the core of the world economy.[27] Accordingly, Beijing held the view that unbridled liberalization of financial markets could be dangerous and certain level of state control over transnational capital flow would be necessary for developing countries which lacked effective regulatory and supervisory capacity. This is consistent with China's renewed emphasis on 'financial security' in the aftermath of the Asian financial crisis[28] and Chinese persistent doubts about the existing international monetary system after the recent global financial crisis. For example, in July 2009, Li Ruogu, president of the Export-Import Bank of China and former vice governor of the

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[26] Andrew Walter, *Governing Finance: East Asia's Adoption of International Standards* (Ithaca, NY: Cornell University Press, 2008).

[27] 'Jingji quanqiuhua dui fazhanzhong Guojia Yiweizhe Shenme?' [What are the implications of economic globalization for developing countries?], *Neibu Canyue* [Internal Reference Reading], January 27, 1999.

[28] For example, see ''Yingxiang woguo jinrong anquan de yinsuo ji yingdui cuoshe'' [The factors affecting our financial security and our responding measures], *Neibu canyue*, 24 March 1999.

People's Bank of China, stated that the global financial crisis "let us clearly see how unreasonable the current international monetary system is." Likewise, Wang Jianye, chief economist of the Export-Import Bank of China has argued that the existing international monetary system fails to reflect the fundamental changes in the world economy, and is no longer workable.[29] Similarly, at the meeting of International Monetary and Financial Committee in October 2009, Yi Gang, Deputy Governor of the People's Bank of China pointed out that "the persistently misaligned quota shares and underrepresentation of emerging market and developing countries hamper Fund [IMF] governance and even-handed surveillance. It undermines Fund legitimacy and effectiveness."[30]

Deep crisis like the recent global financial crisis holds the great potential for sweeping reform, but financial reform on a global scale is still full of uncertainty and contradiction. Despite the expansion of the membership of the FSF — now renamed Financial Stability Board (FSB) — before the 2009 London Summit to include all G-20 countries such as the BRICs (Brazil, Russia, India, China), the interests of the major G-20 players do not necessarily coincide.[31]

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[29] Simon Rabinovich, 'China officials call for displacing dollar, in time', *Reuters*, 6 July, 2009; http://www.reuters.com/article/idUSTRE5650WO20090706; and Wang Jianye, 'China's intellectual contribution to addressing the "once-a-century" financial crisis', *China Daily*, 25 March 2009; http://www.china daily.com.cn/bizchina/2009-03/25/content_7616815.htm

[30] 'Statement of Dr. Yi Gang, Deputy Governor of the People's Bank of China at the Twentieth Meeting of the IMFC in Istanbul', October 4, 2009; http://www.imf.org/external/am/2009/imfc/statement/eng/chn.pdf

[31] As an astute Chinese observer notes, the G20 is not a group of like-minded nations, but one in which cooperation among the emerging powers is "issue-based and specific interest oriented". The cooperation among these powers is complicated by "the fact that the economies and trade interests among these emerging powers

Under the consensus principle (as opposed to majority voting), the larger group, the less likely there will be agreement and the more likely any agreement be diluted by the 'lowest common denominator' problem as in the cases of the stalemates paralyzing the Doha Round of multilateral trade negotiation. Also constraining the pace and scope of reform are the conservative tendencies of the status quo powers and the bureaucratic inertia of existing international institutions. Any attempt to boost China and other rising powers means that other countries will end up with less influence and lower profiles within the affected international institutions. These countries are more likely to resist reforms. Since many of the post-war institutions gave privileged positions to key European countries which were much more powerful in 1900 than in 2000 in terms of both military prowess and economic might, for example, these countries would be the losers in a redistribution (or reform) of institutional power to the Asia-Pacific, which would reflect today's economic power shift. Hence, they may feel tempted to stall or sabotage any fundamental change in the decision making structure of global governance.[32] Collective efforts to rewrite the rules of global financial governance are further complicated by the perceived absence of the kind of benign leadership exercised by the United States when the World Trade Organization (WTO) emerged. During the interwar years,

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are more competitive than complementary." Dongxiao Chen, 'China's perspective on global governance and G20.' http://www.siis.org.cn/en/zhuanti_view_en.aspx?id=10051 (accessed on 6 June 2011).

[32] For the details of the very limited shifts in the G-7's engagement with major emerging economies after the recent global financial crisis, for example, see Ngaire Woods, 'Global governance after the financial crisis: a new multilateralism or the last gasp of the Great Powers?', *Global Policy* 1:1, 2010, pp. 51–63; Anthony Payne, 'How many Gs are there in 'global governance' after the crisis?: the perspectives of the 'marginal majority' of the world's states', *International Affairs*, 86:3, 2010, pp.729-740.

the United States was unwilling and Great Britain was unable to provide global public goods.[33]The consequence was a period of ineffective global governance. The capacity and willingness of today's (relatively declining) hegemon, the United States, to assume the responsibility of providing global public goods remain to be seen. In other words, during today's power transition, neither a rising power nor a reigning power seems to be capable of setting the terms of global financial governance on its own, thus increasing the sense of uncertainty about the future trajectory of the international monetary system.

At the same time, skepticism and uncertainty about the feasibility of East Asia's efforts to create more cohesive regional arrangements or institutions prevails both within and outside China. Although the aforementioned 'revived regionalism' contributed to the emergence of financial regionalism in East Asia and other regions, a series of potential political and economic hurdles seem to shadow the future of Asian financial cooperation. Structural diversity, weak regional identity, power competition may conspire to impede the rise of a strong overarching regional financial architecture in the near future. Among the commonly identified structural barriers are diversities in financial sector development, industrial structure, policy and legal frameworks, and national regulatory capacities. The structural heterogeneity may considerably slow the pace of regional financial cooperation. Moreover, regional identity factor also could add uncertainty to future regional cooperation. There is a mixed picture of the salience of the East Asian identity over time. East Asian resentment against the post-Asian crisis IMF reforms contributed to the region's sense of itself as a common (potential) victim in relation to Western

[33] Charles P. Kindleberger, *The World in Depression, 1929-1939* (Berkley: University of California Press, 1973).

power, thus increasing the relational identity of Asia versus others.[34]Some Chinese pro-multilateralists pointed out the emerging trends of East Asian identity. For example, Wu Jianmin, vice president of the Committee for Foreign Affairs under the National Committee of the Chinese People's Political Consultative Conference and president of China Foreign Affairs University said in his article of the People's Daily[35]:

"The East Asian cooperation has lasted for years on, and its identity is coming into being. There appear common values in the developing process of the cooperation among the East Asian nations, which I summarize as the following four Cs and one O: consultation, consensus, cooperation and comfort level and one O[openness]. Later some friends of mine from the East Asia suggest adding another C: closeness."

However, in a skeptic's view of the regional identity, political tensions over historical issues and disputed territories remain a potential threat to the salience of the East Asian identity. Strong nationalism and weak regional identity may continue to serve as an impediment to a spirit of regional cooperation.[36]Relatedly, the deep competition between China and Japan for regional leadership could also make regional institutions fragile. Thus it remains *unknown* whether the region's political dynamics and evolving regional identity would frustrate East Asia's collective efforts to promote financial regionalism. In sum, the ambiguity and uncertainty

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[34] Richard Higgott, 'The Asian Economic Crisis: A Study in the Politics of Resentment', *New Political Economy*, 3:3 (1998), pp. 333-56.

[35] "East Asian Identity is coming into Beijing," *the People's Daily*, November 15 2005; http://english.peopledaily.com.cn/200511/15/eng20051115_221438.html

[36] Gilbert Rozeman, *Northeast Asia's Stunted Regionalism: Bilateral Distrust in the Shadow of Globalization* (Cambridge: Cambridge University Press, 2004).

inherent in creating regional institutions and reforming global ones has been a key driver of Chinese multilateral approach in the early twenty-first century. Against this background, Beijing has pursued a risk-averse counterweight strategy, that is, developing new regional financial arrangements and thereby avoiding overdependence on G-7 dominated global institutions while sustaining collaborative relations with those global institutions.

Counterweight Strategy: The Choice of Not Making a Choice

At the moment, China seems intent on exploring both global and regional options lest it should limit the range of strategic options available to itself. It intends to acquire more say over the running of the world economy and to resist the pressure of the reigning powers through its counterweight strategy. At the global level, while continuing to call for more substantial reforms on the existing global financial architecture, Beijing has been neither a key policy innovator nor a principal objectionist vetoing major policy initiatives. China has played a constructive role in the institutionalization of the G-20 summit and the reform of the FSF/FSB even though it did not take the lead in those global initiatives. In concert with Brazil, Russia, and India, China also agreed to contribute to IMF reserves, through the purchase of IMF bonds denominated in Special Drawing Rights, a weighted basket of major currency. In doing so, one may claim that China modestly sought to generate alternative to the dollar as a reserve currency.[37]However, it is important to stress that although China publicly endorsed the idea of revamping the dollar-based reserve system (which was indeed initiated by Russia), a notable departure from its usual low-profile behavior, it did not push too hard for the system's

[37] 'Developing Nations Try to Build Long-term Leverage at the IMF,' *Wall Street Journal*, April 27, 2009.

implementation. In March 2009, the head of the People's Bank of China, Zhou Xiaochuan, proposed the creation of "super-sovereign reserve currency," patterned after the IMF's Special Drawing Rights as a way to diversify away from the U.S. dollar.[38] Not surprisingly, the U.S. government rejected the calls to replace the dollar as the world's reserve currency. Subsequently, Chinese officials did not bring up the issue in their private contacts with U.S. Treasury officials, and President Hu Jintao did not raise the issue in his meeting with President Obama in April 2009.[39]The G-20 communiqué did not even mention the dollar's status after the G-20 London Summit in April 2009. This event suggests that while Beijing intends to work with key developing countries (other BRIC economies) on the reform of the dollar-based reserve system, it does not seek to directly challenge the United States.[40]

Similarly, China's strategic behavior regarding the G-7-proposed governance of Sovereign Wealth Fund (SWF) investment also represents its low-key and accommodating approach. SWFs are commonly defined as state-owned investment vehicles that invest globally. The most prominent SWFs come from authoritarian capitalist states. Of the top-twenty SWFs in terms of

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[38] Zhou Xiaochuan, 'Reform the International Monetary System,' People's Bank of China, March 23, 2009; http://www.pbc.gov.cn/english//detail.asp?col?6500&ID?178

[39] Geoff Dyer, 'China Agrees on Need for Cooperation,' *Financial Times*, April 1 2009; Andrew Browne and Michael M. Phillips 'U.S. Insists China Fears over Debt Unfounded', *Wall Street Journal*, March 14, 2009.

[40] This non-confrontational policy appears to be in line with the recent remark made by Wang Qishan, the Chinese vice premier, on the importance of an *incremental* approach towards the reform of international monetary system. In March 2011, Wang claimed that while economic globalization requires the reform of international monetary system, it should be a "long-term and complex process (**长期复杂的过程**)". See '王岐山：完善国际货币体系是一个长期复杂的过程', Xinhua news, March 31, 2011; http://news.xinhuanet.com/fortune/2011-03/31/c_121253038.htm

asset size in 2007, seven were based in the Middle East and nine were based in the Pacific Rim Economies.[41]The growth of these SWFs, especially the Chinese SWF (the China Investment Corporation) provoked public concerns about excessive foreign influence over domestic industries and triggered proposals for regulations. The G-7 called on the IMF to draft a code of conduct for the SWFs. Accordingly, the IMF proposed an international work group (IWG) to draft a set of best practices in February 2008. By the spring of 2008, however, China was skeptical of the IMF work agenda on the SWF regulations. The China Investment Corporation (CIC) officials refused to participate in any IWG deliberations for the first half of 2008. Despite the initial reluctance of the key home countries of the SWFs, notably China, the G-7 continued to raise the issue of regulating the SWFs. The United States and the European Union highlighted a linkage between accepting a code of conduct and access to developed markets (or investment protectionism). At the bilateral meeting of the U.S.-China Strategic Economic Dialogue in June 2008, then-Treasury Secretary Paulson indicated to his Chinese counterparts that a successful IMF process would contribute to lowering barriers to investment in the United States and Europe.[42]Such efforts yielded progress. In September 2008, China participated in the IWG meeting in Santiago, Chile. At the Santiago meeting, the more established SWFs and recipient countries (largely the OECD economies) could apply sufficient pressure on China and Russia to

[41] Marko Maslakovic, 'Sovereign Wealth Funds 2008', *IFSL Report*, London: International Financial Service, April 2008.

[42] The U.S. Department of the Treasury, 'Transcript of U.S. Delegation Press Conference at the Fourth Meeting of the U.S. China Strategic Economic Dialogue,' June 18 2008; http://www.treas.gov/press/releases/hp1048.htm

accept agreement.[43] In the end, China and other member countries reached consensus on generally accepted principles and practices (GAPP), also known as the Santiago Principles, which address the legal and institutional framework, governance issue and risk management of the SWFs. Beijing thus has not created a major fissure in its relationship with key western players in the process of the GAPP code as the United States and the European Union, two large, deep and liquid financial markets, advocated common preferences over the SWF standards.

The similar feature of the Chinese international behavior—'neither-innovator-nor-objectionist' can be also found in the area of global regulatory regimes. For the first time, China and other key emerging market countries have been brought into the inner circle of the G-7-dominated global financial regulatory institutions in the aftermath of the recent global crisis. China has joined major global standard setting institutions, such as the Basel Committee on Banking Supervision (BCBS), the Technical Committee of the International Organization of Securities Commission (IOSCO), the Committee on Payment and Settlement Systems (CPSS) and the Financial Stability Board (FSB) since 2008. However, China's entry into such global institutions does not mean that it has fully accepted and internalized the norms and standards of the G-7-led global regulatory institutions. As Andrew Walter's findings suggest, China has *selectively* adopted only what it needed from western regulatory models, adapted them to Chinese local circumstances, and implemented it in a gradualist manner to achieve domestic

[43] Krishna Guha, 'Sovereign Funds Bank Code,' *Financial Times*, September 3, 2008.

financial reforms.[44] For example, while Beijing largely accepted the Basel norm of 'system stability', it has been more skeptical and reluctant to accept the Basel norm of 'competitive equality,' which was intended to diminish competitive inequalities among international banks. In February 2007, the Chinese Banking Regulatory Commission clearly stated that one goal of Basel II implementation is to increase the competitiveness of Chinese banks (vis-à-vis foreign banks). The CBRC also highlighted the need to gradually implement Basel II "based upon China's realities." [45] This nationally-determined, flexible and incremental method of policy implementation is largely consistent with the Chinese path of economic reforms in many other areas, such as private business restructuring, state-owned enterprise reforms, and rural de-collectivization.[46]The post-Mao Chinese leaders employed risk-minimizing and experiment-based approaches to modernization.[47]The phase "seeking truth from facts" and the slogan "crossing the river by groping for the stones" reflect the idea and norm of Chinese-style policy experimentation.

[44] Andrew Walter, 'Chinese Attitude towards Global Financial Regulatory Co-operation: Revisionist or Status quo?' in E. Helleiner, S. Pagliari, and H. Zimmermann (eds.) *Global Finance in Crisis: The Politics of International Regulatory Change* (New York: Routledge, 2010).

[45] The China Banking Regulatory Commission, *Annual Report 2007*, (Beijing: CBRC, 2007), pp.70.

[46] On this point, for example, see Susan Shirk, *The Political Logic of Economic Reform in China,* (Berkeley: University of California Press, 1993); Barry Naughton, *Growing out of the Plan: Chinese Economic Reform, 1978-1993* (Cambridge: Cambridge University Press, 1996).

[47] Sebastian Heilmann, 'From Local Experiments to National Policy: The Origins of China's Distinctive Policy Process,' *The China Journal* 59 (2008), pp. 1-30.

As the global financial crisis erupted in the United States and revealed the weakness of the Anglo-Saxon model underlying the Basel regime, some Chinese officials began to openly express their concerns and criticism about the Basel regime.[48]China's shifting behavior, however, falls short of directly challenging the existing global banking regulatory regime. China's criticisms of the Basel regime, especially the Basel norm of market self-regulation, have largely echoed those of the United States and other G-7 countries. The parts of the Basel II associated with the "market discipline" allowed private market actors to play an increasingly significant role in the regulation of financial markets through market price-based assessments of risk and value. As the global crisis occurred and deteriorated, G-7 regulators have accepted the criticism that the Basel II's support of the market price-based assessments incentivized banks to engage in excessive risk-taking during economic booms. Despite its growing discontent about the Basel regime, however, Beijing has neither departed markedly from its G-7 counterparts nor presented any alternative regulatory standards on its own. In short, China's strategic behavior in the global banking regulatory regimes suggests neither 'one-way' assimilation into the existing American-centered financial system nor a collision course with the United States and its G-7 allies.

In the mean time, the early twenty first century witnesses the increased efforts of the Chinese government to promote financial cooperation at the regional level. A series of regional initiatives have been launched to increase regional self-sufficiency, ranging from information

[48] Luo Ping 'Financial Crisis and Regulatory Responses: A Perspective from the Chinese Banking Supervisor', GARP Annual Conference, 11 February 2009 (from Andrew Walter, 'Chinese Attitude towards Global Financial Regulatory Co-operation: Revisionist or Status quo?).

sharing to liquidity support facility, regional bond market and currency cooperation. Among the new initiatives are the Chiang Mai Initiative (now the Chiang Mai Initiative Multilateralization Agreement) and the Asian Bond Fund/Market Initiative. Beijing has been actively participating in the creation of regional liquidity support facility under the Chiang Mai Initiative (CMI) since 2000. The CMI (now CMIM) is designed to provide liquidity support for the member countries that experience short-term balance-of-payment deficits in order to prevent an extreme crisis in a country and a subsequent regional contagion. In accordance with the CMI, China signed a series of agreements with Thailand, Japan, South Korea, Indonesia, Malaysia, and the Philippines addressing the regional monetary-stability fund. This is in sharp contrast to Beijing's past behavior, that is, its tacit opposition to the Tokyo-proposed idea of an Asian Monetary Fund in 1997. Since the 2007-8 global financial crisis erupted, China has strongly supported the idea of multilateralising the CMI and increasing the total size of the CMIM from US$80 billion to US$120 billion.[49]The recent global financial crisis appears to have pushed China into making an important compromise on a politically volatile issue, namely allocation of the CMIM contribution and the concomitant voting power in order to strengthen the regional defensive mechanism against systemic instability. In May 2009, two dominant powers, China and Japan, reached an agreement that China (including the mainland and Hong Kong, China), Japan and ASEAN would acquire an approximately 28 per cent voting share each, with South Korea receiving a 14 per cent voting share. This arrangement made it difficult for big countries (i.e.

[49] For China's active promotion of the multilateralisation of the CMI, for example, see Wen Jiabao's speech at the Boao Forum for Asia in April 2009. 温家宝：增强信心 深化合作 实现共赢 [Increase Confidence, Deepen Cooperation, Realize Win-Win Result]; http://news.xinhuanet.com/newscenter/2009-04/18/content_11210180.htm

China and Japan) to act alone or to block decision made by a majority of other countries as the threshold for approval – more than two-thirds of the total votes is needed to approve some key decisions – was set high under the CMIM. Without China's embrace of the 'self-restraining' component of the CMIM voting structure, the CMIM could not have come into being in the aftermath of the global financial crisis.

China has also been making a significant contribution to the creation of the Asian Bond Fund (ABF) since 2003. The establishment of the ABF ultimately aims to: (1) bring back Asian foreign reserves that were traditionally channeled into Europe or the U.S. to be used in bond investments throughout Asia and (2) cushion the region against the external vulnerabilities by building more robust and diversified local capital markets. The member countries of the ABF include Australia, China, Hong Kong, Indonesia, Japan, South Korea, Malaysia, New Zealand, the Philippines, Singapore, and Thailand. Hong Kong was nominated by the Executives' Meeting of East Asia and Pacific Central Banks (EMEAP) as the preferred center for the initial listing of the Pan-Asian Bond Index Fund (PAIF). In May 2005, the Chinese government, one of the largest contributor of the ABF2, approved the PAIF to trade on the Chinese interbank bond market—bonds issued by Chinese banks. This was an important Chinese-initiated measure as opening its local bond market was not one of China's commitments to the World Trade Organization. Another noteworthy point is that the implementation of the ABF2 reflects the Chinese norm, namely, incremental, sovereignty-sensitive, and anti-universal approaches. The pace and timing of the opening of the ABF2's eight single-market funds – each investing in local currency sovereign and quasi-sovereign bonds issued in their respective markets – to investors varied across jurisdictions. Individual member states were allowed to identify market impediments in stages and deal with them at their own pace.[50]

The aforementioned Chinese approach toward financial regionalism also represents its non-confrontational counterweight strategy. China has attempted to reduce the exclusivity of the regional arrangements by advocating a CMI-IMF linkage, an Asian Bond-Eurobond linkage, and ABF-BIS collaboration. This strategic behavior helped the region to develop its supplementary institutions even as East Asia maintains collaborative relations with the IMF and other G-7-centred global financial institutions. When it comes to the CMI-IMF linkage, the initial CMI required its member countries drawing more than 10 per cent from the CMI's emergency fund to accept an IMF conditionality. Some participating countries, particularly Malaysia, called for de-coupling of the CMI from the IMF conditionality. Meanwhile, other members such as China argued for the importance of forging a cooperative relationship with the IMF at an early stage of the CMI development to make it more credible. After all, East Asian countries agreed to accept the linkage of the CMI to the IMF as a temporary arrangement until a formal surveillance mechanism is put in place. This compromise can be explained by two factors. First, the IMF has better institutionalized surveillance mechanisms that the ASEAN+3 lacks. The IMF conducts annual review of member country economies via Article 4 consultations, as well as, assessments of financial sector vulnerability through the Financial Sector Assessment Program.

[50] In addition to the CMIM and the ABF, China also has attempted to play leadership role on regional financial governance by chairing meetings of two new regional bodies. The People's Bank of China has assumed the first chair of the Monetary and Financial Stability Committee which was established in 2007 to enhance regional collaboration and cooperation in the area of macro-monitoring and crisis management. In 2008, the central banks of China, Japan and Republic of Korea also have agreed to meet annually to promote financial stability in the region. China hosted the first annual meeting in 2009.

For potential creditors such as China, it would be ineffective and inappropriate to lend funds to countries whose operations were not under this type of regular surveillance. Linking the CMI to the IMF can ensure that funds lent had a better chance of being repaid, even if China and other Asian countries remained critical of IMF conditionality per se.[51]In addition to the "efficiency (or functional)" consideration, the logic of interstate "power" structure also influenced China's accommodating approach to the CMI. In the early 2000s, China and its Asian neighboring countries worried that the United States and the European Union (EU) would oppose a new Asian financial framework which lacks any IMF linkage as in the case of the aborted Asian Monetary Fund plan in 1997. Given the limited, albeit growing, political power of East Asian grouping vis-à-vis the United States and EU, China and other East Asian countries needed to reduce the independent nature of the CMI at the initial stage of regional financial integration. At the meeting of the ASEAN+3 Finance Ministers in May 2001 in Honolulu, member countries agreed to review the issues of the IMF linkage with the CMI after three years had passed, leaving room for possible revision of the linkage requirement. In May 2005, the finance ministers of the East Asian governments agreed to double the size of the emergency funds that could be withdrawn without IMF conditionality from 10 per cent to 20 per cent. This revision represents the incremental approach taken by China and other CMI member states in loosening their adherence to the IMF conditionality. Whether or not the CMI eliminates their IMF linkage in the near future, the IMF linkage has made the CMI (now CMIM) look more inclusive (as

[51] Jennifer Amyx, 'A Regional Bond Market for East Asia? The Evolving Political Dynamics of Regional Financial Cooperation', *Pacific Economic Papers* 342, Canberra: Australian National University, 2004, pp.6-7.

opposed to exclusive), thereby help to deflect suspicions and criticism from non-Asian economic powers.

Similarly, while the ABF has the potential to challenge the dominance of the United States and EU in the global capital markets, the continuing emphasis that many Asian leaders have placed on the Asian-Bond-Eurobond linkage and the creation of a Euro Bond Market in Asia helped to mobilize EU support for the idea of an Asian Bond Market. In line with Asian-European financial cooperation, for example, eleven Central Bank governors from the Executives' Meeting of East Asia-Pacific (EMEAP), the president of the European Central Bank, and twelve governors from the Eurosystem National Central Banks held a joint high-level seminar in Singapore in 2004 to consolidate relations between EMEAP and the Euro-system. China and other EMEAP member countries also have worked closely with the Bank for International Settlement (BIS), a G-7 centered international organization of central banks to structure and manage the ABF. The investment management unit of the BIS, BIS Asset Management, has managed the ABF with teams based in its Representative Office for Asia and the Pacific and in the BIS head office. The BIS's involvement with the ABF initiatives and its stable working relationship with EMEAP member central banks on other regional monetary issues in general provided additional platforms for policy dialogue and coordination between East Asia and key players outside the region. Overall, China and other East Asian countries made soft commitments,[52]instead of a strong form of commitment (e.g., threats of tightening

[52] Soft commitment is commitment in which a meaningful yet relatively low level of costs is incurred by states that do not comply with their obligations. For instance, if China fails to provide liquidity support for member countries under the CMIM, then it will incur no legal or financial penalty but will suffer a reputation cost (naming and shaming).

an exclusive economic alliance) to regional financial cooperation. This strategic behavior thus has prevented the formation of major rifts in the relations of East Asia, including China, with key actors outside the region and aided the further development of regional institutions. This is consistent with the Chinese view that regional financial initiatives should be pursued as a supplement to the existing global financial institutions. For instance, Zheng Liansheng, a leading expert at the Chinese Ministry of Finance's Asia-Pacific Finance and Development Center argued that "East Asian monetary cooperation needs the mutual coordination of the IMF, the Asian Development Bank, and other existing international and regional organizations."[53]

Toward Fragmented Global Governance

China's strategy points to a rethinking of the current contrasting views of eventual assimilation and systemic conflict. There is little so far to suggest one-way assimilation into the G-7 centered liberal order or a collision course with the United States and its G-7 allies. In a time of the aforementioned macro-structural changes (i.e. power shifts, normative fragmentation, and revived regionalism), Beijing has sought to manage or reduce the

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[53] 'China's Role in East Asian Foreign Currency Reserve Pool Article by Zheng Liansheng of the Ministry of Finance's Asia-Pacific Finance and Development Center: A Broader Significance of East Asian Financial and Banking Cooperation', *Liaowang* , June 22 2009 (World News Connection). The recent global financial crisis has reinforced the views of Chinese experts who advocated the regional initiatives. For example, in May 2008, Li Yang, Director of the Institute of Finance and Banking at the Chinese Academy of Social Sciences, argued for Asian regional currency development as a crisis-prevention mechanism, and Zhang Tao, Director General of the Financial Survey and Statistics Department of the PBOC, emphasized the importance of financial cooperation between emerging economies and East Asian countries. 'Lujiazui Forum 2008: Deepening Financial Reform – China and the World', 9–10 May, 2008, pp.10; http://www.lujiazuiforum.org/docs/2008_en.pdf.

uncertainty associated with the evolving international monetary order by developing credible regional options without endangering its relationship with the G-7 centered global institutions. The CMIM and the ABF created counterweight enabling China to go beyond the IMF (or the G-7) support in finance for development and crisis management. The CMIM and the ABF would serve as another means through which China can push forward its agenda gradually, but without antagonizing G-7.

If emerging global reform consensus addresses China's vital interest and concerns about the post-global crisis international financial system, China's own position would move in a similar direction. However, if the evolving global financial governance institutions do not fully reflect China's view, China is likely to continue developing regional supplements (or potential alternatives) through a moderate, incremental, and low-profile counterweight strategy. As an astute observer notes, "Being an active member of global multilateral bodies is perfectly compatible with a willingness to challenge the status quo, to reject US-favored positions, and to favor new forms of global governance."[54]China will engage in *reciprocal* adjustments and negotiations with its G-7 counterparts to revise the principles and regulations of global financial governance in the post-global crisis world, but will not put all of its eggs into a single global financial institution basket.[55]

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[54] Andrew Hurrell, 'International Law 1989–2010: A Performance Appraisal,' ESIL Keynote Speech, August 2010; http://www.esil-en.law.cam.ac.uk/Media/papers/Hurrell_ESIL2010_Keynote.pdf (Accessed January 10, 2012).

[55] On Chinese leaders' stance that "global, regional and bilateral financial cooperative mechanisms" are not mutually exclusive but can be "mutually coordinated(**互相配合**)," See '**外交部**举行二十国集团领导人第二次金融峰会中外记者吹风会,'March 23, 2009; http://ipc.fmprc.gov.cn/chn/cfh/t553238.htm

The recent global financial crisis has generated heated debates over the future of global financial governance. Some leading experts contend that the world would face a "more decentralized and fragmented form of international financial governance", a new geopolitical reality that comprises a "variety of regional systems," or a "leaderless currency system."[56]The strategic behavior of a rising China could reinforce these decentralizing trends in international financial governance. As the international monetary system is presently in flux, one cannot judge whether China's policy toward international financial institutions is revisionist or status quo. It *is* obvious that China's counterweight strategy is unlikely to reverse the decentralizing tendency in global financial governance in the near future. China is not an immediate cause but can be a facilitator of the fragmentation and decentralization of global financial governance. China would continue to advocate a minimalist approach to regional institutions. This sovereignty-sensitive approach may encourage East Asia to adopt the least controversial principles possible, with which all Asian member countries must comply, while allowing for greater policy flexibility. For instance, a country that is focused more on financial stability (or security) than on financial innovation (or development) would not only be required to meet regionally coordinated minimum principles and standards for the Asian bond market, but would also be allowed to apply stricter regulations to the financial activities of both national and foreign institutions. The implementation of ABF2 reflects the logic of principled minimalism as discussed above. Such a more country-tailored approach marks divergence from the neo-liberal

[56] See, Eric Helleiner, 'Reregulation and Fragmentation in International Financial Governance,' *Global Governance* 16 (1), 2009; David P. Calleo, 'Twenty First Century Geopolitics and the Erosion of the Dollar Order' and Benjamin J. Cohen, 'Toward a Leaderless Currency System,' in Eric Helleiner and Jonathan Kirshner (eds.) *The Future of The Dollar* (Ithaca: Cornell University Press, 2009).

universal regulations. Meanwhile, the China-centered CMIM intends to complement the role of the IMF in crisis management in the long run. While its IMF linkage has made the CMIM look less independent and exclusive, the CMIM also has the potential to develop an independent regional surveillance mechanism and a regionally-tailored conditionality, which could be a significant departure from the 'one-size-fits-all' IMF approach.[57]

As a result, global, regional, or even bilaterally tailored institutions and arrangements may coexist and compete with or complement one another. This is inconsistent with both the views of eventual assimilation and systemic conflict. At this juncture, we cannot make any definitive conclusions on transformations we are living through not least because we are still living with the midst of the global financial crisis, power transition and normative fragmentation. Nonetheless, hopefully this non-dichotomous view of Chinese foreign financial policy can make an initial contribution towards a growing body of research on rising powers' sophisticated attempts at reshaping the prevailing global governance in the post-global crisis world.

[57] In addition to China's promotion of the CMIM and the ABF, while it is somewhat too early to conclude, China's recent drive to internationalize its currency (*reminbi*) would possibly facilitate the rise of a fragmented mode of global currency system in the future. Moreover, unless the emerging reform consensus among the key global financial regulators represents Chinese preference, Beijing may support the idea of a decentralized architecture for the new Financial Stability Board (FSB)—a successor to the Financial Stability Forum—established by the 2009 London Summit. In this view, the Asian Financial Stability Dialogue around the FSB, as proposed by the Asian Development Bank, could play a supportive role by translating FSB initiatives into a regional context, helping to implement them, and collecting regional inputs for the FSB decision making process.