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EU-CHINA RELATIONS IN FINANCIAL GOVERNANCE: COOPERATION, CONVERGENCE OR COMPETITION?

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EU-China relations in financial governance: Cooperation, convergence or competition?

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Abstract

The Global Financial Crisis (GFC) and subsequent Eurozone sovereign debt crisis (ESDC) have made reform of the global financial governance regime a priority for governments around the world. Prior to the crisis, neoliberal policies agreed between the European Union and the United States created a financial governance regime based on the principle of free operation of the market through the norms of market self-regulation, equal access to the market, and stability via institutional supervision. How will global financial governance look like after these crises? And what role can the EU and China play in shaping this regime? This article argues that as a result of the GFC and the ESDC, stability is becoming a second principle of global financial governance, along with the free operation of the market. Meanwhile, European and Chinese views regarding the norms, rules and decision-making procedures designed to implement those principles do not differ as much as they used to. Thanks to interactions at the bilateral and multilateral levels, the EU and China now have knowledge regarding how the other understands the role and characteristics that financial governance should have. This is leading to convergence in some areas and cooperation in in others. Concurrently, there are also areas of competition. Analysing all of these is essential to understand how global financial governance might evolve, given the central role that the EU and China now play in this regime.

Keywords

Financial governance, international regimes, Global Financial Crisis, Basel accords, EU-China relations

Introduction

China's rise has has become increasingly multifaceted. Today, Beijing not only is the second largest economy in the world by GDP, but increasingly a diplomatic and military power as well. China has now become an active participant in global governance. The EU, for its part, has a long-standing interest in global governance. Furthermore, the EU has been granted legal personality since the entry into force of the Treaty of Lisbon, in 2009.

The Global Financial Crisis of 2007-08 (GFC) and subsequent Eurozone sovereign debt crisis (ESDC) have brought multilateral economic governance to the centre of efforts to create a stable international system. Discussions in the WTO swiftly focused on avoiding rise in tariff and non-tariff barriers that could hamper global trade. Meanwhile, the IMF came to the rescue of several economies with short-term liquidity problems, and the World Bank led efforts to ensure that developing countries were not disproportionally affected by the crisis.

However, given the financial origin of the GFC and the ESDC, which showed the failure of existing regulations and monitoring of the sector, there has been an emphasis on reform of the global financial governance regime. The existing regulatory framework and the multilateral institutions that should have monitored an increasingly liberalised sector have proved to be both incapable of detecting or preventing the biggest financial crisis since the Great Depression, and also inefficient in solving the crisis. This failure warrants new thinking regarding the principles and rules of a renewed financial regime ensuring effective governance at the global level.

The EU and China, two of the largest economies in the world and home to big financial markets should be involved in developing a new financial governance regime.[1] Only if both of them are part of the new arrangements will these work, given the weight that China and the EU have in the global economy in general and financial markets in particular. The centrality of the EU and China to any long-term financial governance regime makes it important to ascertain the current state of relations, agreements and differences between both in the area of financial governance. Thus we will be able to identify existing areas of cooperation, areas of disagreement, and areas in which joint work is possible. This will in turn allow us to ascertain whether China and the EU and the relationship between both can act as a catalyst or a break to global financial governance.

The rest of the article is divided into four sections. Section 2 – building on Krasner's definition of regime – will lay out the theoretical framework underpinning the analysis of relations between the EU and China with regards to development of a new financial governance regime. Section 3 will be empirical in nature, using qualitative comparative analysis to analyse how each of them regulates its domestic financial market, as well as their interactions in the area of finance. Section 4 will then analyse the implications of these empirical findings for negotiations on a global financial framework. A concluding section will summarise the main findings of this article.

The global financial governance regime

[1] Hong Kong is not discussed in this paper, since it has its own monetary authority and regulatory and monitoring mechanisms independent from those in mainland China.

Krasner defines international regimes as "principles, norms, rules and decision-making procedures around which actor expectations converge in a given issue-area" (Krasner 1982, p. 185). Principles and norms provide the basic characteristics of a regime, the ideational foundation. In contrast, rules and procedures are part of the regime; changes in rules and procedures are changes within regimes, not changes of the regime (Krasner 1982). All of them are central features of any regime. Principles and norms are important because they lay out the goals that a regime should strive to achieve. Rules and procedures are essential because they serve to put into practice the principles and norms according to existing circumstances. Without them, regimes would not be able to function. Krasner's definition of international regimes will be applied throughout the rest of this article.

Pre-GFC global financial regime

The pre-GFC global financial regime was shaped throughout the 1970s. Three developments warranted creation of a new regime. The first was government-led: the decision by the Richard Nixon administration to terminate convertibility of the US dollar to gold in 1971 (Helleiner 2011). This put an end to a system predicated on a fixed value of the US dollar to gold, and the implicit guarantee that foreign governments could exchange US dollar reserves for gold. The second development was government-led too: the decision by several governments to move towards a floating exchange rate regime, first implemented in 1973 and formalised by the IMF in 1978 (Helleiner 2011). The previous, adjustable pegs regime, was based on governments pegging the value of their currencies to the US dollar.

The third development that resulted in the creation of a new financial regime was market-led. Cross-border financial flows had been increasing throughout the 1960s, but accelerated in the

1970s as a result of changes in technology and the market. New telecommunication tools, the expansion in multilateral trade, an increase in private international flows from oil-producing countries, and a move towards asset diversification led to globalised financial markets (Helleiner 2011).

These developments produced the breakdown of the Bretton Woods system, based on rules and procedures allowing for government-imposed capital controls and intervention in currency exchange markets. In contrast, a different financial regime emerged and was in place by the 1980s. Based on neoliberal principles and norms, the new regime asserted the superiority of the free market and admonished unwarranted government intervention in financial markets (Best 2003). The neoliberal regime was predicated on the idea that private actors are able to allocate resources more efficiently than governments. Thus, the role of governments and institutions is to ensure that private actors can operate freely and on an equal footing.

The rules and procedures implemented to support the neoliberal financial regime therefore differed sharply from the pre-existing framework. Three new institutions central to this regime were already launched in 1975. They were the Basel Committee on Banking Supervision (BCBS), the Group of Seven (G7), and the embryo of what in 1984 would become the International Organisation of Securities Commissions (IOSCO) (Porter 2003).

The regulatory regime built upon these three organisations and other agreements was focused on three pillars: supervision of banking activities through fostering information exchange and capital adequacy requirements for banks, horizontal integration across financial instruments,

and vertical integration between the just-mentioned, technical institutions and political counterparts such as the IMF and the World Bank (Porter 2005).

Thus, it could be argued that the emphasis of the neoliberal financial regime was the principle of the *free operation of the market* through three normative considerations: *self-regulation* by the market itself, *equal access* to the market guaranteed through (minimal) government intervention, and a certain degree of *stability* via institutional supervision.[2] Differently, the embedded liberal regime had been based on government control over capital flows and government-led regulation constraining market operations. There was a clear shift in the nature of the regime itself.

Towards a new financial regime?

This neoliberal financial regime has been questioned as a result of the GFC. Nesvetailova and Palan (2010) argue that the pre-existing model is unlikely to survive in the aftermath of the crisis. There are three dimensions to this model: a set of ideas associated with Friedrich Hayek and Milton Friedman, a network of institutions and modes of private governance, and massive foreign holdings of American debt. These three dimensions have been weakened by the GFC.

Indeed, a volume edited by Helleiner, Pagliari and Zimmermann (2010) shows that the neoliberal financial regime is being eroded. As different contributors to this volume explain,

[2] Rosemary Foot and Andrew Walter reach a similar conclusion with regards to the main norms governing the global financial regime. They argue that financial stability through minimum bank capital requirements, competitiveness through a level playing field and, decentralised, market-base regulation are the three main norms that underpin this regime. See Foot and Walter 2011.

financial regulation has already been modified, self- regulation by the market has been discredited, and governments around the world are coming up with new ideas on how to create a different financial regime. Considering that the previous regime was never universally applied to begin with, it is unlikely that it will survive the GFC unchanged.

It is too early to know whether the post-crisis regime will be based on new principles and norms or whether the changes will relate only to rules and procedures. Regardless of which of the two transformations occurs, will the EU and China be able to shape the new regime? The EU was already involved in shaping the previous regime through transatlantic regulatory cooperation. EU officials shaped the pre-GFC regime together with their American counterparts (Posner 2009). Thus, it is highly likely that they will continue to do so. Indeed, Posner (2010) suggests that a European approach to financial regulation is emerging from the crisis.

As for China, its rise and deeper involvement in global governance makes it very likely that Beijing will be an active participant in discussions about a new financial regime. Overholt (2010) explains that the crisis has made Beijing more influential in all aspects of global governance. Meanwhile, Walter (2010) maintains that China is already part of discussions about the possibility of creating a new global financial governance regime. The main question relates to whether China wants to modify the existing regime or change the regime itself.

The EU, China, and regime-building: Cooperation, competition or convergence

Building a new regime through creation of new principles and norms or modification of an existing regime through implementation of new rules and decision-making procedures would

necessitate cooperation. In fact, regime theory is usually associated with liberalism, one of whose tenets is that states tend to cooperate to obtain relative gains.

However, creation of a new regime, or modification of an existing one, involves negotiations among autonomous actors seeking goals that might differ and proposing means to achieve those goals that will not necessarily correspond with each other. Thus, negotiations to form a regime can fail (Young 1989). Examining the conditions that might lead to the creation of a new financial governance regime or a modification of the existing one is beyond the scope of this article. But it is relevant to note that regime formation is not straightforward even when actors seemingly have similar goals and ideas about the means to achieve them.

In the case of the EU, China and the prospect of developing a new global financial governance regime, cooperation is a possibility. Brussels and Beijing might agree on the goals that the regime should aim at as well as the means to achieve those goals. In this case, the EU and China can engage in a cooperative relationship and work together to attain their (similar) goals. Cooperation would require a conscious decision from both Beijing and Brussels to actively seek a positive outcome.

Conversely, the EU and China might engage in competitive behaviour during the regime formation or modification process. They might have dissimilar goals and/or different ideas regarding the means to achieve them. In this case, they might decide to compete to try to make as many of their goals and/or preferred means to achieve them as part of any future regime. Competition would again require a conscious decision by China and the EU, but in this case to actively seek an outcome that could be considered negative insofar as the resultant regime would be disliked by at least one of them.

A final relationship between the EU and China regarding creation of a global financial governance regime is convergence. The regulatory framework in both of them might be similar in terms of goals and means. In this case, Brussels and Beijing might already be implementing analogous rules and procedures without necessarily noticing. Thus, convergence would be unconscious and passive, the latter meaning that China and the EU are not actively seeking to push for implementation of a given regime at the global level but might potentially be affecting said regime through their behaviour. The potential for a positive outcome therefore exists.

The next section will analyse the domestic financial regulatory framework that exists in the EU and China, their bilateral interactions with regards to financial regimes, and their involvement in global financial institutions. This will serve to highlight areas of cooperation, convergence and competition.

The EU, China, and finance

This section will use qualitative comparative analysis to examine the EU's and China's domestic financial sectors, as well as bilateral interactions between them and their actions at the global level. The financial regimes in operation in the EU and China seem to be quite different in terms of the relationship between public and private actors, the rationale behind regulation, and, at a fundamental level, the role of the financial sector, as we will see below. In fact, it could be argued that the prospects for cooperation seem almost negligible.

However, the decision by Beijing and Brussels to launch negotiations for an investment agreement following the 15th EU-China Summit, held in September 2012, suggests that their positions with regards to a central aspect of any financial regime can at least be reconciled. Coupled with the annual EU-China Economic and Financial Dialogue as well as joint statements on collaboration in this area, it seems that Brussels and Beijing are already cooperating.

Domestic financial sectors and policies

The domestic financial sectors of the EU and China are dissimilar. According to the Chinn-Ito Index of financial openness, China ranks 165th out of 181 countries examined. In contrast, most EU member states except those which have recently joined are towards the top (Chinn and Ito, 2008). Nonetheless, as of 2010 even new member states were becoming more open.[3] This discrepancy with regards to financial openness matters insofar as it highlights a fundamentally different attitude towards the type of financial regime that best serves the economy.

In the case of the EU pre-GFC, this financial regime was characterised by the centrality of private actors, self-regulation by the market, and independence of the financial sector to allocate capital. The main function of central banks was to ensure macroeconomic stability. Meanwhile, regulatory and supervisory bodies should create a framework that does not significantly constrain market activities while providing equal access to all financial firms (Moloney 2010).

[3] See dataset available at <http://web.pdx.edu/~ito/Chinn-Ito_website.htm> (accessed 24 October 2012).

Differently, China's financial sector is characterised by the predominance of public actors, stringent regulation imposed by the central government, and the use of the financial sector to allocate capital according to government preferences. The role of the People's Bank of China (PBS) is to support the government's monetary policy and broader economic goals. Regulatory and supervisory bodies should ensure financial stability even if market activity is affected (Allen et al., 2008).

Financial actors and regulation

The main actors operating in EU financial markets are private companies – banks, insurance companies, hedge funds, etc. The most important actors in the Chinese financial market are state owned banks (SOBs) – especially the 'big four' commercial banks plus three policy-lending banks operating in the agricultural, development, and export-import sectors (Linden 2010). Private financial firms exist, but they are not as essential to the operation of the financial sector as they are in the EU.

Thus, private actors are more important for the flow of capital in European markets than they are in China. This gives them a degree of power over the economies of the EU that is absent from the Chinese economy. The GFC has demonstrated the power that financial firms command in Europe. Once intra-EU cross-border financial flows ceased, Greece, Ireland and Portugal had to be bailed out to be able to avert a deeper recession and fulfil their sovereign

debt payment obligations.[4] Private financial firms can therefore significantly affect economic policy.

In the case of China, the government has a large degree of control over the domestic economy. Beijing can ask SOBs to loosen or tighten lending according to its preferences. SOBs can also be asked to invest in particular projects or sectors that authorities want to promote. Moreover, Chinese vast foreign exchange holdings can be channelled through these banks, as seen during the GFC (Fardoust, Lin and Luo, 2012).

The ease with which the EU accepts the predominance of private actors in the financial sector is reflected in the regulatory framework jointly developed by the European Commission and the European Council since the late 1990s. According to Posner and Véron (2010), this regulatory framework is characterised by easing of cross-border financial services activity, downloading of 'best practice' as developed by international institutions following an Anglo-American model (e.g., prudential regulation and accounting standards), and according a large degree of discretion to financial services firms. These firms were involved in developing legislation via a public consultation process.

The financial regulatory framework of the EU is undergoing changes as a result of the GFC though. These changes suggest that power relations between public and private actors are becoming more balanced. A new multilayered regulatory body has been created, with the European Systemic Risk Board (ESRB) at the top, which started operations in January 2011; at the second layer, the European Banking Authority, European Securities and Markets

[4] For a detailed examination of the close links between the influence of the behaviour of financial firms and the ESDC, see Blundell-Wignall and Slowik (2011).

Authority, and European Insurance and Occupational Pensions Authority, all of which were launched at the same time as the ESRB. , In the next layer are the member states' banking, insurance, and securities supervisors. (European Systemic Risk Board, 2012).

This new framework promises to be different and give more power to public actors insofar its task is not only to supervise individual firms, but to ensure stability of the financial sector as a whole (European Systemic Risk Board, 2012). Moloney (2010) argues that draft documents being circulated by the European Commission and the European Parliament suggest increased control over market activities at EU level.

In sharp contrast, China's regulatory framework is noteworthy for the tight control imposed on financial flows, and especially portfolio investment. China's regulatory framework is also notable for its uneven regard to international practices. The IMF makes clear in its 2011 financial stability assessment of China that the government should introduce several reforms at all levels of regulation if it wants to fall in line with best practices at the international level (IMF 2011). Financial services firms are subject to stringent regulation. Most notably, any foreign firm that wants to operate in Chinese stock markets needs to be issued a Qualified Foreign Institutional Investor (QFII) licence.

As for modification of the current financial regulatory framework, China has refrained from introducing major changes at the internal level following the GFC. Differently from their European counterparts, there is no indication that Chinese authorities believe that a new domestic framework is urgently needed. The PBS, the China Banking Regulatory Commission (CBRC), the China Securities Regulatory Commission, and the China Insurance

Regulatory Commission, are the four main financial regulatory bodies in China (Linden 2010). They were all created or upgraded in status between 1992 and 2003.

In spite of China withstanding the GFC relatively unscathed and its financial regulatory framework and supervisory bodies not having been questioned, Beijing is slowly shifting the nature of domestic regulations. If not market-driven, this framework is becoming market-friendly (Linden 2010). Most notably, Beijing only partially implemented Basel I capital adequacy requirements, but implemented Basel II on a similar timescale as other countries, and is on track to implement Basel III on schedule (Foot and Walter 2013). Notwithstanding the above, Chinese authorities are only gradually introducing reforms and are yet to let private firms play a greater role in decision-making procedures.

In short, the current European and Chinese financial regimes are quite different. They are aimed at serving different purposes, which creates a particular balance of power between public and private actors in each of them. But there are ongoing changes in their financial sectors which are making them more similar to each other. And as we will see in the next two sections, Beijing and Brussels are taking steps to discuss their differences at the bilateral and multilateral levels.

EU-China financial bilateralism

The pre-GFC domestic financial sectors of China and the EU differed in terms of the principles underpinning their goals and functioning. However, there are indications that the GFC is actually shifting the position of the EU with regards to regulation. Meanwhile, China had already started to move away from an entirely state-led regulatory framework before the

GFC. Therefore, the positions of the EU and China with regards to the financial sector are not as distant as they used to be.

This rapprochement is reflected in the initiatives related to the financial sector that they have engaged in before and after the crisis. Following the launch of a 'comprehensive partnership' in 2000, the EU initiated a programme to assist China "in the reform and restructuring of the financial services sector" (Commission of the European Communities 2000, p. 10). This resulted in the EU-China Financial Services Co-operation Project. From late 2003 until December 2006, the EU worked with the Chinese government to reform the financial services sector, providing policy advice and training to regulators and supervisors (European Commission 2006). The message was clear: China's financial sector needed to modernise and learn from the experience of the EU.

The EU-China Economic and Financial Dialogue, launched in 2005 was supposed to be the platform for both of them to exchange views on the financial system. However, joint statements issued after the first few rounds of these dialogues were too vague and general. The dialogues so far appeared only to re-assert pre-existing positions rather than to spark any concrete action.[5]

The situation changed as a result of the GFC. To begin with, a High Level Economic and Trade Dialogue was launched in April 2008. This dialogue is held at the Vice Premier level. Discussion of financial matters is a central component of this dialogue, which acts as a driver of sectoral dialogues to which it gives coherence as part the broader strategy of the EU and

[5] See, for example, European Commission 2007.

China towards the other. Financial governance is an important part of this dialogue (European Commission 2000).

Furthermore, Brussels and Beijing started to discuss a wider range of issues within the Economic and Financial Dialogue. Monetary and regulatory policy responses to the crisis, strengthening of the international financial system, and improving market regulation have become central to this dialogue (European Commission 2012). Differently from the pre-GFC period, statements issued from 2009 onwards suggest deeper engagement between both parties.

Finally, in September 2012 China and the EU expressed their commitment to signing a bilateral investment agreement (European Council 2012). Launching an investment agreement would be a significant step for both parties, since it would mean that discussions about their respective financial sectors would be supplemented with a commitment not to discriminate against financial firms from the other.

The EU and China in global financial institutions

The EU and China have experience in working together with other actors in the area of financial governance. In the case of the EU, joint work starts at the internal level. Sometimes, supranationalism has driven developments in Europe's financial architecture, such as Commission's initiatives leading to the creation of competing stock markets from the mid-1990s onwards (Posner and Véron 2010). On other occasions, intergovernmentalism has been the main driving force behind changes to this financial architecture. The response to the GFC and subsequent ESDC is a case in point (Puetter 2012).

At the global level, however, the EU has presented a common position when negotiating on financial matters with third parties. This allowed Brussels to have a dialogue among equals with Washington when discussing regulation of financial markets in the early 21st century (Posner 2009). Nevertheless, pre-GFC the EU was not able to significantly affect global financial governance due to its default position of having a similar approach to that of the US (Posner and Véron 2010).

China, for its part, has little experience in working together with other countries in the area of financial governance. There was little effort to engage in multilateral cooperation throughout the early 1990s. However, China became proactively involved in financial governance at the East Asian regional level in the aftermath of the Asian Financial Crisis of 1997 (Sohn 2008). This resulted in a process of learning that has made Chinese elites aware of the benefits of cooperation (Sohn 2008).

At the global level, Beijing moved towards partial acquiescence with the existing framework, especially the Basel II accord (Walter 2010). This does not mean that China is thoroughly satisfied with the current practice of selectively applying those aspects of financial regulations that suit its needs. As Sohn (2013) maintains, Beijing has no wish to either confront or assimilate the current financial governance regime. Instead, Chinese leaders will be willing to participate in reform of the current system, as long as their concerns are addressed.

The EU and China in global financial governance: The Basel institutional framework

Even though the G20 has attracted more attention, there are three institutions located in Basel where policy makers and bureaucrats discuss the direction of global financial governance in detail and to put it into practice. These institutions are the Bank for International Settlements (BIS), established in 1930, the BCBS, launched in 1974, and the Financial Stability Board (FSB), launched by the G20 in 2009 to replace the Financial Stability Forum.[6] The BCBS and the FSB are hosted by the BIS.

The BIS and the BCBS have been the main players in the establishment of the 1988, 2004 and 2010-11 Basel Accords, with the BCBS leading the negotiation and launch processes. The EU and EU member states were instrumental in setting up the first two Basel accords by being actively involved in discussions on capital adequacy requirements, and keen on implementing them at the domestic level (Tarullo 2008). Meanwhile, China only joined the BIS in 1996 and the BCBS in 2009. Thus, even though, as mentioned above, Beijing cautiously moved towards implementation of the first two Basel accords, it was not involved in their design.

China was, however, part of discussions to establish Basel III. The CBRC, which represents Chinese interests in the BCBS, expressed its views on this new accord after the BCBS launched a consultation process. The CBRC broadly agreed with the changes introduced by Basel III but also made specific proposals on how to make them more adequate to Chinese needs (China Banking Regulatory Commission 2010). The changes introduced by Basel III include raising capital requirements, enhancing risk coverage, introducing a leverage ratio, promoting countercyclical measures, addressing systemic risk, and introducing a global

[6] The IOSCO and the International Association of Insurance Supervisors are not discussed in this section due to their limited interest in the context of EU-China interactions with regards to global financial governance.

liquidity standard (Basel Committee on Banking Supervision 2011). The fact that China broadly agreed with them yet had its own suggestions reflected a level of engagement with financial regulation that was absent before. Beijing is no longer a follower in Basel III, a shift that bodes well for cooperation with an EU that has always been at the forefront of the Basel accords' process.

With regards to the FSB, it has become the main forum to discuss financial regulation and related areas such as promoting coordination among relevant authorities, monitoring best practice, or supporting the establishment of supervisory institutions. Launched by the G20, it involves the major economies in the world along with institutions such as the BIS, the IMF or the World Bank.

The EU has become very active in the FSB (Dür and Elsig 2011). It has also rapidly moved towards implementation of its agreements, such as standards on pay in financial institutions (Moloney 2010). Similarly, China has been actively involved in FSB meetings from the onset (Hui 2010). Beijing has also broadly complied with its positions (Walter 2010). This indicates that, at the very least, the EU and China are willing to comply with financial standards set by the FSB.

EU-China relations and financial governance

Building on Krasner's definition of regimes, it was argued in section 2 that the key principle of the neoliberal financial regime that emerged from the late 1970s onwards was the free operation of the market. It was also explained that the three norms most closely associated with this regime were market self-regulation, minimal government intervention to ensure

equal market access, and stability through supervision. Section 3 used qualitative comparative analysis to better understand how China's and the EU's financial systems work and how they engage with financial governance at the bilateral and multilateral level. Reflecting on these findings will help to understand how the EU and China would prefer the principles, norms, rules, and decision-making procedures of a financial governance regime look like (see table 1).

Table 1. Global financial governance regime preferences

	EU	**China**
Principles	Free operation of the market (stability becoming a principle too)	Stability
Norms	Joint regulation by governments and markets, equal access to all firms, stability becoming a principle	Government regulation, moving towards greater access for foreign firms, slowly moving towards freer operation of the market
Rules	Capital adequacy requirements for banks, enhancing risk coverage, introducing a leverage ratio, promoting countercyclical measures, addressing	Capital adequacy requirements for banks, enhancing risk coverage, introducing a leverage ratio, promoting countercyclical measures, addressing

	systemic risk, and introducing a global liquidity standard (as codified in Basel III)	systemic risk, and introducing a global liquidity standard (as codified in Basel III), state owned banks central to the operation of the financial sector
Decision-making procedures	Coordinated by international institutions, consultative process involving private firms	Coordinated by international institutions

Table 1 shows that European and Chinese preferences regarding the outlook of a global financial governance regime depart from some of the tenets of the neoliberal regime that preceded the GFC. China never fully accepted the free operation of the market as the key principle of a financial governance regime, preferring to mix elements of free market economics with state control over some sectors. The GFC has strengthened the belief that this model works well (Zhao 2010). Stability remains Beijing's preferred organising principle for the financial system.

In the case of the EU, there is no indication that free operation of the market does not remain the main principle behind its approach to the global financial regime. However, stability seems to be moving from being a norm of this regime to being enshrined as a principle. European officials now seem to believe that stability is almost as important as having a well-

functioning free market (Moloney 2010). This is unsurprising giving the fact that no region has been as affected by the GFC as the EU.

The EU and China show similarities and differences in terms of the key normative aspects they think a new global financial regime should have. Both of them believe that governments ought to play a role in regulating finance. But there is a difference in terms of degree. Prior to the GFC, the EU accepted market self-regulation. Its new approach to regulation includes market involvement. In contrast, Beijing believed in government driving regulation of financial markets and there is no indication that it is willing to change course.

With regards to equal access to financial markets, the EU posits that this should still remain one of the key norms of any financial regime. China has a slightly different approach though. Foreign firms need to be issued a QFII certificate to operate in China. However, an increasing number of foreign firms are obtaining this licence (Shanghai Stock Exchange 2012). Moreover, some reforms have been introduced to allow greater involvement of QFII in the financial sector, such as new financial products available for them to trade in. Therefore, it can be argued that China is becoming increasingly compliant with this norm.

As for stability, in theory this was one of the main norms of the neoliberal financial regime. The GFC showed that this was not necessarily the case. In the aftermath of the crisis, the EU has become more supportive of this norm. Meanwhile, China remains convinced of its importance. Concurrently, however, Chinese authorities are slowly allowing freer operation of the market. This is proved by measures such as allowing an increasing number of foreign banks to operate in renminbi, or discussions over allowing foreign firms to be listed in the

Shanghai Stock Exchange and opening up credit markets to new lenders. This is closer to the main principle underpinning the EU's approach to financial governance.

China and the EU agree with regards to the main rules that should allow for accurate application of the principles and norms on which financial governance should be based. These rules are enshrined in Basel III. Agreement between Beijing and Brussels points out that, in spite of some differences regarding the principles and norms behind global financial governance, they agree on the practicalities of how to have a well functioning financial system. The only difference between them in terms of rules is that Chinese leaders still believe that SOBs are an integral part of the financial sector.

Finally, China and the EU also agree on the nature of decision-making procedures. They support coordination by multilateral institutions, as demonstrated by their active participation in negotiations over Basel III. This is an important change for Chinese officials, who were not even part of the BCBS before 2009. But European leaders seem to still think that private firms should be part of the decision-making process (Moloney 2010). This is not shared by China.

Cooperation, convergence and competition

Having seen that European and Chinese preferences with regards to how a modified global financial governance regime should look like, we will now explore the areas in which cooperation, complementarity and competition exist. As table 2 shows, there is potential for Brussels and Beijing to work together in certain areas. Concurrently, however, there are certain areas in which disagreements are unlikely to be solved in the near future.

Table 2. Areas of EU-China global financial governance regime cooperation, convergence and competition

	EU	**China**
Cooperation	Support for Basel III, bilateral implementation, monitoring and rule-making	Support for Basel III, bilateral implementation, monitoring and rule-making
Convergence	Preference for regulation at the global level, stability considered important for financial regimes	Preference for regulation at the global level, stability considered central to financial regimes
Competition	Support for involvement by private firms in decision-making, no role for state owned institutions in implementation	Reluctance to increase involvement of private firms in decision-making, central role of SOBs in implementation

There is potential for the EU and China to cooperate in strengthening Basel III. In fact, both have been doing so throughout the negotiation for an accord to replace Basel II. Monitoring of compliance with Basel III and implementation of rules such as higher minimum capital requirements, mandatory leverage ratios or liquidity requirements will be essential to the success of Basel III. Given that EU member state and Chinese officials have key positions in the BCBS and that Brussels and Beijing are committed to full implementation of the accord, this should be feasible.

Concurrently, the EU and China have two mechanisms to ensure compliance with Basel III requirements and other aspects of the global financial regime. These mechanisms are their annual Economic and Financial Dialogue and the bilateral investment agreement that they are negotiating. These two mechanisms could be used to share views on new rules and procedures that could then be discussed in multilateral fora, be it the G20 of the BCBS.

There are areas in which the positions of the EU and China are complementary yet full-scale cooperation might not be possible. Both of them agree that regulation at the global level is preferred. Yet, history suggests that bilateral negotiations between the US and the EU were the main drivers of financial regulation before the crisis. In spite of the G20 becoming the premier financial governance forum as a result of the GFC and negotiations over Basel III involving a larger number of countries, it is still too soon to know whether multilateralism will replace US-EU bilateralism in future negotiations about the global financial regime. Thus, the EU and China could work to ensure that multilateralism becomes the main decision-making procedure in this regime.

Another area in which the positions of China and the EU complement each other is the centrality of financial stability to the financial regime. Certainly, they differ on the importance of stability for the regime. However, given that it is important for both of them, it might be possible to engage in a discussion regarding ways to ensure stability without compromising the dynamic functioning of the market. .

Finally, the EU and China disagree on the role of private firms in financial governance. Brussels supports their involvement in the regulatory framework decision-making process;

Beijing is very wary of their involvement. Chinese officials see SOBs as a central feature of the implementation of decisions related to financial governance, especially to ensure stability; state owned institutions being involved in the financial sector are anathema to the EU. The power of the latter in financial governance before the crisis meant that it was able to push for other countries to follow its position. China is unwilling to do the same with its preferences, yet it is also unlikely to significantly modify its stance. Thus, it is difficult to envision cooperation or even convergence in these areas in the near future.

Conclusion

The GFC and subsequent ESDC have made the development of a well-functioning global financial governance regime – regime being understood as Krasner posits – a priority in world politics. The pre-GFC, neoliberal regime proved inadequate to serve the needs of modern world economies. The EU and China, two of the three largest economies in the world and important players in global governance, intend to participate in the establishment of a new regime. Their involvement in negotiations towards the Basel III accord shows this.

As this article has explained through the use of qualitative comparative analysis, the positions of China and the EU regarding the features of a new global financial governance regime are closer than they used to be. Nonetheless, there are differences between both as well. Thus, cooperation, convergence and competition are set to co-exist in Sino-European interactions in the area of financial governance. The ability by Brussels and Beijing to navigate their differences while building on areas of agreement, will be crucial both for the future of financial governance and for the bilateral relationship between them.

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