

China in Europe Research Network (CHERN) - CA 18215

The public-private divide in European and Chinese financial market regulation: The case of central counterparties

Basics

Host Organization: Centre for European Studies and Comparative Politics (CEE), Science Po Paris

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The tentative length of the STSM: 4 week

Call's description and objectives

The norms, rules and practices that govern global financial markets are crucial aspects of the global political economy (Drezner & McNamara, 2013), and especially since the global financial crisis 2007-2009, significant shifts in different aspects of the global financial system and its governance can be observed. This STSM aims to investigate the interaction of two such post-crisis developments and their implications for the governance of global and European financial markets.

A first major shift is the rise of China as a global financial player. While financial markets did not exist in China 30 years ago, China is now home to the second largest capital markets globally and especially since the global financial crisis, they have become connected to global financial markets at an unprecedented pace. In 2020 and 2021 alone, global investors poured more than \$ 275 billion into Chinese markets, while Chinese financial institutions have been 'going global' and ventured into global markets. However, China's financial system deviates significantly from Western/global standards (Petry 2020), with the state taking a much more interventive stance in financial system, utilising finance as a tool to exercise social control (Grain, 2016; Sum, 2019). It's global rise therefore has the potential to challenge existing governance practices of financial markets (McNally and Grain 2017).

China's rise thereby coincides with other reconfigurations in how global financial markets are governed. A second important shift thereby has been the emergence of Central counterparties (CCPs) as an important regulatory building block of the post-financial crisis global financial architecture (Genito, 2019). Essentially, CCPs reorder how 'the world's largest

market' (Helleiner et al. 2018) is governed. Initiated at the G20 Summit in Pittsburgh, regulators put CCPs front and centre in their efforts to stabilise global derivative markets, thereby trying to recalibrate the balance in the relationship between risk and innovation as fundamental principles of how financial markets operate (Thiemann 2021). However, approaches to regulate risk and innovation in financial markets can differ significantly which has important consequences for the distribution of knowledge, power and authority between public and private actors as well as for the functioning, stability and distributional consequences of financial markets.

European/US regulators, for instance, delegate risk management towards private actors, putting these institutions both into a powerful position vis-à-vis public actors (Lockwood, 2018) while competition between private CCPs potentially also creates new financial risks (Krahnen & Pelizzon 2016), increasing rather than reducing financial instability. By contrast, we can observe that rather than passively adopting Western standards, Chinese regulators 'pushed back' against US/European CCP regulations (Li, 2018) with the emergence of a public risk management regime emerging as an alternative to European/US standards. Exploring the standard setting role of countries is an important research area (ten Brink and Rühlig 2021), especially in the context of CCPs emerging as a new governance practice and with China wanting to become a standard-setter in global financial markets: it is no coincidence that the headquarter of CCP12, the global association for CCPs that was formally established after the crisis, is based in Shanghai.

Investigating this issue, this STSM first aims to compare European and Chinese approaches to regulate innovation in financial markets by analysing communalities and differences in their creation and regulation of central counterparties (CCPs) as important regulatory mechanisms for financial markets, investigating the incentive structures that these arrangements create as well as the potential problems that arise from these different setups. It then analyses the implications of this development for global standard-setting in regulating derivative markets. By exploring how alternative regulatory logics inform the organisation of financial markets, this project will contribute to both academic debates and policy discussions on the impact of China in global standard-setting and its relationship to Europe.

Objectives:

- The successful applicant will be asked to collaborate on the outlined research project
- Analyse communalities and differences in how financial innovation is regulated in Europe and China through CCPs
- Analyse institutional configuration between CCPs, regulators and market participants in China and Europe
- Investigate the incentive structures and the potential problems that arise from these different setups
- Analyse global implications for standard-setting in financial governance

Call's specific requirements

In addition to COST requirements (see **Practical details** below), the applicant should have:

- Good knowledge of Chinese and European financial infrastructures

- Empirical field research experience in China and European capital markets
- Good knowledge of China and European financial regulations
- Expertise in comparative and international political economy

Results

In addition to COST requirements (scientific report) the STSM will results in:

- The envisioned result of the collaboration is a co-authored working paper to eventually be submitted to a leading political economy journal
- Interim findings might also be disseminated through writing a brief policy paper (optional)
- Blog post for CHERN website

Practical details

All applicants must carefully read the [STSM basic facts](#) on CHERN's website before applying.

Potential pandemic restrictions would mean that initial meetings and activities would be done remotely. The exact dates and timing of the mission shall be determined jointly by the Host and the selected applicant.

Deadlines

Deadline for applications to be submitted: **March 25 2022**

Notification of application outcome: **April 5 2022**

Period of STSM: Spring to Summer 2022 (exact dates to be determined together with the host)

Submitting the reports: **30 days** after completing the STSM (and no later than October 15th)

Accepting/ rejecting the reports: **within 2 weeks** after submission of the report

Execution of the payment of the grant: **within 4 weeks** after submission of the report

More information

For more information please contact:

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