

# *A Study on Financial Cooperation by NGOs under the Belt and Road Initiative*

*—Taken Asian Financial Cooperation Association (AFCA)  
as an Example*

Dong Zhe \*

**Abstract:** Non-governmental organizations (NGOs), represented by the Institute of International Finance (IIF), are an important means of international financial cooperation. Asian Financial Cooperation Association (AFCA), with its nature and positioning similar to the IIF, is a newly founded international NGO under the Belt and Road Initiative (BRI). Therefore, AFCA can draw upon the existing experience of the IIF. Under the BRI, according to the Articles of AFCA, the non-governmental financial cooperation adopted by the IIF includes these three aspects; coordinating regional financing, developing regional financial markets, and maintaining regional financial stability. Further, since AFCA is non-governmental, it faces certain risks and challenges. In future, the new financial cooperation backed by AFCA needs to evolve and improve over time to better support the Belt and Road construction.

**Keywords:** International NGOs; AFCA; Association Articles; Belt and Road construction; financial cooperation

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\* Dong Zhe, doctoral candidate, Collaborative Innovation Center for Territorial Sovereignty and Maritime Rights (CICTSMR), CIBOS, Wuhan University.

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## Introduction

The current international financial cooperation often relies on inter-governmental organizations (IGOs) or inter-governmental cooperation mechanisms whose functions primarily include facilitating balanced development worldwide and maintaining global financial stability. The former function is mainly implemented by multilateral development agencies (MDAs) including World Bank, Asian Development Bank (ADB), and Asian Infrastructure Investment Bank (AIIB). While, the latter is mainly implemented by International Monetary Fund (IMF), the Financial Stability Board (FSB) under the G20 Summit, and the European Financial Stability Facility (EFSF) set up to address the European sovereignty debt crisis and maintain financial stability of the Eurozone, among other organizations or mechanisms. However, inter-governmental cooperation tends to meet setbacks due to politics. For example, the IMF was once much criticized and in urgent need of change as a result of problems including lack of representation. Then, the hard-won 2010 IMF quota and governance reform plan was shelved by the U.S. Congress for a time due to a political divide between its members, unable to be effectively put into practice.<sup>①</sup> It was not until December 18, 2015 that this reform plan was finally approved by the Congress and put into effect on January 26, 2016. As a result, major reforms of the IMF were stalled for several years. NGOs are less likely to face political resistance or disruption during their development and improvement process. This is an important reason why financial cooperation between NGOs has emerged. Asian Financial Cooperation Association (AFCA) is a product of the Belt and Road Forum for International Cooperation (BRF) and thus a key support for non-governmental financial cooperation.<sup>②</sup> It is still unclear what role the new BRI financial cooperation established by the AFCA will play or what possible risks it will face. However, forward-looking research on the specific connotations and potential risks can help the AFCA play up its strengths and avoid weaknesses in its functioning to fully realize its functions and value in financial cooperation under the BRI.

### 1. Building financial cooperation by NGOs

Non-governmental organizations, also known as not-for-profit organizations or civil organizations, refer to social organizations.<sup>③</sup> For the purposes of international law, an NGO is defined as a civil organization that is not founded by a national government or under an inter-governmental agreement that influences international affairs through its activities and whose members are entitled to independent voting rights.<sup>④</sup> Based on this definition, at present the world's most influential NGO in the field of financial cooperation is the Institute International Finance (IIF). The IIF, known as the only global association of financial institutions (FIs),<sup>⑤</sup> boasts of a membership comprising financial institutions and multinationals among other non-governmental entities. In July 2017, as the BRF closed and relevant achievements made, the AFCA was officially established in Beijing as a result of the BRF. To this point, the AFCA was finally transitioned from an idea into a reality

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① Gu, 2015

② Achievements of the Belt and Road Forum for International Cooperation. Retrieved from: <http://www.beltandroadforum.org/n100/2017/0516/c24-422.html>.

③ Zhang, 2004

④ Huang, 2003

⑤ Christian Tietje & Alan Brouder, 2009

following propositions by President Xi Jinping and Premier Li Keqiang, among other national leaders, on different international occasions and positive responses from global FIs to this Initiative.<sup>①</sup> It took little more than one year from the initiation and preparation stage of the AFCA to its official founding.<sup>②</sup>

According to Article 2, Chapter I of the AFCA Articles,<sup>③</sup> the AFCA is a “regional multi-non-governmental and non-profit organization,” a narrative consistent with that of Yang Zaiping, the first Secretary-general of the AFCA.<sup>④</sup> In the English context, NGOs refers to organizations other than governments and businesses in society; while in the Chinese context, the word that is most appropriate for NGOs in the English sense is “social organizations.”<sup>⑤</sup> Therefore, the AFCA, as a “multi-non-governmental and non-profit organization,” is also an NGO in the common context. In addition, the sponsors and members of the AFCA are either FIs or other non-financial entities, which to an extent justifies its non-governmental nature. Nevertheless, it is necessary to make clear that the non-governmental nature of the AFCA is not dictated by the nature of its sponsors and wider members. Instead, its NGO nature decides the nature and scope of its members.

As an international NGO in the financial sector, the AFCA shares many similarities with its predecessor IIF in its nature and positioning. Their shared NGO nature is reflected in the following aspects: first, in terms of their sponsors or founding entities, the sponsor of the IIF is the International Banking Community and that of the AFCA is the CBA. Second, in terms of members of these two organizations, the official members of the IIF include all the world’s large commercial banks, asset managers, pension funds, insurers and other financial and investment firms worldwide, as well as other important FIs including ratings agencies, so the IIF serves as an important platform for exchange and communication between global FIs; while AFCA members are primarily FIs and financial associations, among other non-governmental bodies or entities. Third, in terms of the sources and purposes of the operating funding of the two, as set out under Paragraph 12, Article 3 of the IIF By-laws<sup>⑥</sup> and Article 44 and 45 under the AFCA Articles, membership fees is an important source for both. Also, according to Paragraph 6, Article 2 under the IIF By-laws, IIF is a non-profit organization similar to the AFCA.

Though currently the AFCA is less influential than the IIF and is positioned as a regional cooperation organization, the IIF was not particularly influential right from its inception, rather its influence grew over time. Therefore, the gap between the two organizations is not that difficult to bridge. In fact, the IIF was originally designed to address the Latin American sovereignty debt crisis in the 1980s. At first, IIF members

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① In March 2015, at the Boao Forum for Asia (BFA) annual conference President Xi Jinping introduced the idea of discussing the establishment of an exchange and cooperation platform for Asian financial institutions. Later, Premier Li Keqiang on multiple occasions proposed to establish an Asian association for financial cooperation. MOFA Spokesperson Lu Kang Presides over a Routine Press Conference on July 20, 2017. Retrieved from: [http://www.fmprc.gov.cn/web/wjdt\\_674879/fyrbt\\_674889/t1479037.shtml](http://www.fmprc.gov.cn/web/wjdt_674879/fyrbt_674889/t1479037.shtml).

② In March 2016, the AFCA kick-off meeting was held in Haikou. The AFCA, with its preparatory work led and sponsored by the China Banking Association (CBA), officially went into the initiation and preparation stage. Zhang Modong.(2016, March 26). The Kick-off Meeting of the AFCA Held in Haikou. Financial Times.

③ Asian Financial Cooperation Association Articles. Retrieved from [http://cn.afca-asia.org/Portal.do?method=detailView\\$contentID=62](http://cn.afca-asia.org/Portal.do?method=detailView$contentID=62).

④ At a working meeting leading up to the founding of the AFCA in May 2017, Yang Zaiping, the first secretary-general of the AFCA, claimed that the association was a regional international non-governmental not-for-profit social organization regarding the financial sector. Yang Zaiping. Acceptance Speech after Being Elected as Secretary-general of the AFCA. Retrieved from <http://finance.qq.com/original/caijingzhiku/HJGY.html>.

⑤ Chen, 2008

⑥ Institute of International Finance, By-Laws of the Institute of International Finance, Inc. Retrieved from [https://www.iif.com/sites/default/files/general/bylaws\\_revised\\_1.16.pdf](https://www.iif.com/sites/default/files/general/bylaws_revised_1.16.pdf), January 1, 2016/ March 20, 2018.

were from the American region with the debt crisis.<sup>①</sup> As the crisis was cleared, IIF membership gradually grew from the initial 38 to approximately 500 members from more than 70 countries, covering commercial banks, insurers, investment banks, multinationals, law firms and other FIs and non-financial bodies. The IIF has managed to expand its influence across the world over time through painstaking efforts. The AFCA and the IIF are similar in many ways in their nature and positioning and the former can draw upon the mature experiences and lessons of the latter. As the AFCA comes into being and evolves, it will promote the development of the non-governmental financial cooperation under the BRI.

## 2. The connotation of financial cooperation by NGOs

In his congratulatory letter to the AFCA inauguration ceremony, Premier Li Keqiang expressed his hope that the AFCA would follow the concepts of green finance and financial inclusion, actively explore and forge solidarity and collaboration, and gradually evolve into a promoter of financial exchange and cooperation, a leading standard-setter, a defender of financial security and stability and a contributor to global financial governance in Asia.<sup>②</sup> Also, Article 6 of the AFCA Articles sets out its scope of business.<sup>③</sup> Given the earnest expectation of Premier Li, based on the provisions under the AFCA Articles and the existing experience of the IIF, the connotation of the financial cooperation by the AFCA may be summed up as three aspects; shaping regional financing coordination mechanisms, facilitating the development of regional financial markets, and maintaining regional financial stability.

### 2.1 A rational choice for building regional financing cooperation mechanisms

For more than five years since the BRI was proposed, the Belt and Road construction has progressed with better-than-expected results by winning positive responses and support from more than 100 countries and international organizations, of which more than 40 have signed cooperation agreements with China.<sup>④</sup> So it is obvious that the BRI is a grand project with planned long-term objectives in infrastructure development and cross-border trade. This imposes higher requirements for lines of funding and credit criteria.<sup>⑤</sup> Further, financing is one of the five connectivity objectives under the BRI and is thus critical to constructing the Belt and Road. As a result, Belt and Road construction requires a financial services system that comprises development finance, policy finance and commercial finance with their distinctive features and complementary functions. At present, in addition to commercial FIs, MDAs or financing mechanisms including the AIIB and Silk Road Fund are joining in the lineup to fund and support the BRI. However, these FIs, with their different natures and great number, may face serious problems and challenges in

① Christian Tietje & Alan Brouder, 2009, pp.355-357

② Premier Li Keqiang Sent a Congratulatory Letter to the AFCA Inauguration Ceremony. Retrieved from [http://www.gov.cn/xinwen/2017-07/24/content\\_5212960.htm](http://www.gov.cn/xinwen/2017-07/24/content_5212960.htm), July 24, 2017/ March 2, 2018.

③ The scope of business of the AFCA covers: to organize forums and seminars to discuss issues of common concerns in the international financial community; to build a mechanism for daily communication; to coordinate communication between members and related regional monetary policy and regulatory authorities; to work toward the consensus of green finance, introduce optimal experiences of green finance, coordinate the work to build a green finance system, help to form supporting policies of green finance, improve regional and international cooperation in green finance; to accelerate innovation and development of inclusive finance; to work toward the establishment of a system to protection financial consumers' rights and interests; to integrate regional financial statistical data, establish a relevant Big Data System, and put it into use; to release research reports on regional finance and build regional relevant think tanks; to promote mutual recognition of relevant professional qualifications across regions, and help organize high-level training programs on financial business; and other duties.

④ Huang, 2003

⑤ Qiao, 2016

communication and full cooperation. This requires intermediaries to serve as a bridge and platform for their interactions. The AFCA, jointly formed by a wide range of FIs, can be this bond to serve the Belt and Road construction starting from building BRI financing coordination mechanisms.

Specifically, the AFCA, with many FI members, can serve as a perfect platform for communication and exchange between FIs and facilitate disclosure and exchange of relevant information to meet each other's needs, expand access to project financing and jointly serve the BRI. This in turn will facilitate the development and improvement of the financial services sectors of AFCA members and relevant countries and territories. In addition, as for a wide range of important FIs that are not yet members, the AFCA may, through meetings, forums and guest invitations, facilitate their communication. Over the nearly one year since its inception, the AFCA has staged and engaged in a variety of high-level conferences and forums, such as the AFCA CEE Financial Summit Forum, the North-east Asia International Finance Forum, and the Laos-China Belt and Road Cooperation Forum. Through creating a "friends circle" of regional FIs, the AFCA helps FIs better communicate and collaborate with each other and widen the access to project funding and financing. Moreover, as a communication and cooperation platform for FIs, the AFCA can coordinate its members to jointly issue the Belt and Road bonds, mid-term notes (MTNs), and financial products related to BRI project finance.<sup>①</sup> This can also greatly benefit the Belt and Road construction and the accomplishment of financing objectives.

## **2.2 Urgent need of facilitating the development of regional financial markets**

Cai Esheng, head of the Preparatory Working Group of the AFCA, once noted that Asia contributed two thirds of the world's economic growth, playing a very important role. FIs also play an important supporting role. However, the inadequate and imbalanced development of Asian financial markets is still a problem. Asia FIs also have less say on the international financial stage. Take the Asian bond market as an example. At present, issuing green financial bonds requires certification of the flows of funds raised by third-party agencies which are mostly Europe and U.S.-based.<sup>②</sup> An important reason behind this unfavorable state of mismatch between Asia's position and its contribution lies in the lack of financial market infrastructure and problematic financial regulations in Asia. This has constrained the development of Asian financial markets and the establishment and scaling up of accompanying Asian financial standards. Asia, as one prioritized region of the Belt and Road construction, has an underdeveloped financial market which poses a great challenge to building the Belt and Road. Thus, Asia is in urgent need of a financial cooperation organization to facilitate the development and improvement of its financial markets, meet the needs of normal cooperation on regional financial connectivity, push for more secure and sound development of the Asian economy in general and financial markets in particular, and enable the Asian financial markets to have a greater say and influence in the international financial system.<sup>③</sup> For this reason, financial cooperation by NGOs through the AFCA is a practical, urgent need for advancing the development and integration of Asian financial markets, facilitating the development of green finance and financial inclusion in Asia, and ultimately realizing a full range of objectives in promoting regional economic, social and environmental development along the Belt and Road through financial services.

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① Dong, 2018

② AFCA Officially Launches the First 38 Overseas Originating Institutions. Retrieved from [http://finance.ce.cn/rolling/201603/25/t20160325\\_9822824.shtml](http://finance.ce.cn/rolling/201603/25/t20160325_9822824.shtml), March 25, 2016/ March 28, 2018.

③ Xue, 2016, March 25

More specifically, the AFCA may help shape a regional financial markets in terms of products and standards. As a cooperation platform for FIs, the AFCA can coordinate or facilitate the issuing of financial products related to BRI including the Belt and Road bonds to enrich the varieties of regional financial products. Issuing a greater variety of financial products is also conducive to shaping a regional financial market under the BRI. The AFCA can also advance the development and improvement of the Asian financial market infrastructure which is mainly comprised of payment and settlement systems, a legal system and other regulatory rules and institutional arrangements for financial functioning, laying the foundation for the forming and functioning of financial markets.<sup>①</sup> At the institutional level of financial markets, the AFCA can coordinate its FI members to roll out uniform financial market rules, accounting standards, bankruptcy and liquidation rules, among others. To bind its members the AFCA can coordinate the establishment of a unified regional data and information network, establish a new credit system that fits regional characteristics and requirements, set up information disclosure and exchange mechanisms, and enhance the transparency of financial markets.<sup>②</sup> In establishing a legal system and regulatory rules, the AFCA also helps coordinate inter-governmental cooperation in relevant areas, to help translate effective elements of the said discretionary rules into uniform compulsory standards and criteria for the region.

### 2.3 Important safeguards for maintaining regional and wider world financial stability

Financial risks are now common across the world. Thanks to the close connections within the global economy, certain systemic financial risks may spread to financial markets across the world, triggering a worldwide financial crises. A typical case in point is the sub-prime mortgage crisis originating from the North American region that eventually evolved into a global financial crisis. In building the Belt and Road, financial cooperation and development are prone to currency, credit and other financial risks given multiple factors including the complexity of construction, long time horizon, and political turmoil along the routes.<sup>③</sup> Further, problems such as underdeveloped financial markets, ill-established trading rules, regulatory rules, procedural vulnerabilities, etc. all expose the Asian region to the adverse impacts of external financial fluctuations or internal financial risks leading to regional financial instability and even spreading to the rest of the world, subsequently triggering global financial crises. Therefore, establishing regional financial cooperation mechanisms to maintain regional and global financial stability becomes an inevitable option for Asia and the countries and territories along the Belt and Road. In effect, in his comments on the AFCA, Premier Li Keqiang on multiple occasions urged Asia to jointly maintain regional financial stability and avoid the recurrence of massive regional financial turmoil.<sup>④</sup> This indicates that the AFCA, right from its preparatory stage, is intended to maintain regional financial stability. In addition, the AFCA can facilitate the development and improvement of regional financial markets while mature and sound financial markets in turn benefit regional financial stability.

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① Zhou, 2017

② Yin & Ou, 2016

③ Qu & Han, 2016

④ At the 10th East Asia Summit and later the 13th ASEAN-China, Japan and South Korea (10+3) leaders' meeting in 2015, Premier Li Keqiang introduced the idea of Asian financial institutions jointly initiating the founding the AFCA. At the Boao Forum for Asia in 2016, Premier Li noted in his keynote speech that China would actively advocate the preparation for establishing the AFCA. At these occasions, Premier Li invariably expressed China's intent to create a sound Asian financial market and maintain regional financial stability through regional financial cooperation facilitated by the proposed AFCA. Li Keqiang. (2016, March 24). China Proposes to Establish the Asian Financial Cooperation Association. Retrieved from [http://www.gov.cn/guowuyuan/2016-03/24/content\\_5057250.htm](http://www.gov.cn/guowuyuan/2016-03/24/content_5057250.htm).



The function of the AFCA in maintaining financial stability is reflected at two levels, i.e., rules and actions. At the rules level, the financial rules or systems rolled out or facilitated by the AFCA, in addition to facilitating the establishment and improvement of regional financial markets, can reduce the possibility of, or damage from, financial risks. At present, the rules system of global financial governance comprises financial rules at three levels that collaborate and complement: the international finance law based on international treaties, the international soft law represented by flexible governance mechanisms including the G20 Summit and the FSB that have emerged with the unfolding and deepening of inter-governmental cooperation, and self-regulatory global financial rules developed by NGOs.<sup>①</sup> A well-structured system of financial rules, of which the self-regulatory rules of NGOs are an integral part, is significant for maintaining global financial stability. For example, discretionary standards including risk prevention developed by the IIF, an NGO similar to the AFCA, have been drawn upon by key rules and regulations on international finance including Basel Accords, multiple times.<sup>②</sup> These rules and regulations contribute greatly to global financial stability.

At the action level, the AFCA may provide surveys, research reports and other information regarding financial markets and services including financial risk alerts to its members, non-member FIs and governmental regulators to help these actors review risks from multiple perspectives and enable the early identification of, and prevention against, such risks. Moreover, the AFCA may also engage in the handling of problematic FIs or assets on behalf of its members in the wake of a financial crisis. This would help comprehensive consideration of the demands of its members and take uniform actions, facilitate efficient resolution of relevant problems and mitigate losses arising from such a financial crisis. During the European sovereign debt crisis, the IIF, a predecessor of the AFCA, conducted negotiations on debt swaps with Greece on behalf of relevant private banks in 2012, and guided its members to jointly engage in a debt swap deal with Greece, making important contributions in helping EU authorities pull off the orderly restructuring of Greek debt.<sup>③</sup> The actions taken by the IIF, to a certain extent, curbed the spread of the European debt crisis, maintained the stability of affected financial markets and proved the important role of such a non-governmental financial cooperation in coping with a financial crisis.

### 3. Risks and challenges of financial cooperation by NGOs

The regional financial NGO nature of the AFCA facilitated the new way of financial cooperation. However, the NGO nature may be a main reason for possible risks and challenges in its functioning. Some risks the AFCA faces may be avoided, but the challenges it faces, due to its NGO nature, cannot be fully removed.

#### 3.1 Risks facing the function of establishing financing coordination mechanisms

The function of the AFCA to establish financing coordination mechanisms is realized mainly through establishing a communication platform for FIs and creating a friends circle of regional FIs. Within this platform, the AFCA can also drive the linkage between FIs and the roll-out of Belt and Road bond and other financing instruments to facilitate the financing of Belt and Road projects. However, given its size and

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① Meng, 2010

② Christian Tietje & Alan Brouder, 2009

③ Manolis Kalaitzake, 2017

influence, the role of the AFCA as such a platform is hard to describe. The scope of members as defined by Articles 2 and 7 under the AFCA Articles covers FIs, financial institutions, associations of the financial industry and relevant professional service agencies as well as individuals in financial field from Asian countries and regions. The nature of its membership is limited to the financial sphere. Though in line with “financial cooperation” in its name, this may inevitably seem confined and complacent. In addition, in coordinating the issuing of Belt and Road financing instruments, the AFCA must limit its targets to member FIs due to the restriction on the nature of its membership, rendering BRI-related construction enterprises or firms unable to directly engage in communications on relevant issues within the platform. This not only leads to rising cost and inefficiency in communications, but also fails to directly align with practical needs of Belt and Road project financing.

In terms of expansion of membership, in numbers, scope and greater influence, the AFCA may draw upon the existing experience of the IIF. The IIF initially had only 38 banking institutions as its founding members. Over time, as practical needs evolved, its membership gradually expanded to cover non-banking institutions, then again expanded to cover multinationals, law firms and other non-financial entity members. Through widely absorbing various members, the IIF has not only grown in influence and reach to drive full-range cooperation between a diversity of organizations, but also increased its member fees and revenues from other activities, greatly benefiting its own development and the full exertion of its functions and roles. That said, such a strategy may pose a problem: the inclusion of a large number of non-financial entities in financial associations is very likely to dilute its decision-making rights, leading to a deviation from its functional positioning as a financial association. To solve the possible problems, Paragraphs 1 and 2 of Article 3 under the IIF By-laws set out a rather complete membership system that combines full and associate memberships. Full memberships cover banking institutions, investment funds and insurance companies while associate memberships cover FIs or non-financial bodies that have not yet become full members. Associate members are entitled to general membership rights but are restricted in key rights including the right to vote. Such an arrangement enables the IIF to benefit from wide inclusion of financial and non-financial institutional members while ensuring that a FIs-dominated association focuses on financial cooperation issues. This facilitates the organic combination of two goals, i.e. expanding the development room and influence of the IIF while controlling the direction of its financial cooperation.

In future, the AFCA may combine full memberships with associate memberships to widely absorb various companies, law firms and other non-financial entities as its members. This may require the AFCA to modify the provisions set out in the membership sections under the AFCA Articles at an appropriate time and facilitates the adoption of such a modification by its general assembly. If this membership strategy is realized then the AFCA will be able to create a wide friends circle that covers FIs and non-financial entities within the region, thus more rapidly expanding its reach and international influence while benefiting from greater access to membership dues and revenues from various activities. Via the AFCA as a uniform communications platform, FI members and non-financial entity members alike will be able to fully communicate and collaborate with each other to drive the organic alignment of financial services with the urgent, objective needs of Belt and Road construction. This will help put in place regional financing coordination mechanisms that better fit in with the practical needs of building the Belt and Road.

### **3.2 Challenges of facilitating the development of a sound financial market**



Why did the AFCA adopt a non-governmental organization form rather than the mainstream inter-governmental organization or mechanism in the field of financial cooperation? It is because that Asian and European regions, where the AFCA has a role to play, face complex political circumstances and various inter-ethnic entanglements, both past and present, but an NGO can to the greatest extent reduce disruptions of these political factors to normal organizational operation and functioning.<sup>①</sup> Nevertheless, given the highly sensitive nature of the financial cooperation it drives, the AFCA as an NGO is still not able to rule out the influence of politics, which leads to vulnerabilities in financial cooperation in the face of political influence. In today's international community, it is not uncommon to see political factors lead to big setbacks in economic and financial cooperation. For example, in the early 2010s, following the deterioration and then ice-breaking of political relations, China and Japan steadily continued their economic trade and financial cooperation. As of 2012, the two countries had conducted four ministers of finance dialogues and started direct trading. At around the same time, China, Japan and South Korea, as key potential drivers for global economic growth, concluded the China-Japan-South Korea Investment Agreement in May 2012 and confirmed the launch of the China-Japan-South Korea Free Trade Zone negotiations within 2012; and the integration of northeastern Asia was also promising major breakthroughs.<sup>②</sup> However, by September 2012, due to the melodramatic attempt by the Japanese government to nationalize the Diaoyu Islands, called the Senkaku Islands by the Japanese, a change to the status quo of the East China Sea, the China-Japan financial ministers' dialogue was suspended for several years, and the trilateral FTZ negotiations and Northeast Asia integration were interrupted.<sup>③</sup> Therefore, it is obvious that even if the AFCA is non-governmental, it cannot escape the effects of politics on highly sensitive financial cooperation.

Even if the AFCA can facilitate inter-governmental cooperation on less sensitive matters in the financial field through pushing ahead communication and exchange between relevant parties, reality has shown that cooperation on less sensitive issues in the same field often fails to pave the way for cooperation on highly sensitive issues. South China Sea stakeholders' cooperation on less sensitive issues having limited influence is a case in point. In recent years, cooperation between SCS stakeholders on less sensitive areas such as maritime environmental protection, navigation safety, search and rescue, etc. has gone smoothly. For example, in 2011, the Agreement on Basic Principles Guiding the Settlement of Maritime Issues, reached by China and Vietnam, identifies "cooperation in less sensitive sea-related fields" as a leading measure addressing SCS issues.<sup>④</sup> Nevertheless, this failed to stop the Vietnam and the Philippines from making urgent claims to maximize their interests in the SCS, and once led to a stall and even roll-back of deeper cooperation in the SCS.<sup>⑤</sup> The framework on the Code of Conduct for the South China Sea enacted in May 2017 helps relevant parties manage SCS disputes and further ease the tensions surrounding the SCS, representing a breakthrough in SCS-related cooperation between related parties.<sup>⑥</sup> However, such substantial progress is often related to changes in international developments and mutual compromises between stakeholders. Such factors driving deeper

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① Dong, 2018

② Cui, 2012, May 13

③ Yin, 2015, June 8

④ Wang, 2013

⑤ Zhang, 2016

⑥ An, 2017

cooperation cannot be facilitated by NGOs forging cooperation on less sensitive issues. Why is cooperation on less sensitive issues not highly related to facilitating deeper cooperation? The reason lies in that deeper cooperation in sensitive fields often involves the core interests of a nation, such as territorial sovereignty or financial stability, so it is generally hard for related parties to exercise restraint or make concessions. As a result, even though cooperation on less sensitive issues in relevant fields goes smoothly, it can hardly prevent relevant parties from taking subsequent actions based on considerations factoring in maximum core interests, leading to uncertainties in deeper cooperation in such fields.

It is impossible to realize the AFCA's functions in facilitating the development of sound financial markets without deeper cooperation in the financial sector between countries and territories along the Belt and Road. Specifically, concerted cooperation between national or local governments is indispensable to the translation of self-regulatory rules developed by the AFCA to favor the establishment of a regional financial market into binding uniform rules within the region or to the modification or coordination of regulations between countries or territories. The non-governmental nature of the AFCA, however, can hardly rule out disruptions of political factors to financial cooperation. Moreover, its NGO nature dictates that the AFCA has very limited influence and physical foundation to support it in directly facilitating deeper inter-governmental cooperation in the financial sector. Given this, in the future, the financial cooperation path carved out by the AFCA may face challenges and great uncertainties in facilitating the development of sound Asian financial markets.

### **3.3 Risks and challenges of maintaining regional financial stability**

Given the non-governmental nature of the AFCA, even if it is able to develop self-regulatory rules that can effectively control risks, such rules would not be widely recognized and enforced as they are not enforceable. In addition to the limits of rules, given the experience of the IIF during the Greek debt crisis, the AFCA faces the following risks and challenges in maintaining financial stability.

First, there is the risk arising from its flawed legal personality. To maintain regional financial stability, the AFCA is very likely to adopt a strategy similar to that of the IIF. This will involve activities by the AFCA outside of China. In this case, the NGO legality of the AFCA may have its limitations and pose corresponding risks. As the AFCA is a non-governmental international organization, its founding members who have engaged in the development and adoption of its articles of association and other basic legal documents are all non-governmental FIs, instead of representing their national governments. Thus, the AFCA Articles do not have the consent of national governments to cede some sovereignty, so it is unable to create legality through these Articles. This is what differentiates the AFCA from the IMF, WTO and other inter-governmental international organizations in acquisition of legality and key legal constitutive documents. As there is no uniform international law governing the constitution or activities of international NGOs, the legality of international NGOs derives from authorization under domestic laws formulated by countries that are subjects of international law.<sup>①</sup> According to Article 4 of the AFCA Articles, the registration authority of the AFCA is the Ministry of Civil Affairs of the People's Republic of China (MCA), and the superior business agency is China Banking Regulatory Commission (CBRC). Therefore, as an international NGO established in China, upon meeting all relevant registration requirements stipulated by law and the Association's Articles, the AFCA has already acquired its legality in China for purposes of performing its functions and as the legal basis for

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① Peng, 2007

its necessary civil legal acts. However, the legality of an international NGO in a country is generally limited to that country. As for its activities overseas, the NGO does not naturally possess legality in the host country or territory, instead it needs to go through applicable approvals or registration formalities. Though there are conventions for mutual recognition in Europe, no similar international law or rules exist in Asia, which may constitute legal risks. At present, the AFCA Articles only provide for the acquisition of legality in China, without provisions for the same overseas. Such lack of institutional basis may expose the AFCA to potential risks in relevant fields. In future, the AFCA should modify and supplement relevant provisions in its Articles. Upon such institutional improvements, prior to conducting activities in countries or territories other than China, the AFCA should first acquire legality in such countries or territories pursuant to the Association's Articles and the domestic laws in such jurisdictions or relevant international treaties, or by going through particular approval or licensing procedures. Otherwise, the flaw in its legality will affect the legal force of civil and commercial acts of the AFCA in relevant countries or territories, thus adversely affecting the exercise of its functions and roles. The acts and activities of the AFCA while performing its duties within its capacity will be fully protected by law only after it has acquired a full legal personality according to law.

Second, there are challenges posed by limitations on its powers and resources to address and handle risks and crises. As an NGO, the AFCA does not have the power or resources to address risks to which similar governmental or inter-governmental international organizations or mechanisms are entitled. This requires that the AFCA cooperate with other organizations or mechanisms in order to fully realize its function of maintaining financial stability. By comparing the actions taken by the European Stability Mechanism (ESM) and the IIF respectively to address the European sovereign debt crisis and their results, we can see that cooperation from organizations of a different nature also differs in the role of maintaining financial stability. The ESM is a permanent inter-governmental cooperation mechanism set up to address the European sovereign debt crisis. Under the inter-governmental cooperation framework established by Eurozone national governments, the ESM obtains its funding from capital contributions by 17 member states of the Eurozone and capital raised by issuing bonds to provide assistance and other support to member states in crisis and to isolate such member states to prevent the spread of crisis.<sup>①</sup> In contrast, the IIF mainly serves as a coordination and communications platform for FIs and engages in negotiations on sovereign debt restructuring and passively accepts debt write-downs on behalf of its members. As a result, the IIF is unable to effectively curb the spread of crisis on its own. It can only be a supplement to inter-governmental cooperation organizations or mechanisms like the ESM and must rely on them to play its role in maintaining financial stability. So, it is obvious that the IIF takes a secondary, supplementary position in addressing crises. In addition, the IIF represents the interests of one party to the negotiations, so in maintaining financial stability, the IIF would inevitably be biased and uncertain in its public welfare nature. According to Paragraph 4, Article 2 of the IIF By-laws, to pursue its purpose and objectives, the IIF shall serve as a spokesperson for its membership. This is a proof of bias of the IIF in maintaining financial stability. As a result, what the IIF archived during the Greek debt crisis is to an extent limited and even by chance. Moreover, in coping with this crisis, the IIF primarily represented the interests of its members, thus it was limited in the scope and public welfare aspects of its representation. Also the approach of the IIF to handling relevant issues in collaboration with the EU caused the

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① Li & Yang, 2013

EU to be widely challenged by the general public from the perspective of public interests.<sup>①</sup> Currently within Asia, the AFCA may rely on inter-governmental cooperation organizations or mechanisms, mainly including the Chiang Mai Initiative Multilateralization Agreement (CMIM) and the IMF to maintain financial stability. However, though East Asia monetary and financial cooperation has turned from a “decorative item” during the Chiang Mai Initiative period into a foreign exchange reserve pool under the CMIM, relevant parties have not yet reached consensus on certain issues arising from the establishment of the latter. Aside from existing outstanding problems, the CMIM may face a swell of new problems arising from its functioning. While national and territorial governments affected by the financial crisis are unwilling to be subject to the strict and politically conditional terms of loans from the IMF, which hinders the efficiency of the IMF in maintaining financial stability.<sup>②</sup> Given the fact that these inter-governmental organizations or mechanisms have various problems themselves, the AFCA, who exerts its role depending on these organizations or mechanisms, is very likely to be out of its league in maintaining regional financial stability.

#### 4. Conclusions

Compared with an inter-governmental approach, the non-governmental financial cooperation is in many ways convenient. As a key deliverable of the BRF, the founding of the AFCA provides reliable support to the establishment of a non-governmental financial cooperation under the BRI. According to the AFCA Articles and considering the trajectory and existing experience of the IIF, also an NGO, in its operation and development, the non-governmental financial cooperation under the BRI carved out by the AFCA can be summed up with three aspects; coordinating regional financing, developing regional financial market and maintaining regional financial stability. However, the NGO has a double-edged sword effect which is epitomized by the possible risks and challenges it may face that are mainly derived from the non-governmental nature of the AFCA. Specifically, the risks facing some functions, such as limited influence due to membership arrangements and risks posed by limitations of its legality, may be ruled out through improving the association's articles. The functions of establishing financing coordination mechanisms and maintaining financial stability may secure more solid institutional guarantees and a stronger physical base as a result of correcting these relevant problems. Nonetheless, the inherent flaws of its non-governmental nature may pose challenges to the AFCA in the future. The resulting adverse impacts may only be reduced, if possible, through various means but they will be difficult to fully block or eliminate. An example is restrictions on the powers and resources available to the AFCA in developing regional financial markets and maintaining financial stability. Going ahead, regarding this non-governmental financial cooperation under the BRI backed by the AFCA, it will be worthwhile to study how to reduce potential adverse impacts by considering the experience and specific practices of its predecessors. The cooperation between the AFCA and other international organizations must also be handled with skill and care. This way, the AFCA-based non-governmental financial cooperation will not only better serve the Belt and Road construction, but also quietly make valuable contributions to great changes in global financial governance.

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① Manolis Kalaitzake, 2017

② Chen & Shen, 2011

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