2017

"构建21世纪金融体系" 中美研讨会

SYMPOSIUM ON BUILDING THE FINANCIAL SYSTEM OF THE 21ST CENTURY: AN AGENDA FOR CHINA AND THE UNITED STATES
Impact of Leadership Transitions on Sino-US Economic Relations
State of US-China Relations

• Relationship is close
  – Is impact of individual leaders diminishing?
  – Multi-faceted (business, strategic, individual)
  – But trust needs constant cultivation

• Is US ready to embrace shared global power?
  – Will political disagreements harm economic ties?
  – Public sentiment populism and 2018 election uncertainty
US Transition

• Direction as yet undetermined
  – Staffing incomplete
  – Rhetoric ≠ reality
• Priorities and agenda re: China have changed
  – Currency, AIIB, OBOR, etc
  – Will they change again?
• How will Trump White House react to crises?
• Should China be worried about US protectionism and deglobalization?
US Transition

• Make America Great Again (#MAGA)
  – What is meaning of reciprocity?
  – Focus on deficits
    • Overall deficit will increase
    • Bilateral deficits not economically meaningful, but central to MAGA message
  – Will deficits reemerge as factor in US-China relations?
US Economic Policies

• Financial regulation
  – Not expecting large scale legislation (repeal of Dodd-Frank, reinstate Glass-Steagall, etc)
  – Enforcement likely to loosen
  – Personnel is policy: watch for appointments
  – How will this affect Chinese foreign investment?

• Tax policy
  – Timing uncertain but not soon
  – Impact on fiscal and trade deficits
  – Corporate tax cut will make FDI into US more attractive
China Leadership Impact

• Political continuity and but policy refinement
  – Renewed policy implementation push after NPC
  – Will financial super-regulator be established?
  – If so, how important and what is the impact to policy implementation?
  – Effects of anti-corruption drive on risk aversion by government officials

• Consumption growing quickly
  – No longer export driven
  – How sustainable is the change?
  – Debt levels, SOE role, etc
  – OBOR: addressing excess capacity and deploying excess savings
Where Do We Go From Here?

• Opportunities for US-China relations
  – OBOR participation and impact on global growth
  – Chinese FDI in US as mutual benefit; restart BIT talks?
  – CFIUS transparency
  – Reconsider Chinese constraints on outward investment

• Technology trade and investment opportunities
  – Chinese IPR policy and enforcement
  – How to make MAGA and MIC 2025 non-discriminatory?
  – US export constraints on hi-tech
  – Possible reduction in bilateral deficit?
Capital Markets Liberalization and Financial (De)Regulation in China and the U.S.
Financial Regulation & Deregulation in China

• Current status
  – Bank-based system (SOE dominated)
  – Capital markets still need to develop further
  – FinTech as driver of financial inclusion
    • Culturally openness to new technologies?
  – Shadow banking
    • Large and growing rapidly
    • Often offered by banks, etc
    • Driven by lack of good alternatives
  – Shift toward re-regulation across multiple agencies
Financial Regulation in China

• Challenges
  – Need to circulate savings through economy efficiently and safely
  – Tendency toward bubbles in equity and real estate
  – Consumer protection!!
  – Macroprudential supervision
  – Coordination among regulators
Financial Regulation in China

• More Challenges
  – Capital flows
    • Banking & securities reform should precede KA liberalization
    • Capital account liberalization is important
    • Role of Stock and Bond Connects as intermediate step
    • Must maintain macroprudential mindset
  – Policy making process remains opaque
    • Should improve transparency and accountability
    • US offers clearer timeline and procedures
    • How should foreign FIs be consulted?
Agenda for China Regulation

• Capital Markets
  – Disclosure & transparency and quality of data
  – Insider trading and rights of investors

• Banking sector
  – Excessive weight of SOE banks and relationship-based lending
  – Hidden risks, off-balance sheet items and the real NPL story
  – Do liberalization and disintermediation challenge stability?

• Shadow banking
  – Improve transparency and regulation
  – Expand alternatives
Emerging Issues

• Internet Finance (FinTech)
  – China as global sandbox ➔ shifting to regulation/consumer protection
  – FinTech penetration creates systemic risk: Alipay = FinTech SIFI?

• Cybersecurity
  – New threats to stability and investor protection
  – Is market disciplined or must regulators impose licensing requirement

• China Cybersecurity Law (effective June 1)
  – Markets data localization
    • Does it protect data?
    • Does it discriminate against foreigners?
    • Conflict with other jurisdictions’ privacy laws?
  – Calls for international coordination
US Regulatory Agenda

• Trump campaign promised change
  – Dodd-Frank repeal
  – Reimposition of Glass-Steagall
  – Limit Consumer Financial Protection Bureau

• Enforcement shifts more likely than major legislation

• Greater focus on cost-benefit in rulemaking

• Capital market structure
  – Minor tweaks to secondary markets
  – Greater focus on primary markets, especially issuers and costs

• FinTech as disruptor
UPCOMING EVENTS

India-U.S. Symposium
New Delhi, India
September 27-29, 2017

Japan-U.S. Symposium
Odawara, Japan
October 21-22, 2017

Latin America-U.S. Symposium
Harvard Law School - Cambridge, MA
December 8-10, 2017

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James Shipton
jshipton@law.harvard.edu, 617-496-7731