

SYMPOSIUM ON BUILDING THE FINANCIAL SYSTEMS OF THE 21<sup>ST</sup> CENTURY:  
AN AGENDA FOR CHINA AND THE UNITED STATES  
ARMONK, NEW YORK • JUNE 17 – 19, 2005

**FRIDAY, JUNE 17**

18:00-19:00 Cocktail Reception – Main Lobby

19:00 Dinner – Main Dining Room

**GREETINGS**

Hal Scott, Program on International Financial Systems (PIFS), Harvard Law School  
LU Mai, Secretary-General, China Development Research Foundation (CDRF)  
Anthony Neoh, Barrister-at-Law

**KEYNOTE ADDRESS**

LI Jiange, Vice President, Development Research Center of the State Council, PRC  
Lawrence Greenwood, Deputy Assistant Secretary for Int'l Finance and  
Development, U.S. Department of State

21:30-23:00 After-Dinner Cocktails – Main Lobby

**SATURDAY, JUNE 18**

7:00-7:45 Breakfast – Main Dining Room

7:00-7:45 Breakfast Meeting of Panelists, Facilitators and Reporters  
(Please sit at the reserved tables.)

8:00-8:30 **KEYNOTE ADDRESS** – Conference Room H  
ZHENG Zeguang, Minister of the People's Republic of China Embassy in the U.S.  
*Introduced by:* ZHU Min, Executive Assistant President, Bank of China

8:30-8:55 **INTRODUCTION TO PROCEEDINGS OF SYMPOSIUM** – Conference Room H  
Hal Scott, Program on International Financial Systems (PIFS), Harvard Law School

**SESSION 1: FINANCIAL MARKET LIBERALIZATION** – Conference Room H

China Panelist: HA Jiming, Chief Economist, China International Capital  
Corporation Limited

U.S. Panelist: Eugene Ludwig, Founder & Managing Partner, Promontory  
Financial Group

U.S. Panelist: Stephen Roach, Chief Economist & Director of Global Economic  
Analysis, Morgan Stanley

8:55-10:25 **SMALL GROUP SESSIONS**

<i>Group / Room</i>	<i>Facilitators</i>	<i>Reporter</i>
1 Room A	LI Tao, Harrison Young	Chris Wells

2 Room F	SUN Jie, Richard O'Toole	Xu Xiaonian
3 Room H	QIU Dong, John Makin	Peter McKillop
4 Room J	HE Fan, David Hale	Michael DeSombre
5 Dining Room	ZHANG Chenghui, Robert Dugger	Walter Hutchens

10:25-10:35 Refreshment Break

10:35-10:55 **SESSION 2: CORPORATE GOVERNANCE IN CHINA AND THE U.S.** – Conference Room H

China Panelist: ZHU Min, Executive Assistant President, Bank of China  
 U.S. Panelist: Paul Speltz, Emissary of the U.S. Secretary of Treasury to the People's Republic of China, U.S. Department of Treasury

10:55-12:30 **SMALL GROUP SESSIONS**

<i>Group / Room</i>	<i>Facilitators</i>	<i>Reporter</i>
1 Room A	WU Xiaoqiu, Anthony Neoh	Michael DeSombre
2 Room F	LIU Chi, Joel Epstein	Xu Xiaonian
3 Room H	CHEN Xuebin, Norman Sze	Walter Hutchens
4 Room J	LONG Guoqiang, Jeffrey Small	Peter McKillop
5 Dining Room	ZHANG Jinghua, Arthur Mitchell	Chris Wells

12:30-13:30 Lunch – Main Dining Room

**WELCOME REMARKS**

LU Mai, Secretary-General, China Development Research Foundation (CDRF)

13:30-14:45 **SESSION 3: NEW THOUGHTS ON THE BRETTON WOODS SYSTEM** – Conference Room H  
 Plenary Discussion only

China Panelist: PEI Changhong, Director of the Institute of Finance and Trade Economics, Chinese Academy of Social Sciences  
 China Panelist: SHEN Bingxi, Deputy Director General, Financial Market Department, People's Bank of China  
 U.S. Panelist: Andrew Crockett, President, JPMorgan Chase International  
 U.S. Panelist: Nicholas Lardy, Senior Fellow, Institute for International Economics

14:45-17:45 Free Time

14:45-17:45 Reporters meeting

18:00-19:00 Cocktail Reception – Main Lobby

19:00 Dinner – Main Dining Room

**KEYNOTE ADDRESS**

Robert Dohner, Director, Office of East Asian Nations, U.S. Department of Treasury

21:30-23:00 After-Dinner Cocktails – Main Lobby

**SUNDAY, JUNE 19**

- 7:30-8:15 Breakfast – Main Dining Room  
7:30-8:15 Breakfast Meeting of Discussion Chairs and Reporters  
(Please sit at the reserved tables.)
- 8:15-9:15 **SESSION 1: FINANCIAL MARKET LIBERALIZATION**  
Presentation & Discussion – Conference Room H
- China Chair: SHEN Bingxi, Deputy Director General, Financial Market Department,  
People’s Bank of China  
U.S. Chair: Michael Klein, CEO, Global Banking, Citigroup, Inc.
- 9:15-10:20 **SESSION 2: CORPORATE GOVERNANCE IN CHINA AND THE U.S.**  
Presentation & Discussion – Conference Room H
- China Chair: WANG Jianxi, Vice Chairman of Board, China Safe Investments  
U.S. Chair: Clarence Kwan, National Managing Partner, Deloitte Touche Tohmatsu
- 10:20-10:30 Refreshment Break
- 10:30-11:45 **SESSION 3: NEW THOUGHTS ON THE BRETTON WOODS SYSTEM**  
Presentation & Discussion – Conference Room H
- China Chair: SUN Jie, Director-General, Department of Fund Supervision, China  
Securities Regulatory Commission  
U.S. Chair: Jack Wadsworth, Advisory Director, Morgan Stanley Asia Limited/  
Morgan Stanley
- 11:45-13:30 Closing Lunch

# SYMPOSIUM REPORT

BUILDING THE FINANCIAL SYSTEM  
OF THE 21<sup>ST</sup> CENTURY:

AN AGENDA FOR  
CHINA & THE UNITED STATES

June 17-19, 2005  
Armonk, New York



**BUILDING THE FINANCIAL SYSTEM OF THE 21<sup>ST</sup> CENTURY:  
AN AGENDA FOR CHINA & THE UNITED STATES  
ARMONK, NEW YORK JUNE 17-19, 2005**

The second meeting of the China-U.S. Symposium took place in Armonk, New York, June 17-19, 2005, at the Citigroup conference center. The Symposium focused on three subjects: (1) financial liberalization in China; (2) corporate governance in China and the U.S.; and (3) the new Bretton Woods system.\*

**Session 1  
Financial Liberalization**

This session focused on the liberalization of the Chinese financial system. A key question was the extent to which continued progress in financial reform, and the more general reform of the economy, required fundamental political change in China. In particular, there was a concern that traditional state methods of controlling the economy, such as credit allocation, would no longer work in the more complex economy. Much more reliance had to be placed on monetary and fiscal policy.

There was general agreement that economic reform, in terms of privatization of the banking system and the opening up to foreign institutions, should proceed more quickly. It was important that market discipline be exercised through the capital markets and that competition be improved through an increased presence of foreign institutions.

There was also general agreement that the role of law was central to the continued reform of the Chinese financial system. Three important changes in legal institutions were identified. First, there was a need for greater independence of the courts. Some expressed concern that courts were overly political in the sense of deciding cases based on what politicians desired rather than strictly interpreting the law. This was related to a second concern, the need for more central government and less regional control over the legal system. Third, there was a belief that private enforcement had to assume more of a role in China, by facilitating class actions and contingent fee arrangements for lawyers.

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\* We sincerely apologize for the fact that the Symposium Report is less comprehensive than it should be. The person who was retained to prepare the report reneged on his obligation to write the report and failed to respond to our requests for his notes.

While development of legal institutions was seen as an important element in the infrastructure of the financial system, stress was also given to the need of more widespread use of technology, to manage and control risk, and of professionals specialized in finance.

The participants believed that much progress had been made in the last year in dealing with the problems of the financial system, such as cleaning up the three major banks for IPOs and the authorization for float of state-owned shares. But many thought the pace of change needed to increase.

There was considerable discussion of the need to reduce red tape in the government approval process. In particular, many believed that the formal requirements for acquisitions and listing needed to be scaled down. There was also some discussion of the fact that foreign acquisitions would not occur on the scale they should until foreign firms were permitted to be majority shareholders of Chinese financial firms.

Participants believed that inadequate attention had been given to reforming Chinese fixed income markets, one speaker noting that these markets were more than double the size of equity markets worldwide, \$65 as compared to \$30 trillion.

## **Session 2**

### **Corporate Governance in China and the U.S.**

The participants generally agreed that the creation of Huijin, a government-owned-corporation responsible for managing the Chinese shareholdings in corporations, was a positive step. There was some disagreement, however, over the representation of various government interests in Huijin and how the policy concerns of the government should relate to the shareholder concerns.

There was a general view that the role of the government as shareholder had to be diminished through more privatization and foreign acquisitions. There was much discussion over whether the role of the government as shareholder or policy maker would change dramatically when the large banks went public. Some pointed out that public companies would be required, under the laws of foreign markets where Chinese shares were traded, to give more protection to minority shareholders.

There was a great deal of discussion of the role of board directors in the governance of Chinese companies. There was an agreement that independent director requirements were beneficial, but there was also some comment that the role of these directors needed to be strengthened, particularly by giving them more information about the business of the firms on which they served and by defining their roles more precisely.

There was much skepticism about the role of the supervisory board as compared to the management board. It was not clear what role this board was actually playing. It appeared that the Chinese were evolving toward a one board model with independent directors, in which case there would be no need to retain the supervisory board.

Participants observed that a key need in the area of corporate governance was to entrust the board, rather than outside political forces, with the authority to appoint and replace the CEO.

Many commentators made the point that good corporate governance fundamentally depended on good management. Picking up on a theme that ran through the meeting, the basic issue was who was managing the financial institutions, the CEO or the government. It was important to put responsibility for management, and therefore outcomes, with the managers. Once this was done, management needed better incentives, reasonable rewards for success (there was a view that U.S. management compensation levels might be excessive) and reasonable punishments for failure.

There was also agreement that more effort had to be made in both countries to instill a culture of ethical behavior in business firms.

Other corporate governance issues received some mention. Participants believed it was important to develop a better bankruptcy process in China. This was an important element in the incentive structure—management must know that firms can fail. In addition, market discipline for public firms needed to be increased by better disclosure requirements (that are enforced).

There was also discussion of the pitfalls of over-regulation of corporate governance, as in the case of Section 404 of Sarbanes-Oxley. Some believed that the U.S. had overreacted to its corporate scandals.

### **Session 3**

#### **New Thoughts on the Bretton Woods System**

The Symposium, held only shortly before China revalued its currency by 2% and converted from a dollar to a currency basket peg, expressed various views on the need to revalue the Yuan.

There was little disagreement with the proposition that a Yuan revaluation would have little impact on the U.S. trade deficit. There was also little disagreement with the idea that the U.S. interest in the need for revaluation was largely political—that politicians wanted to claim they had done something to bring jobs back to America even though a revaluation would have little impact on the “outsourcing” issue.

Many participants pointed out that the U.S. Congress did not understand the fundamental difference between China and Japan. In its high development period, and to some extent even after, Japan had built up significant trade surpluses with the U.S. by restricting the inflow of U.S. goods and capital into Japan. This was not the case with China, which has been largely open to the inflow of capital (or at least much more so than Japan). There was concern that a U.S. policy that imposed sanctions on China for failure to adjust its currency could result in China closing the door to an important market for U.S. exporters and investors.

There was also broad agreement that China, in its own interest, would benefit by a more flexible exchange rate system that would allow it to develop and use traditional monetary policy tools. There was much less agreement on the proper timing of adopting more flexible rates. There was significant concern, also expressed at our first Symposium, that liberalization of the capital account that would accompany more flexible rates could lead to significant capital outflow from China, which was generally viewed as negative.

Many believed it was inappropriate and perhaps counter-productive for the U.S. to pressure China for currency reform insofar as the presence of such pressure might make it less rather than more likely for the Chinese to change policies. Given the 2% revaluation after the Symposium, this point could still be debated.