SYMPOSIUM ON BUILDING THE FINANCIAL SYSTEM OF THE 21ST CENTURY: AN AGENDA FOR CHINA AND THE UNITED STATES

The Weill Center, Armonk, NY • MAY 17-19, 2017

188 KING STREET, ARMONK, NY

AGENDA

WEDNESDAY, MAY 17

6:10 p.m. & 6:20 p.m. RENAISSANCE GUESTS – BUSES TO THE WEILL CENTER

6:30-7:15 p.m. COCKTAIL RECEPTION *Main Lobby*

7:20-7:30 p.m. GREETINGS *Dining Room*

- Hal Scott, Nomura Professor and Director, Program on International Financial Systems, Harvard Law
- LU Mai, Vice Chairman & Secretary General, China Development Research Foundation (CDRF)

7:30-9:30 p.m. KEYNOTE ADDRESSES AND DINNER *Dining Room*

- Wilbur Ross, Jr., Secretary, U.S. Department of Commerce (via video conference)
- LI Jiange, Vice Chairman, Central Huijin Investment Limited; Former Vice President, Development Research Center of the State Council, P. R. China
- CHENG Lei, Acting Consul General of the P.R. China in New York

9:30-10:15 p.m. AFTER-DINNER COCKTAILS *Main Lobby*

9:30 P.M. & 10:20 P.M. RENAISSANCE GUESTS – Buses back to hotel; meet in Main Lobby of Weill

THURSDAY, MAY 18

7:00 A.M. & 7:15A.M. **RENAISSANCE GUESTS** –Buses to the Weill Center

7:15-8:00 a.m. BREAKFAST BUFFET *Dining Room*

8:00-8:35 a.m. KEYNOTE ADDRESS *Dining Room*

- Andy Baukol, Acting Deputy Secretary, U.S. Department of Treasury

8:40-9:15 a.m. PANEL DISCUSSION *Room H*

Impact of leadership transitions on Sino-US economic relations

Panelists will introduce and discuss issues relevant to the topic. Each panelist (one US and one Chinese) will make a presentation before all of the participants are broken into small working groups.

- Nick Lardy, Senior Fellow, Peterson Institute for International Economics
- LIANG Hong, Chief Economist, China International Capital Corp.

9:20-10:40 a.m. SMALL GROUP SESSIONS

GROUP	ROOM	FACILITATORS	REPORTER
1	Room H	Nick Lardy, SHANG Ming	ZHANG Chun
2	Room J	Chuck Scully, Sam CHEN	Hamilton Lin
3	Room F	William Overholt, ZHANG Hongjiu	Rebecca Chua
4	Dining Room 2	Linda Zhang, ZHANG Zhizhou	Peter McKillop
5	Conf Room A	Mark Slaughter, WANG Yinghua	Fabiana Fedeli
6	Conf Room B	Paul Speltz, Sherry HAO	Bill Grimes
7	Dining Room 1	Paul Sheard, HUANG Xiaojun	Ben Ghalmi

10:45-10:55 a.m. REFRESHMENT BREAK

11:00-11:30 a.m. PANEL SESSION *Room H*

Next steps in capital market liberalization and financial (de)regulation in China and the U.S.

Panelists will introduce and discuss issues relevant to the topic. Each panelist (one US and one Chinese) will make a presentation before all of the participants are broken into small working groups.

- Stephen Luparello, General Counsel, Citadel Securities
- GONG Minghua, Director-General, China Banking Regulatory Commission (CBRC)

11:35-12:50 p.m. SMALL GROUP SESSIONS

GROUP	ROOM	FACILITATORS	REPORTER
1	Room H	Frank Newman, SHANG Ming	ZHANG Chun
2	Room J	Bill Foster, Sam CHEN	Hamilton Lin
3	Room F	Catherine Simmons, ZHANG Hongjiu	Rebecca Chua
4	Dining Room 2	Dan Senger, ZHANG Zhizhou	Peter McKillop
5	Conf Room A	Rick Katz, WANG Yinghua	Fabiana Fedeli
6	Conf Room B	Satoru Murase, Sherry HAO	Bill Grimes
7	Dining Room 1	Diana Choyleva, HUANG Xiaojun	Ben Ghalmi

12:50-2:15 p.m. LUNCHEON AND KEYNOTE ADDRESS Dining Room

- William Mills, CEO, North America, Citi

2:15-3:40 p.m. PLENARY PANEL SESSION *Room H*

Challenges & opportunities of FinTech (and RegTech) in the U.S. and China

A moderator will facilitate a discussion giving all 4 panelists equal opportunity to participate before incorporating the audience as well. Panelists remarks will provide a point of view that offers Symposium participants the benefit of analysis and insight on the topic.

- Arthur Wang, Partner & Head of China Banking, KPMG
- Amy CHENG, CEO & Executive Director, China Innovative Finance Group Ltd.
- Ben Ghalmi, Vice President, Jumore E-Commerce Co., Ltd.

James Shipton, Executive Director, Program on International Financial Systems, Harvard Law (moderator)

3:45-6:30 p.m. FREE TIME/ RAPPORTEURS MEETING *Room F*

3:50 P.M. RENAISSANCE GUESTS – Bus back to hotel; meet in Main Lobby of Weil Center

3:50 P.M. Optional Excursion: Bus to the Westchester Mall. Bus will depart the mall at 6:15p.m. to return to the Weill Center by 6:30 p.m. This bus will not go back to the Renaissance Hotel.

6:10 p.m. & 6:30 p.m. **RENAISSANCE GUESTS – BUS TO THE WEILL CENTER**

6:30-7:15 p.m. COCKTAIL RECEPTION *Main Lobby*

7:20-7:45 p.m. KEYNOTE ADDRESS *Dining Room*

- FANG Shangpu, Deputy Administrator, State Administration of Foreign Exchange, China

7:45-9:15 p.m. DINNER *Dining Room*

9:15-10:00 p.m. AFTER-DINNER COCKTAILS *Main Lobby*

9:15 P.M. & 10:00 P.M. RENAISSANCE GUESTS – Buses back to hotel

FRIDAY, MAY 19

**Please check-out of your room before the Sunday sessions. Luggage will be stored in the front lobby of the Weill Center.*

7:25A.M. & 7:45 A.M. **RENAISSANCE GUESTS** –Buses to the Weill Center

7:45-8:35 a.m. BREAKFAST BUFFET *Dining Room*

8:40-9:45 a.m. PRESENTATION AND DISCUSSION *Room H*
The sources for capital and investment, and market access
A moderator will facilitate a discussion giving all 2-3 panelists equal opportunity to participate before incorporating the audience as well. Panelists remarks will provide a point of view that offers Symposium participants the benefit of analysis and insight on the topic.

- Cathy X. ZHENG, Assistant President, Silk Road Fund
- Kenneth Koo, Citi Chief Representative & Deputy General Manager, Citi Orient Securities Co. Ltd.
- ZHAO Jinping, Director-General, Research Department of Foreign Economic Relations, Development Research Center of the State Council
- Mitch Silk, Partner, Allen & Overy LLP (moderator)

9:45-10:00 a.m. REFRESHMENT BREAK

10:00-11:00 a.m. PRESENTATION & DISCUSSION *Room H*
Impact of leadership transitions on Sino-US economic relations
Panelists (one US and one Chinese) will moderate a plenary discussion that uses a synthesis of the small group sessions from the previous day as the basis for session

- Paul Sheard, Executive Vice President and Chief Economist, S&P Global
- SHEN Jianguang, Managing Director and Chief Economist, Mizuho Securities Asia Ltd.

11:00-12:00 p.m. PRESENTATION & DISCUSSION *Room H*

Next steps in capital market liberalization and financial (de)regulation in China and the U.S.

Panelists (one US and one Chinese) will moderate a plenary discussion that uses a synthesis of the small group sessions from the previous day as the basis for session.

- Anne Van Praagh, Managing Director, Moody's
- XIAO Yuqiang, Chairman, U.S. Region Management Committee, ICBC

12:00-12:45 p.m. CLOSING BUFFET LUNCH *Dining Room*

1:00 p.m. Buses to Grand Central Terminal and JFK

LEX ET IUSTITIA

Program on International Financial Systems

Symposium on Building the Financial System of the 21st Century: An Agenda for China and the United States

Armonk, NY | May 17-19, 2017

Final Report

Program on International Financial Systems

Founded in 1986, Program on International Financial Systems (PIFS) fosters the exchange of ideas on capital markets, financial regulation, and international financial systems through its acclaimed portfolio of Symposia on Building the Financial System of the 21st Century. PIFS also conducts research and organizes special events on these topics.

Each year, PIFS bilateral Symposia bring together senior financial leaders, high-ranking government officials, and distinguished academics from the United States and their counterparts from China, Europe, Japan, and Latin America for intensive dialogue on issues affecting international capital markets.

Off-the-record and closed to the media, the invitation-only PIFS Symposia convene leading market practicioners at off-site retreat venues. The Symposia model features candid, intimate exchanges between global counterparts within small-group discussions. Keynote addresses and panel sessions serve to initiate and enhance the interactive, small-group dialogue, which is conducted under Chatham House Rules in order to foster an open exchange of ideas. These discussions are synthesized and presented on the final day of the Symposium in a plenary session, and then summarized and published in the following Symposium Final Report.

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Contents

2017 Symposium on Building the Financial System of the Twenty-First Century: An Agenda for China and the United States

Symposium Final Report

The fourteenth annual China-U.S. Symposium was held at the Weill Center in Armonk, New York. Sessions addressed the impact of leadership transitions on Sino-US economic relations, capital markets liberalization and financial regulation in China and the US, challenges and opportunities of fintech and regtech in the US and China, and sources and access for capital and investment. Many participants expressed cautious optimism that China and the US would forge a cooperative economic and financial relationship under the Trump administration, based on their interdependent economic relationship.

Session 1

Impact of Leadership Transitions on Sino-US Economic Relations

In Session 1, participants discussed the impact of political leadership on Sino-US relations. In the US, the election of President Trump had raised many questions given that he had run on a platform of economic nationalism and suspicion of economic openness, and which had singled out Chinese economic policies for criticism. Participants agreed that the Trump presidency constituted a significant symbolic break with previous expectations regarding governance and globalization, but many predicted that the new administration would bring less change to Sino-US relations than was generally assumed. In contrast, Xi Jinping's leadership in China was seen as providing a much higher level of continuity. However, some participants saw possibilities for meaningful changes in Chinese policy, based either on economic shifts (such as capital outflows) or political issues (such as the 19th Congress of the Chinese Communist Party to be held later in the year) or in the new cybersecurity law).

STATE OF US-CHINA RELATIONS

Most participants agreed that the Sino-US economic relationship was very close and getting closer, on multiple fronts. They noted, for example, the high levels of trade, traditionally high levels of US FDI to China, and the rapid increase of Chinese FDI in the US. Participants drew particular attention to what they saw as the high and growing level of interaction at multiple levels, including tourism, study, and migration at the personal level as well as institutional ties among not only corporations and financial institutions, but also non-governmental organizations, research institutions and universities, and subnational governments.

In political terms, participants recognized that the bilateral relationship was partly characterized by strategic rivalries and serious disagreements in some areas, such as aspects of Asian security, territorial issues, and maritime activities. However, they emphasized that there were many other areas in which China and the US were cooperative and interdependent, including in many international organizations and regulatory bodies. In recognition of this mutual interdependence, the two countries had operated in a variety of bilateral forums to improve cooperation and coordination across issues as varied as nuclear proliferation, barriers to trade and investment, and environmental research and policy.

Some participants questioned whether the US was ready to embrace shared power. Some were skeptical, arguing that the US had consistently been unwilling to accept China as an equal in global governance except where China shared US interests. They pointed, for example, to US objections to the Asian Infrastructure Investment Bank (AIIB), exclusion of China from the Trans-Pacific Partnership (TPP), and campaign rhetoric in the US presidential election that had demonized China. Others disagreed, pointing out the many bilateral efforts to improve communication and coordination, as well as US support for increased Chinese participation and voting power in major international organizations such as the IMF.

Overall, participants saw Sino-US economic and political relations as multifaceted and multi-level in nature. Many argued that this made the relationship more robust and that shifts in political leadership on either side were less likely lead to schisms or serious conflict than in the past. However, even optimists cautioned that sustaining trust would require ongoing cultivation and nurturing.

US LEADERSHIP TRANSITION

There was considerable discussion and speculation about the Trump administration's approach to Sino-US relations and its economic policy priorities, but participants understood that much remained uncertain. Indeed, many participants argued that the administration's basic foreign policy and economic policy intentions remained undetermined, despite strong rhetoric about trade, tax, and foreign policies during the campaign and early months in office. One reason was that the administration had been slow to make appointments to departments and agencies—for example, participants noted that there had been no confirmed appointments within the Departments of State and Treasury other than the secretaries themselves. This complicated any serious policymaking; it also raised concerns among a number of participants about the administration's capacity to handle security or economic crises.

With regard to China, many participants concluded that the administration's priorities and agenda had changed considerably since the president took office in January. They noted the positive tone of the Xi-Trump summit meeting in Mar-a-Lago as one indicator that the Trump administration was interested in working constructively with China. The president and treasury secretary's reversal of rhetoric accusing China of currency manipulation also gave the impression of a pragmatic approach. On a more operational level, a number of participants noted that the administration had sent a representative to the recent Belt and Road Summit in Beijing, adopted a more open stance toward cooperating with the Asian Infrastructure Investment Bank, and created a series of dialogues (including the 100-day action plan) that were designed to address concrete issues. Moreover, despite a series of protectionist announcements and measures, there had been very little that had been targeted at Chinese firms or industries so far. While this was reassuring to many Chinese observers, some participants argued that it would be unwise to assume that the Trump administration would not revert to a more anti-China agenda.

Some participants suggested that, rather than focusing on whether the Trump administration was targeting China for trade actions, China should be worried about the impact of the administration's stated agenda on the international trading system, competitiveness, and economic demand in the US. Some raised the possibility that the US might soon be engaged in a massive effort of "deglobalization," which could disrupt global supply chains and trade in services. Others focused on the administration's tax and regulatory priorities. In principle, any or all of these policies could have major effects on China and on Sino-US relations.

IMPLICATIONS FOR CHINA OF TRUMP ECONOMIC POLICY

The future of US trade policy was a major concern for many participants, and there was considerable discussion of the principles and practices that would likely characterize the Trump administration's approach to trade. Participants agreed that one of the animating principles of the Trump team's trade policy was "reciprocity." However, there was considerable confusion about how that was understood by the president and his team. Participants noted that in the post-war period, reciprocity had been interpreted in one of two ways in US trade policy. In trade negotiations, reciprocity meant "marginal reciprocity"—in other words, making reciprocal concessions, regardless of starting point. This would mean, for example, that a country with lower trade barriers (such as the US) would make concessions in exchange for countries with higher trade barriers doing the same, with the understanding that barriers would still be higher in the latter countries after reaching agreement. Alternatively, reciprocity could mean retaliation against a foreign country that imposed a new barrier against US, in a tit-for-tat process. Several participants argued that the Trump administration, in contrast, appeared to be pushing for "mirror reciprocity," or a full leveling of all trade barriers to be equivalent to the US—while at the same time, vigorously using trade law to protect US-based producers. (Ironically, it was noted, the administration was particularly opposed to those free trade agreements like NAFTA and the Korea-US FTA that went the furthest toward completely "leveling the playing field.") These participants predicted that the mirror reciprocity approach would be unacceptable to most US trading partners, and could threaten the global trading system.

Another key concept that had been articulated by the Trump administration was its preoccupation over trade deficits, both bilateral and multilateral, as a driver of trade policy. Participants considered this preoccupation to be very concerning. In general, they took issue with the idea that US deficits meant that the country was "losing," as it ignored the basic concept of gains from trade. At the multilateral level, they noted that trade deficits resulted from a surplus of investment over saving. US saving rates were consistently lower than domestic investment, and had been for decades. While this could be seen as a cause for concern, they emphasized that the overall US trade deficit could not be attributed to, or reduced by, trade policies—whether meant to reduce imports or expand exports.

With regard to bilateral deficits, participants acknowledged that trade policies could be important factors in a given bilateral relationship, but they rebutted the claim that a bilateral deficit was necessarily an indication of unfair trade practices. Participants noted that bilateral trade patterns reflected a variety of factors, including comparative advantage, position in global supply chains, resource endowments, distance, consumer preferences, etc., of which trade and industrial policies were only a subset. The discussion of bilateral deficits was important for Sino-US relations, due to the fact that the US trade imbalance with China was by far its largest bilateral trade deficit, suggesting that China would be a primary target of US trade strategy. While a number of participants agreed that Chinese industrial, trade, and investment policies did adversely affect some US firms, there was also a consensus that most of the reason for the massive imbalance could be found elsewhere, including demographics and high savings, China's position as the final step in regional and global supply chain, and comparative advantage. Those participants who were critical of Chinese trade and industrial policies did not believe that trade sanctions on China would fundamentally change those patterns—and to the extent that they affected the bilateral imbalance, it would be by diverting US imports to other partners while having no effect on the U.S. multilateral trade balance. The recent "early harvest" liberalization agreement between the US and China that would remove barriers to import of beef, biotech, and LNG (as well as some financial services), which participants predicted would not have a material effect on the bilateral deficit, was presented as a case in point. Thus, while US-China trade relations had been calmed by the Xi-Trump meeting and 100-day plan, a number of participants worried that it was just a matter of time before tensions flared again.

US fiscal policy was also seen by many participants as potentially having an impact on China. Participants recognized that many of the particulars remained unclear, so they addressed what they expected to be the broad contours of Trump administration fiscal policy. In particular, they discussed prospects for tax policy. The administration had been consistent in stating its commitment to reducing taxes substantially. Few if any participants expected the tax reform package to be completed before late in the year, due to both the slow pace of drafting a proposal and the political challenge of enacting wholesale tax reform. However, they anticipated that tax reform would lead to significantly lower corporate tax rates and flatter personal tax rates, which would only be partially made up for by reducing deductions and widening the tax base. While many foreign governments and firms had been anxious about the possible imposition of a border-adjustment tax, participants generally felt that was unlikely. This was a relief for exporters to the US, but from a fiscal standpoint, the combination of lower tax rates and no border-adjustment tax would almost certainly mean a large drop in tax revenues. While participants expected that fiscal spending might decline in the new budget, most anticipated the result to be a substantial widening of the US fiscal deficit, and likely its trade deficit as well.

From the perspective of China, a number of participants argued that a corporate tax cut would make FDI in the US more attractive. At the same time, some predicted that some US manufacturers in some fields would become more cost-competitive compared to Chinese rivals. However, the most significant impact on China was likely to be through the expected ballooning of US fiscal deficits, which would increase the total dissaving of the US economy and therefore the overall trade deficit. Some participants predicted that the administration would react to expanding trade deficits with aggressive trade policies and sanctions. Others were less worried. They argued that, given a choice between jobs and growth on the one hand and reducing trade deficits on the other, the Trump administration would undoubtedly choose jobs and growth, even if they were driven by fiscal stimulus and reflected in increased trade deficits.

CHINA LEADERSHIP IMPACT

While much of the discussion in Session 1 focused on the US leadership transition, participants also addressed the impact of

Chinese leadership on the relationship. Overall, most participants expected continuity in terms of both leadership and the broad contours of policy. They did, however, see scope for change along the lines already mapped out by the government, as well as continued refinement of particular policies in response to changing events and monitoring of policy effects.

Participants agreed that President Xi had firmly established himself as China's leading political and policy figure, contributing to political stability and continuity of policy plans. They saw his major policy initiatives, including the ambitious Asia-wide infrastructure development initiative known as the One Belt One Road (OBOR, also known as the New Silk Road or Belt and Road Initiative), the Made in China 2025 industrial policy program, economic rebalancing, and the anti-corruption drive as defining much of China's economic policy in the coming years. Importantly, many participants emphasized that continuity would not mean stasis (although most predicted that there would be few real changes before the 19th National Party Congress scheduled for the fall of 2017). Rather, implementing these initiatives would likely involve significant changes over time in the country's economic structure and practices.

One important question for many participants was the sustainability of China's economic rebalancing. Participants observed that domestic consumption was growing rapidly, as anticipated by the rebalancing plan. Moreover, Chinese growth was no longer driven by exports, as seen in China's declining trade surpluses—although most participants expected that China would remain a surplus country for some time, mostly due to demographics. For many participants, these were signs that China was successfully making the transition away from export-led growth to a more sustainable growth model. However, some participants questioned the sustainability of the changes seen to date. They noted that investment remained high. This raised concerns about whether economic growth was being maintained by continued investment in declining sectors and in inefficient SOEs. If that were the case, it could lead to declining productivity, excess capacity, and unsustainable debt levels for SOEs and local government. Other participants countered that evidence suggested that investment was shifting rapidly from declining industries into emerging sectors including both advanced manufacturing and services. They argued that, despite apparent declines in productivity growth, China would soon experience a period of faster growth. A number of participants also suggested that OBOR could help to address the problem of excess capacity in basic materials and commodities that was adversely affecting many SOEs. Moreover, they expressed confidence that, over time, OBOR would help to develop regional economic integration that would benefit both China and its neighbors.

At a more general level, there was some discussion of the effects of the government's anti-corruption drive. While many participants agreed that corruption was a serious issue in Chinese governance, some questioned whether the anti-corruption drive could have negative effects as well. In particular, they worried that government officials and lending officers were becoming very risk-averse for fear of running afoul of anti-corruption enforcement efforts. They suggested that this might impede approvals of beneficial projects or loans to promising firms. They encouraged the government to continue to work to improve the business environment and to streamline approvals processes.

SINO-US RELATIONS GOING FORWARD

Overall, most participants appeared optimistic about the potential for mutually beneficial Sino-US relations under the Trump and Xi administrations. While recognizing that the relationship had elements of strategic rivalry, participants agreed that the two countries were highly interdependent and that there were many opportunities for cooperation. And despite the sometimes harsh rhetoric about China employed during the presidential campaign, participants noted that the two governments were working to pursue positive relations, including through a new version of the Strategic & Economic Dialogue (which, despite name changes, dated back to the Clinton administration).

Going forward, participants identified several areas in which they felt cooperation could have particularly positive effects. One of these was cross-border investment. Many participants agreed that this was very mutually beneficial—China's excess savings could provide capital for US firms and infrastructure, while US firms continued to bring advanced technologies and processes to China. Thus, these participants advocated that the two governments focus on reducing barriers to investment, including restarting talks on a bilateral investment treaty. As in previous Symposiums, a number of participants argued that the national security review process for foreign investments in the US (CFIUS) disadvantaged Chinese investors and should be changed. Meanwhile, other participants called for reduction of Chinese sectoral barriers and procedural impediments to US investors. These were discussed in greater detail in Session 4.

Some participants also saw opportunities in technology trade. A number of participants brought up long-standing US concerns about China's treatment of intellectual property rights (IPR), as well as rules regarding data privacy. In addition to expressing ongoing concerns about IPR theft, they argued that US firms were being forced to give up access to core technology or to stay out of the Chinese market by IT policies such as the indigenous innovation law and rules mandating data localization and government access to encryption keys. These were seen as particularly important issues for US firms whose comparative advantage was in advanced technology. Participants also noted Chinese frustrations with US technology policies, especially export restraints on certain technologies. Some participants argued that such policies inherently contradicted US efforts to increase exports to China and to reduce the bilateral trade imbalance, pointing out that there would be considerable Chinese demand for cutting-edge technologies, if the US government removed those barriers.

Still, many participants expressed concern that tensions could increase if the relationship were not managed well. It was noted that both the US and China were pursuing economic policies that could disadvantage the other. In addition to the protectionism and national preferences envisaged under the Trump administration's Make America Great Again platform, a number of participants pointed to the Made in China 2025 initiative as inherently nationalist and protectionist. Participants called on both governments to find ways to make those signature economic platforms non-discriminatory toward foreigners, even as they sought to transform the domestic economies.

Finally, there was some discussion of how China would react if the Trump administration were to follow the aggressive trade and currency actions that the Trump campaign had advocated. While the Trump administration had repeatedly argued that other countries would have to accept US conceptions of a level playing field, many participants argued that this was unlikely, particularly with China. They noted that China's economy was by some measures already larger than that of the US, and would continue to grow at a relatively faster rate. Moreover, a number of participants argued that interdependence was no longer as asymmetrical as it had once been, with the US having grown increasingly dependent on China for a variety of goods; meanwhile, China's dependence on exports to the US was declining due to both trade diversification and the shift away from export-driven growth. These participants predicted that, if Chinese trade and investment were targeted unfairly by the US, China would retaliate assertively in ways that would hurt the US economy. §

Session 2

Capital Markets Liberalization and Financial (De)Regulation in China and the U.S.

In Session 2, participants discussed the regulation of financial markets and institutions in China and the US. Much of the discussion centered on China, where participants saw the need to develop capital markets, improve macroprudential supervision, improve regulation of shadow banking, and protect Chinese depositors and investors. With regard to the US, participants focused on the Trump administration's regulatory agenda and what impacts might be seen in rules and enforcement.

FINANCIAL REGULATION AND DEREGULATION IN CHINA

Participants provided a common description of the Chinese financial system. They noted that it remained a bank-based system, with a particular reliance on SOE banks. Capital markets were developing rapidly, but remained stunted in several ways: SOEs and firms with majority shareholders still dominated equity markets, transparency and disclosure remained inadequate, private-sector bond issuance remained low, a number of financial products including many derivatives had yet to be introduced, and stock and bond issuance remained tightly regulated. Many participants pointed to the size and continuing growth of shadow banking as a symbol of financial innovation and liberalization in the Chinese market, but also as both an indicator of the need to expand investment alternatives and as a potential source of systemic risk. They noted that in many cases, such as with wealth management products, shadow banking services were actually offered by banks, raising the likelihood that issues arising in shadow banking could swiftly move into the formal banking system. Finally, participants remarked on the size, vibrancy, and innovativeness of China's internet finance (discussed in greater length in Session 3 below), which they saw as a leading element in expanding financial inclusion for the Chinese people.

All in all, participants saw several major challenges facing the Chinese financial system and financial regulators. With growth slowing, many participants argued that better financial intermediation was needed to circulate savings through the economy more efficiently and safely. Bank behavior was one important focus. Many banks had not yet improved their internal controls and risk management, so relationship-based lending (especially to SOEs and local governments) remained pervasive in much of the banking system. Equally importantly, many participants worried that banks' solvency was more endangered than official statistics suggested, not only because of the possibility that non-performing loans ratios were higher than reported, but also because of hidden risks such as wealth management products that were held off-balance sheet. Overall, most participants agreed that banks were well-capitalized and that the government had the will and resources to manage a crisis, but participants saw the concentration of risk in banks as troubling. There was also a concern that banks preferred to lend to SOEs and to traditional industry rather than to emerging industries and firms.

Capital markets were also seen as having an important role in improving financial intermediation. A number of participants argued that China's capital markets had a tendency toward bubbles. Another challenge for capital markets was the perception that they were not fair, and that insiders had access to better information than regular investors.

Macroprudential supervision was seen as a growing challenge for China, particularly as more and more activities were falling outside of highly-regulated entities. Many participants agreed that that reducing the likelihood and damage caused by bubbles should be an important goal for regulators. The rapid rise of shadow banking in particular made it more difficult to track risk in the financial system—including for banks, many of which were offering unregulated wealth management products off their formal balance sheets. Shadow banking, according to these participants, was a major cause of recurring bubbles in both capital markets and real estate. A related challenge was consumer protection, as more and more retail financial services moved away from highly-regulated and state-owned banks toward internet finance and shadow banking.

Many participants agreed that China was in the midst of a regulatory upswing, with substantial reregulation of financial institutions, more extensive perusal of approvals for financial activities (including both domestic functions and capital exports), etc. Participants put forward several explanations for this re-regulatory trend, including the anti-corruption drive, desire to reimpose political control over a key sector of the economy, and macroprudential concerns. To address the challenges of macroprudential supervision and venue shopping, Chinese authorities had also begun to expand their cross-agency coordination, to address both new entrants (such as in internet finance) and products that blurred lines between the existing regulatory categories. Participants agreed that this would be an important process going forward. Some called for the integration of regulatory agencies under a single agency, but participants recognized that such a decision would be politically difficult.

Participants also discussed cross-border capital flows, including issues of prioritization and sequencing. They noted that there had been major advances in liberalization of capital flows. Building on China's open current account, Chinese authorities had significantly liberalized the capital account for direct investment and real transactions. While some participants complained that approvals for outbound investment had become more difficult in the past year, others emphasized that this did not reflect more restrictive regulations but rather renewed enforcement of rules that were already in place. In terms of portfolio investment flows, China was continuing to progress along the path of liberalization, as seen in larger quotas for QFIIs, RQFIIs, and QDIIs and in the expanded Stock Connects and new Bond Connect. Thus, China was continuing to follow a deliberate strategy of phasing in liberalization measures while carefully monitoring the effects. Other participants saw a clear contradiction between the policy direction of liberalization and the stricter enforcement of approvals on outbound investment. They suggested that the tightening on outflows showed that the Chinese government remained more committed to controlling flows than to liberalization.

A number of participants stated that they saw a slowdown in the move toward full capital liberalization. Many participants agreed that this was appropriate, given China's level of financial development and the still-limited international role of the RMB. There was some discussion as to whether capital liberalization was still, or should be, an important goal for Chinese authorities. Some participants were skeptical of the importance of achieving full capital liberalization. They noted that there was little evidence to support the claim that capital liberalization improved economic growth, while there was considerable evidence that capital account liberalization could increase the vulnerability of emerging markets to currency crises. Thus, they were skeptical of the value of a long-term goal of full liberalization, although they were supportive of the Chinese authorities' current strategy of measured opening, which allowed for essential capital flows and allowed market determination of interest rates and asset prices while preventing excessive currency volatility. Other participants argued that full capital account liberalization should remain a goal for China, both because of the difficulty of controlling flows (which could lead to distortions in financial markets and capital allocation) and because of their expectation that the RMB would become an increasingly important international currency. Either way, there appeared to be a general consensus that proper sequencing would be important for China as it continued to ease restrictions on the capital account. In particular, a number of participants called for improved domestic financial regulation and supervision before making major changes to the capital account. Several argued that the pace of capital account liberalization should be contingent on objective measures of financial deepening. Moreover, many participants felt that liberalization should be pared with careful attention to macroprudential supervision, in order to avoid the fate of economies such as Thailand in 1997, which had liberalized across the board without having sufficiently upgraded its financial supervision or prudential regulation of financial institutions.

Finally, a number of participants observed that China's financial regulatory policymaking process remained opaque. For example, although regulators consulted with financial institutions in devising new rules and regulations, the process of consultation often remained behind closed doors and without a specific timeline. They argued that foreign financial firms in particular were disadvantaged by a process that did not include formal mechanisms such as right to public comment. They noted that the US and many other jurisdictions' rulemaking processes were governed by administrative procedures acts, and suggested that such a law could go a long way to improving transparency and accountability in China as well. Other participants felt that the Chinese authorities were doing a generally good job of consulting with financial institutions. Some also argued that—especially with a relatively underdeveloped financial system—in some cases it was best for regulators to move quickly to address emergent challenges, a task that would be complicated by formal procedural requirements, although exceptions to such procedures could be provided in emergencies.

AGENDA FOR CHINESE FINANCIAL REGULATION

Based on this discussion, participants suggested some key goals for promoting efficiency and safety of Chinas' financial system.
With regard to capital markets, there was a strong consensus that regulators should strive to improve market information. One key recommendation was enhancing requirements for disclosure and transparency. A number of participants expressed concern that lack of standards for when and what sorts of events needed to be disclosed created conditions for inefficiency and insider trading. Quality of data was another important piece of the information agenda. Consistent application of accounting standards was seen as particularly important and a number of participants also made the case that Chinese regulators would benefit from more consistent and timely reporting on trading, net and gross positions, etc. Third, a number of participants expressed serious concerns about what they saw as the prevalence of insider trading; while this could be partly ameliorated by improved disclosure, they argued that there needed also to be clearer rules and stricter enforcement in order to protect the integrity of markets. Several participants made a similar point about protection of minority shareholders' rights.

For the banking sector, participants focused their attention on overconcentration, lending quality, and the need for accurate information about non-performing loans and risk management. Overconcentration in the banking sector was seen by many participants as a real problem for the development and long-term stability of the Chinese financial system. While the fact that the biggest banks were state-owned was seen to reduce the likelihood of failure and contagion, these participants worried that the dominance of large SOE banks would tend to mean lack of competition, lack of innovation, and lack of credit availability for households and SMEs. It would also mean concentration of risks if the big banks were poorly managed. Participants argued that in order to reduce concentration, regulators should encourage smaller banks, including privately- and foreign-owned banks to expand their operations.

Lending quality was another issue of considerable concern. A number of participants worried that the amount of non-performing loans in Chinese banks was much larger than officially recognized, and they worried about the potential for failures or the need for state bailouts, although the prevalence of SOE banks made many participants less nervous about an actual banking crisis. Beyond the NPL problem, a number of participants argued that banks in general needed to upgrade their risk management and credit evaluation in order to improve their performance and the efficiency of credit allocation. Better procedures and information about clients could reduce the reliance on relationship-based lending. As in the case of capital markets, participants saw information (including both banks' information on clients and information on bank performance for regulators and investors) as a major concern in China's banking sector. Finally, an unanswered question for many participants was how best to balance efforts to improve efficiency and capital allocation (e.g., through liberalization and disintermediation) on the one hand with the imperative of maintaining financial stability on the other.

Participants also discussed the ongoing issue of how Chinese regulators should address shadow banking. Many participants noted the positive aspects of Chinese shadow banking. Shadow banking provided alternatives to banks and capital markets for both borrowers and investors. Shadow banking also operated on market principles of supply and demand, which in principle should improve pricing and allocation of credit.

However, many participants worried about the potential negative impacts of shadow banking, due to its sheer size and the lack of transparency about products and institutions involved in it. Also, several cited evidence that shadow banking in China had helped to fuel asset bubbles in real estate and the stock market, by providing funding even when regulators were trying to restrict investment for macroprudential reasons. While there was some disagreement on the advantages and disadvantages of China's shadow banking institutions, participants did agree that shadow banking institutions should be subject to much clearer regulation and should provide much more information to regulators and investors than was currently the case.

Participants also noted several emerging issues that they felt regulators should prioritize. Several of these were discussed at greater length in Session 4. With regard to internet finance, a number of participants argued that China's market had become so large that regulators should start moving away from seeing the entire sector as a regulatory sandbox, and instead start imposing regulations to ensure safety and soundness, prevent contagion, and protect consumers. Several participants suggested that, given the enormous size and scale of some of China's internet finance players, regulators should consider designating some as "fintech SIFIs" that would come under extra scrutiny and supervision. Cybersecurity was another major emerging concern for many participants. Others, while agreeing about the potential threats raised by cybertheft and identity theft, argued that regulation would inevitably lag technology, which they said called for market discipline rather than new licensing requirements. Finally, some participants raised serious concerns about China's new Cybersecurity Law, which mandated data localization (requiring firms doing business in China to maintain their data on Chinese customers on servers inside China) and went into effect in June 2017. They worried that it would not protect data, and that it may discriminate against foreign firms (and possibly Chinese firms doing business internationally, since the new law could conflict with privacy laws in other jurisdictions).

US REGULATORY AGENDA

Turning to the US regulatory agenda, most of the discussion revolved around the expected actions of the Trump administration. During the campaign, President Trump and his surrogates had at various times promised far-reaching changes to US financial regulation, including repeal of the Dodd-Frank Act, reimposition of Glass-Steagall requirements, strict limits on the activities of the Consumer Financial Protection Bureau (CFPB), and a general commitment to reducing regulations. While the administration had yet to put most of its team in place or to start to formulate specific policies, participants sought to understand which of these the administration would pursue, and which would be achieved.

Many participants expressed doubt that there would be large-scale legislation to fundamentally remake Dodd-Frank or to reimpose Glass-Steagall. They noted that there was no real consensus on these issues in either the Republican or Democratic parties, on top of which Republicans had only the slimmest of majorities in the Senate. Thus, despite the ongoing House consideration (and, after the Symposium, passage) of the far-reaching Financial CHOICE Act, participants expected it to die in the Senate. However, a number of participants did raise the possibility that some aspects of that agenda could be successful in the Senate. The most consequential of these that participants considered likely would be the abolition of Orderly Liquidation Authority. This was not seen by most participants to be a good idea, despite its potential passage.

While repeal of Dodd-Frank appeared unlikely to most participants, they noted that there was a great deal of room for changes in enforcement and, to a lesser extent, rulemaking by agencies. With new leadership, agencies such as the Federal Reserve Board, Securities and Exchange Commission (SEC), the Commodities and Futures Exchange Commission (CFTC), and the CFPB could follow very different priorities. Participants expected that Trump-appointed agency leaders to be more inclined to give businesses and financial institutions the benefit of the doubt in ambiguous cases, and to avoid the use of large punitive fines for non-criminal behavior. In rulemaking, participants predicted a much greater emphasis on cost-benefit analysis, in order to avoid placing unnecessary costs on industry.

While a great deal of public attention had been paid to the banking system, many participants agreed that so many rules had already been established—and banks had made structural and strategic adjustments to those rules—that banking regulation would not be the main place to look for regulatory change under the Trump administration. On the other hand, some participants expected a relaxation of regulation of smaller banks, and capital and liquidity requirements generally. It was argued that the same would hold for secondary capital markets, as market participants and investors were generally satisfied with market rules and structure. While there might be some minor tweaks in response to technical factors, no participants predicted large-scale change. The primary markets were seen as a more likely target for change, with the new head of the SEC having already stated an intention to focus more on reducing costs and barriers for issuers and potential issuers.

Finally, there was some speculation about how the new administration would address issues related to fintech. While much of the administration's agenda remained unknown, several participants argued that regulators would be more open to new fintech ventures, adopting a more conscious regulatory sandbox approach.§

Session 3

Challenges & Opportunities of FinTech (And RegTech) in the US and China

In Session 3, participants discussed the challenges and opportunities presented to financial systems and regulators by rapid advances in technology, including the spread of mobile and digital access, increases in computing power, Big Data, and artificial intelligence. Participants saw financial technology as an enormous economic opportunity for some financial institutions and tech firms, while likely hurting others. They observed significant contrasts between adoption of financial technology in China versus the US, including what they saw as very different approaches to regulation. There was also considerable discussion of how to understand risks created by new technologies, as well as how to address those risks through regulation and supervision, while also encouraging innovation.

FINTECH ON THE MARCH

Participants recognized that financial technology ("fintech" in the US, "internet finance" in China) was already having major impacts on finance, and predicted that this trend would not abate. Those impacts varied significantly, however, depending on market, sector, and product.

In consumer services, participants agreed that China had become a global leader, not only in size of market but also in terms of actual services offered, the number of players, and the extent of competition among them. They attributed the remarkable growth of China's internet finance to several factors, including path dependence, regulatory restraint, tech-savvy population, and a vibrant entrepreneurial culture. Overall, many participants highlighted a regulatory environment and tech-friendly culture that encouraged innovation. In contrast, they argued that firms in the US had been more wary of expanding into digital financial services out of fears of facing costly regulation. Others argued that path dependence was at least as important, arguing that the US market for financial services was already saturated due to easy and inexpensive consumer access to bank accounts, credit cards, insurance products, brokerage accounts and asset management services. In China, the large "unbanked" population offered a fertile market for low-cost services that did not require extensive new institutional infrastructure. Thus, they felt it was more appropriate to compare China with other emerging markets, and the US with other mature financial markets. However, from the perspective of competition, several argued that Chinese internet finance firms would likely have an advantage in expanding into the rapidly growing digital financial inclusion space in emerging markets.

At the same time, participants observed that much of the fintech revolution was not about consumer services. In the US, traditional financial institutions had made extensive of use of fintech tools to improve back-office operations, augment risk modeling, and better understand the markets in which they operated. Meanwhile, in capital markets, high-frequency and algorithmic trading were well-established. And a number of participants argued that a variety of new fintech-driven transformations were on their way, including expanded use of blockchain and artificial intelligence, as well as fintech extensions into new services such as credit rating and B2B transactions. In many of these activities and technologies, US firms and financial institutions were seen as operating at the forefront. However, these were less obvious to observers than the transformation of China into a cashless society; moreover, existing financial industry leaders were not being displaced, but were in general working with technology firms to apply fintech to their operations.

FINTECH & RISK

While participants were positive about the growth prospects for various forms of fintech and internet finance, they also cautioned that risks from the new technologies was not yet fully understood. These included both old and new risks.

Retail bond funds and UCITS were not the A point that was made by a number of participants was that the introduction of new technologies, new institutions, and new products did not mean the disappearance of the classic risks of financial markets and institutions. For example, new techniques may allow for more precise and ongoing monitoring, but credit risk would remain an irreducible aspect of any lending operation. Similarly, several argued that market and liquidity risk had not been eliminated—while new techniques such as HFT may appear to increase market liquidity, some participants raised concerns that it remained unknown how new practices and institutions would behave in a crisis.

New technologies presented some new risks as well. Cybersecurity was a prominent one. Meanwhile, reliance on algorithms and artificial intelligence could expand operational risks. In the case of consumer-oriented internet finance, participants also expressed concern over risks to users, including the potential for fraud (a problem that Chinese authorities had already begun addressing seriously) and abuse of data privacy. Finally, the potential for rapid scaling-up and the prevalence of network effects in some services would also increase dangers of concentration, as some participants claimed was already happening in China's consumer financial services, where Alipay and Tencent had taken commanding positions. Concentration raised serious questions not only of fairness of competition, but also called for a reconsideration of what should be considered systemically important financial institutions (SIFIs).

In all, a number of participants cautioned that the wholesale introduction of new technologies called for renewed attention to systemic risk. As they noted, financial crises had historically often resulted when new technologies or products were offered without full understanding of where risks lay—and that there has often been a temptation to believe that risks have been eliminated, when in fact they had just been redistributed among financial actors.

CHALLENGES TO REGULATORS

These trends and uncertainties were seen as presenting significant challenges to regulation, regulators, and supervisors. Participants addressed the questions of when to regulate, whom to regulate, what to regulate, and how to regulate.

There was strong support among participants for encouraging innovation in financial services. Thus, many participants called for regulators to follow a "sandbox" approach, in which start-ups and smaller experiments were allowed to operate with minimal regulation, to prevent new entrants from being deterred by the costs of full-scale regulation as financial institutions and to allow individual firms to work out the kinks and determine the risks and benefits of innovative technologies or products. A number of participants argued that the US had been too unwilling to utilize the sandbox approach in retail finance, retarding its growth relative to more open systems such as China's. However, other participants cautioned that the decision of when to shift from sandbox to financial regulation might be a crucial one. They argued that Chinese authorities had essentially allowed the whole country to be a regulatory sandbox for retail finance for several years; while this had allowed the extraordinary growth of the sector, some worried that the authorities had waited too long before imposing regulation to ensure fair competition and safety.

Another important question was whom to regulate. One aspect of this was which institutions or firms should be regulated. Some participants worried that traditional financial institutions would be at a competitive disadvantage if their new rivals did not face the same regulations. Others countered that in many cases, financial intermediation was only part of a particular fintech firm's business (as in the case of Alipay, for example), and that regulating the entire firm as a financial institution, such as with capital or liquidity requirements, would not make sense

Some participants raised a deeper question that they felt would inevitably be raised by some of the new technologies—i.e., how should regulators respond when the "decisionmaker" in a particular instance could not be traced to an individual but to an algorithm or even code? Would it be practical to hold programmers individually accountable for problems they had inadvertently created? Most participants appeared to agree that regulation required the designation of a responsible party.

The "how to regulate" question raised some additional observations by participants. Several participants argued that the new technologies could be used by regulators ("regtech") as well as by market participants. For example, Big Data techniques could be used to detect insider trading, and artificial intelligence could lead to new ways of enforcing anti-money laundering (AML) rules. Given the difficulty and expense of enforcing such rules, regtech could be a boon to regulators and to the operation of markets. It could also benefit financial institutions themselves, some of which had been hit by extremely large fines by US regulators for violating AML rules, often without the knowledge of the home office.

Finally, some participants noted the challenging issue of protecting customer data. A number of participants argued that the risks of cybertheft called for strong regulation of financial institutions' database operations. Data privacy and integrity were also seen as important challenges for both firms and regulators. Several participants noted that data privacy rules varied significantly across jurisdictions, making cross-border data transfers—even within a single firm or financial institution— fraught with legal difficulty. They noted that one increasingly popular regulatory solution to that dual challenge was data localization. Some singled out China's new Cybersecurity Law as threatening the ability of foreign financial institutions, especially asset managers, to do business inside China. While they understood Chinese regulators' desire to be able to access relevant data through legal means, some expressed concern that access might be misused either to provide sensitive data to domestic competitors or to target the activities of particular individuals for political purposes. §

Session 4

The Sources for Capital and Investment, And Market Access

In Session 4, participants discussed the potential for expanded cross-border investment, including in infrastructure. There was considerable discussion of obstacles to cross-border investment between China and the US, with particular reference to regulations in both countries. Participants also addressed China's ambitious OBOR initiative, both as an example of China's capacity to export capital and as an opportunity for firms from other countries, including the US.

INVESTMENT OPPORTUNITIES IN US

Participants observed that there was considerable demand in the US for investment, both in the private sector and in infrastructure. Combined with the economy's chronically low saving rate, this made the US the world's largest importer of capital. Still, many participants argued that there was room for considerably more foreign investment.

This was seen to be particularly true in infrastructure, where participants perceived enormous needs. They noted that the US infrastructure gap was seen across the political spectrum as a serious problem for the future growth of the US economy and for the quality of public services and safety—indeed, both the Trump and Clinton administrations had trumpeted infrastructure investment plans in the 2016 election. However, project financing sources were seen as clearly insufficient for the demand, and proposed public initiatives did not appear to make up the difference. Some participants suggested that overseas investors, including Chinese investors, could be an important force in supporting US infrastructure investment.

Several participants expressed skepticism that infrastructure investment needs would be met. They characterized the Trump administration's plan to mobilize massive private-sector investment in infrastructure through tax incentives as likely to be ineffective in significantly increasing private-sector investment. For Chinese investors and lenders, they questioned what the benefit would be. The main problem, according to these participants, was the difficulty of ensuring revenue from infrastructure projects, outside of certain projects such as airports, harbors, and toll roads, and even these projects could only show revenue after many years of development. In some cases, it was noted, Chinese banks may be enticed to support projects that provided opportunities for their Chinese corporate customers, such as rail projects. But this would not be the case in the majority of cases, particularly if the Trump administration's planned preferences for US firms were in place.

Participants saw private-sector assets to be much more attractive to overseas investors. They noted that the US has in general been very open across the board to investment from abroad. Others disputed this characterization, arguing (as summarized below) that certain legal and cultural obstacles remained, particularly for Chinese investors.

CHINESE CAPACITY FOR OVERSEAS INVESTMENTS

In contrast to the US, Chinese savings remained very high. Despite high levels of domestic investment, China was the world's largest net saver and thus the world's largest capital exporter. Participants noted that the composition of China's overseas holdings had been shifting rapidly away from portfolio investments (largely held by the PBOC) toward foreign direct investment in recent years. This was true in the US as well, where Chinese FDI had increased rapidly since around 2011. Chinese manufacturers continued to seek access to advanced technology or techniques through acquisitions of firms and facilities, but investment in services (banking, logistics, entertainment, etc.) had actually come to dominate Chinese FDI flows to the US. For the most part, investors were private-sector firms rather than SOEs.

One point of disagreement among participants was over China's domestic investment environment. A number of participants argued that the attractiveness of domestic investment was declining, making it more important for Chinese firms and asset managers to have overseas options. They pointed to the very high levels of domestic investment, the slowing of the economy, and the efforts of the government to rebalance toward a more consumption-driven economic model as evidence for declining attractiveness in Chinese markets. Other participants strongly disagreed with this characterization. They argued that China was not in the midst of a secular decline in growth rates, but actually at the bottom of a cycle. They stated that investment had shifted away from traditional, capital-intensive industries toward newer, cutting-edge activities. Arguing that China would soon experience a "reform dividend," they predicted that what appeared to be a glut of capital investment would actually prove to be highly productive. Still, the sheer quantity of China's savings meant that China would continue to be a large capital exporter.

With regard to infrastructure, a number of participants argued that Chinese firms and investors could benefit considerably from global infrastructure investment. Already, they had demonstrated their ability to invest in and profit from infrastructure projects in emerging economies—while OBOR was currently receiving the most attention, Chinese firms and financial institutions had been successful infrastructure investors globally, including in Latin America and Africa as well as Asia. These participants suggested that Chinese investors could replicate those successes in the US, which had a much more predictable and institutionalized system for infrastructure construction and finance, as well as legal recourse in the event of losses. Others were more skeptical, noting that much of China's infrastructure investment elsewhere in the world had been in support of Chinese-run projects. They anticipated that this model would not hold to nearly the same extent in the US. Instead, Chinese infrastructure investment in the US and other developed economies would need to be driven primarily by expected returns or diversification benefits.

Finally, there was some discussion of whether Chinese private-sector firms might be losing their enthusiasm for FDI, based on their experiences to date. Several participants argued that Chinese firms had in many cases found their foreign investments to be unprofitable. This was described as largely the result of inexperience—whether with managing differences in corporate culture, lack of understanding of regulatory or legal environment, or overpaying for acquisitions. Theses participants pointed to what they saw as a lack of experienced investment advisors to help guide firms in making smart acquisitions; although they agreed that securing financing for FDI was generally not difficult, they sensed that Chinese firms were becoming warier of overseas investments, including in the US. Other participants were less concerned. They felt that Chinese firms were building up experience in acquiring and managing US operations, and that their appetite for investment in the US was not seriously declining.

ONE BELT ONE ROAD

Many participants were intrigued by the OBOR initiative. They noted the strength of the Chinese government's commitment to OBOR, as reflected for example in the recently concluded Silk Road Summit in Beijing. Discussion of OBOR revolved around economic implications, sustainability, and political effects.

A number of participants argued that OBOR had the potential to substantially reshape the economies of Asia for the better. By supplying the infrastructure that emerging markets in the region were unable to finance on their own, the initiative would generate new growth in Asia, creating new markets for goods not only from China but from around the world. Some participants also argued that OBOR presented a new model for economic growth in a post-Washington Consensus world, demonstrating the potential for public-private partnerships and careful planning to transform economies for the better.

Some participants were skeptical of the sustainability of OBOR. While in many cases lauding the intention and planning, they argued that Chinese creditors and investors would have a hard time finding enough high-quality projects with a high probability of meeting expected returns. They noted both economic and political risks in some of the planned recipients of OBOR projects, particularly those across the land "belt." Among the concerns were whether economic policies and governance would support economic growth along the route, the potential effects of political unrest or violence, and the ability of recipient governments to make long-term commitments over terms and user fees. A number of participants noted that China was taking many of these concerns into account, demanding guarantees and only funding projects where the economic payback was evident. Still, the long payback periods, weak governance, and sometimes tenuous political legitimacy of recipient states raised some concerns.

Participants also brought up some issues related to US-China relations. Some participants suggested that OBOR, combined with the apparent withdrawal of the US from multilateral cooperation, would likely speed the rise of China as a regional economic leader and a global political leader. Others emphasized that OBOR should not be seen as harming the interests of the US. Rather, they argued that the US and other countries around the world would benefit from new sources of demand growth, and that China was not building an exclusive economic zone. Moreover, they encouraged US firms to participate in OBOR projects, to which the Chinese government had stated they would be welcome.

OBSTACLES TO CROSS-BORDER INVESTMENT IN US AND CHINA

Finally, participants discussed obstacles to cross-border investment between China and the US. A number of US participants argued that conditions for inward FDI to China were getting worse, while Chinese participants expressed concern about the effects of US regulation on Chinese firms.

US rules regarding investment that could affect national security were seen as a particular concern for Chinese firms. A number of participants argued that the review process by the Committee on Foreign Investment in the United States (CFIUS) was vague, non-transparent, and biased against Chinese investment. While statistics on number of cases reviewed, approved, modified, or rejected were not publicly available, these participants argued that CFIUS had a chilling effect on Chinese firms considering investing in the US. One issue was the vagueness of the regulation, which left firms confused about whether a given investment might be judged to have national security relevance. The non-transparency of the process increased uncertainty, as firms were unable to reference case law in order to predict whether review would be triggered or how it would turn out. While these participants agreed that the number of rejections and modifications was not very high, they referenced many cases in which Chinese companies chose not to pursue a particular investment. Some participants complained of other problems with approvals, whether sectoral (e.g., banking) or local (e.g., zoning); while these were more transparent than CFIUS, they were seen as adversely affecting some potential Chinese investors in the US.

Several participants also argued that domestic Chinese conditions were in some cases creating problems for outbound investment. Some argued that it had become more difficult in the past year to get permission from local authorities to obtain the necessary foreign exchange (although this was disputed by others, who stated that there had been no change in foreign exchange rules). Some also reported cases where financing—particularly from Chinese private equity and wealth management funds—had fallen through for cross-border deals. It was noted that uncertainty about both US and Chinese approvals, as well as financing, was making it harder for Chinese firms to complete deals in the US. In response, many US acquisition targets were either preferring non-Chinese investors or demanding extremely large contingency fees, both of which were preventing otherwise attractive deals.

Concerns were also raised about obstacles to US investors in China. Participants noted that many sectors remained off-limits to foreigners, including communications, entertainment, and many services. They also argued that approvals processes were increasingly reflecting a skeptical attitude on the part of regulators, particularly at the local level. There were also concerns about the regulation of foreign businesses in China. As noted, a number of participants expressed serious concerns about the new Cybersecurity Law, which mandated data localization. Others pointed to enforcement actions for anti-competitive and other business conduct practices against foreign firms, stating that there was a sense that foreign firms were being targeted. There was some pushback against that claim, however, with a number of participants stating that foreign firms had previously enjoyed a privileged status, and were now unhappy about having to abide by the same rules as their Chinese counterparts.

Some participants suggested that a bilateral investment treaty (BIT) could help to solve the reality and perceptions of regulatory obstacles to US-China cross-border investment. While none expected a rapid conclusion of BIT negotiations, several expressed optimism that an agreement could be concluded in several years, noting not only the progress of BIT negotiations under the Obama administration, but also the Trump administration's stated interest in continuing such negotiations, as well as Xi Jinping's personal backing for it. Others were quite skeptical. Many thought that the prospects for a BIT were dim, arguing that the two sides remained too far apart on core issues, such as access to China's enormous communications sector and a variety of financial services. Moreover, some argued that even if a BIT were concluded, it was unlikely to eliminate some of the major concerns of investors—including not only improvement of the CFIUS process for the benefit of Chinese investors, but also data localization and protection of sensitive sectors by Chinese authorities.§

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