SYMPOSIUM ON BUILDING THE
FINANCIAL SYSTEM OF THE 21ST CENTURY:
AN AGENDA FOR CHINA AND THE UNITED STATES
SHANGRI-LA HOTEL GUANGZHOU, CHINA
JUNE 6-8, 2018

AGENDA

WEDNESDAY, JUNE 6

6:00 - 6:30 p.m. COCKTAIL RECEPTION F3 FOYER

6:30 - 6:40 p.m. GREETINGS AND WELCOME MANJIANGHONG HALL, F3

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

6:40 - 7:30 p.m. KEYNOTE ADDRESS MANJIANGHONG HALL, F3

- LI Jiange, Vice Chairman, Central HUIJIN Investment, Ltd., China; Chairman, Board of Trustees, Sun Yefang Foundation
- Peter Fisher, Former Undersecretary for Domestic Finance, U.S. Department of the Treasury; Senior Fellow, Center for Business, Government & Society, Tuck School of Business at Dartmouth

7:30 - 8: 50 p.m. DINNER MANJIANGHONG HALL, F3

THURSDAY, JUNE 7

7:30 - 8:15 a.m. BREAKFAST BUFFET WOK TOO CAFÉ, F1

8:15 - 8:45 a.m. PANEL DISCUSSION BUBUGAO HALL, F3

Topic: Opening up China's financial sector and the impact of trade disputes

- Stefan Gavell, Executive Vice President and Global Head of Regulatory, Industry, and Government Affairs, State Street
- ZHANG Zhaoxing, Chairman, Yuexiu Group

8:50 - 10:20 a.m. SMALL GROUP SESSIONS FLOOR 3

Topic: Opening up China's financial sector and the impact of trade disputes

GR	ROOM	FACILITATORS	REPORTER
1	BUBUGAO, F3	SUN Jie, Linda Zhang	ZHANG Chun
2	TIANLU, F3	GONG Minghua, Diana Choyleva	CAI Juntao
3	LIANHUA, F3	GE Jun, Simon Gleave	Yu YE
4	GUIFENG, F3	ZHANG Zhizhou, Chuck Scully	Bill Grimes
5	XIQIAO, F3	Sherry HAO, Paul Speltz	Fabiana Fedeli
6	DINGHU, F3	Tony NEOH, Mark Barnes	Dan Senger

10:20 - 10:35 a.m. REFRESHMENT BREAK

10:35 - 11:10 a.m. PANEL SESSION BUBUGAO HALL, F3

Topic: New Trends in Financial Regulation

- YU Xuejun, Chairman, Supervisory Board of State Key Financial Institutions
- Ann LI, COO, China, JPMorgan Chase & Co.
- Wang Xian, Associate Dean, National Institute of Financial Research, Tsinghua University PBC School of Finance

11:15 - 12:45 p.m. SMALL GROUP SESSIONS FLOOR 3

Topic: New Trends in Financial Regulation

GR	ROOM	FACILITATORS	REPORTER
1	BUBUGAO, F3	SUN Jie, Haifeng Xue	ZHANG Chun
2	TIANLU, F3	GONG Minghua, Iris Chan	CAI Juntao
3	LIANHUA, F3	GE Jun, Don Kanak	Yu YE
4	GUIFENG, F3	ZHANG Zhizhou, Nick Lardy	Bill Grimes
5	XIQIAO, F3	Sherry HAO, Paul Lynch	Fabiana Fedeli
6	DINGHU, F3	Tony NEOH, Stephen Berger	Dan Senger

12:50 - 1:50 p.m. BUFFET LUNCH NORTH RIVER HALL, F1

2:00 - 2:30 p.m. KEYNOTE ADDRESS BUBUGAO HALL, F3

- Ning TANG, Founder & CEO, CreditEase
  --Introduced by: ZHANG Yueguo, Head of the Party Committee & President of Guangzhou Academy of Social Sciences (GZASS)

2:30 - 4:00 p.m. PLENARY PANEL SESSION BUBUGAO HALL, F3

Topic: Retail Mobile Payments – Opportunities and Challenges in China and the US

- YU Shengfa, Chief Risk Officer, Ant Financial
- Lina Choi, Vice President-Senior Credit Officer, Moody's (moderator)
- PENG Qian, Vice President, Meituan-Dianping Group
- Nicholas Lardy, Senior Fellow, Peterson Institute for International Economics

4:00 - 6:30 p.m. FREE TIME/ RAPPORTEURS MEETING DINGHU HALL, F3

PARALLEL SESSIONS MANJIANGHONG HALL, F3

2:30 – 4:00p.m. Green Finance

Chair: WEI Gejun, President, China Financial Publishing House, People's Bank of China

Speakers:

- CHEN Zhiying, Member, Standing Committee of CPC Guangzhou Municipal; Vice Mayor, Guangzhou Municipal People's Government
- LIU Shijin, Vice Chairman, Economy Committee, Chinese People's Political Consultative Conference (CPPCC); Vice Chairman, CDRF

Panelists:

- ZHOU Chengyue, Chairman, China Public-Private Partnership Fund
- Peter Reynolds, Partner, Oliver Wyman
- BAI Bo, CEO, U.S.-China Green Fund

4:15 – 6:15 p.m. Financial Innovation and Industry Finance

Chair: ZHANG Yueguo, Head of the Party Committee & President of Guangzhou Academy of Social Sciences (GZASS)

Speakers:

- SUN Shuming, Chairman of the Board, GF Securities
- Dave Jones, President, SPD Silicon Valley Bank

- Tony NEOH, Main Board Independent Director (Chairman of Risk Committee), ICBC
  Panelists:
- Lisa LOU, China Country Head of Global Service & General Manager of Beijing Branch, State Street Bank and Trust Company
- MA Zhengyong, Secretary of the CPC Committee,Haizhu District, Guangzhou
- DAI Xu, Chairman of the China Culture and Technology Innovation Alliance, Executive Director of the Board of Directors of Leyard Corporation
- LI Fangjin, Chairman of the Guangzhou Finance Holdings Group Co., LTD
- LIU Huasheng, Vice General Manager of the Guangdong Provincial Branch and General Manager of the Guangzhou City Branch of the Postal Savings Bank of China
- ZHAO Quanhou, Director of Center for Financial Studies, Chinese Academy of Fiscal Sciences

6:30 - 7:00 p.m. COCKTAIL RECEPTION F3 FOYER

7:10 - 7:50 p.m. KEYNOTE ADDRESSES BUBUGAO HALL, F3

- LI Wei, Minister, Development Research Center of the State Council, China
- Timothy Massad, Former Chairman, U.S. Commodity Futures Trading Commission; Former Assistant Secretary for Financial Stability, U.S. Treasury Department; and Senior Fellow, John F. Kennedy School of Government, Harvard University

7:50 - 9:20 p.m. DINNER BUBUGAO HALL, F3

FRIDAY, JUNE 8

7:30 - 8:15 a.m. BREAKFAST BUFFET WOK TOO CAFÉ, F1

8:15 - 9:00 a.m. KEYNOTE ADDRESSES BUBUGAO HALL, F3

- LU Lei, Deputy Administrator of the State Administration of Foreign Exchange (SAFE)
- Shirley Yu, Group Country Manager, Visa Greater China

9:00 - 10:25 a.m. PLENARY PANEL SESSION BUBUGAO HALL, F3

Topic: Importance of the US-China Relationship

- Huo Jianguo, Vice Chairman, China Society, WTO Studies
- Charles Bennett, Consul General, Guangzhou, U.S. State Department
- Catherine Simmons, Head of Government Affairs, Asia Pacific, Citi
- SHEN Jianguang, Chief Economist, Mizuho Securities Asia Limited
- Bob Dohner, Former Deputy Assistant Secretary, International Economics Analysis and Senior Asia Advisor; Fellow, Atlantic Council (moderator)

10:25 - 10:35 a.m. REFRESHMENT BREAK BUBUGAO HALL, F3

10:35 - 11:30 a.m. PRESENTATION & DISCUSSION BUBUGAO HALL, F3

Opening up China's financial sector and the impact of trade disputes

- ZHAN Yuyin, Chairman, E Fund Management Co., Ltd.
- Paul Speltz, CEO, Global Strategic Associates, LLC

11:30 - 12:25 p.m. PRESENTATION & DISCUSSION BUBUGAO HALL, F3

New Trends in Financial Regulation

- ZHOU Yanli, Former Vice Chairman, CIRC
- Stephen Berger, Managing Director, Government & Regulatory Policy, Citadel

12:25 - 1:15 p.m. CLOSING BUFFET LUNCH LIANHUA HALL, FLOOR 3

The Program on International Financial Systems
China Development Research Foundation

Symposium on Building the Financial System of the 21st Century:

An Agenda for China and the United States

Guangzhou, China | June 6-8, 2018

Final Report

SYMPOSIUM ON BUILDING THE FINANCIAL SYSTEM OF THE TWENTY-FIRST CENTURY:

AN AGENDA FOR CHINA AND THE UNITED STATES

GUANGZHOU, CHINA, JUNE 6-8, 2018

The fifteenth annual China-U.S. Symposium was held at the Shangri-La Hotel in Guangzhou, China from June 6-8, 2018. Sessions addressed the opening up of China's financial sector and the impact of trade disputes, new trends in financial regulation, the opportunities and challenges of retail mobile payments in China and the U.S., and the importance of China-U.S. relations. Participants offered positive assessments of economic growth in China and the U.S., but expressed concern over the possibility of more serious trade conflict between the U.S. and many of its trading partners, including China. They urged leaders to continue to work to promote fair and open market access to goods, services, and investment.

SESSION 1: OPENING UP CHINA'S FINANCIAL SECTOR AND THE IMPACT OF TRADE DISPUTES

In Session 1, participants discussed the opening up of China's financial sector and the impact of trade disputes. Many participants expressed optimism about financial opening, based on the stated commitments of the Chinese government, including President Xi Jinping. They also discussed opportunities for foreign financial firms. However, concerns over the potential for escalation of trade disputes dominated much of the discussion in Session 1, and participants offered mixed opinions on the likelihood of amicable resolution.

Opening up China's Financial Sector

As in previous Symposiums, foreign access to China's financial sector was a major topic of discussion. Participants agreed that significant strides had been made over the years in opening up the sector, but also noted uneven patterns of success for foreign financial institutions. Looking forward, they considered how the Chinese leadership's recent avowals of commitment to financial reform and opening might shape the sector over the coming years.

Challenges for Foreign Financial Institutions

Despite increased openness in a variety of financial services, some participants pointed out that in some areas, including commercial banking and insurance, foreign market share had actually decreased in recent years. This led to a discussion of why that was occurring. One set of explanations revolved around regulation and implementation. Perhaps the biggest concern was about what many participants saw as excessive licensing requirements. Three issues were considered particularly important. First, it was noted that obtaining a license to operate as a financial institution was only a first step to doing business in China. Financial institutions had to apply for authorization to carry out a variety of business activities or to sell particular products. Second, a number of participants expressed frustration with branch licensing. They noted that in many cases, if they wanted to open a branch in a particular city, they would also be required to open a branch in a less economically desired location, as part of the government's efforts to expand financial services provision across the country. Third, a number of participants spoke of a lack of clarity, both in the rules themselves and (perhaps more importantly) implementation. They felt that this created considerable uncertainty, especially for foreign financial institutions, which reduced investment. That said, a number of participants pointed out that these issues also affected domestic financial institutions, particularly those related to product and branch licensing. Some also compared the branch licensing issues to what they saw as similar rules elsewhere, including "redlining" rules in the U.S. to ensure banking services for underserved communities.

Some participants noted that foreign institutions were finding that they had structural disadvantages in some financial services. For example, participants agreed that retail

banking was not of interest to foreign financial institutions due to the dominance of banks with nationwide branches, as well as the low margins. In commercial banking, the prevalence of relationship banking, particularly with state-owned enterprises, was seen as limiting the growth prospects of foreign banks. Given the saturated nature of China's commercial banking sector, a number of participants felt that other financial services offered more opportunities.

Another set of explanations had to do with characteristics of the foreign financial institutions themselves. Some participants pointed to localization challenges. One of these was what some termed "cultural challenges"—i.e., misunderstandings between the home office and operations in China. These participants argued that, because home offices did not really understand the processes and challenges of getting established and doing business, they were often impatient and too quick to pull the plug when overoptimistic expectations did not materialize. Others suggested that there may be cases in which foreign financial institutions were deliberately moving slowly when they entered new markets as a strategic choice to try to learn before expanding.

Finally, a number of participants argued that foreign financial institutions often had different assessments of, and tolerance for, risk in the Chinese market. One issue had to do with the quality and completeness of information available in making financial judgments. Some said that lack of confidence in the reliability of information, as well as a lack of some important data, reduced their ability to assess the risk of investments, credits, and counterparties. While Chinese financial institutions faced the same information environment, participants felt that foreigners were less willing to rely on incomplete or informal information in assessing risk. A number of participants also felt that foreign and Chinese firms often had different degrees of risk tolerance, and that risks were growing in the Chinese economy as growth slowed and debt levels increased. Thus, some foreign financial institutions had consciously reduced their holdings in China, even though they said that they remained committed to the market. (One example was foreign insurance companies, some of which were reducing investments while still trying to expand their policyholder base.)

Participants also discussed whether increased opportunities for foreign financial institutions to enter the market as wholly-owned entities (WFOEs) was significantly improving their prospects. They noted that across more and more business activities, rules requiring foreign financial institutions to operate as joint ventures with domestic firms were being lifted. This was not true in all cases—for example, maximum foreign ownership of securities firms remained capped at 51%—but in much of the Chinese financial sector, foreigners had the option of operating as WFOEs and were increasingly choosing to do so. Participants expressed interest in seeing how this would work out over time. Many agreed that the shift from the joint venture model to the WFOE model was already underway across many financial subsectors, whether in the form of new entries, buying out current joint venture partners, or acquisition of local firms. However, questions remained about whether it would necessarily lead to better profitability for foreign financial firms. Indeed, some cautioned in that in some markets and products, foreign companies would still be better off partnering with domestic firms that better understood local business and

regulatory conditions. In order to succeed as WFOEs, they emphasized the importance of learning effective communication with customers and regulators, as well as ensuring the financial literacy of customers to prevent misunderstandings that could lead to reputational or legal risks.

Looking Forward

Participants discussed at length the prospects for further opening and liberalization of the Chinese financial system. Despite enormous changes over the previous decades in the openness and quality of China's financial system, questions had remained about the pace and extent of further liberalization. At this year's Symposium, there was considerable optimism that opening up and liberalization would proceed, and at an increasing pace.

To many participants, President Xi's speech at the Boao Forum in April marked a milestone, committing China firmly to the path of opening and liberalizing the country's financial sector. In particular, they saw the fact that the speech was delivered for an international audience and explicitly mentioned finance as a priority for "bringing in" and "going global" as providing an important signal that previously announced intentions would be carried out, and indeed accelerated. Some participants were less convinced that this commitment was a game-changer. While they agreed that the commitments by Xi and others signaled a strong intention to move forward with reforms, they argued that actual implementation would be contingent on how reforms worked out in practice. There was also some skepticism that the state would be willing to fully disengage from guiding decisions made by financial institutions and in financial markets—for example, in the event of renewed market turbulence or capital outflows, or if important SOEs were on the verge of failure.

A key reason that many participants felt confident that further financial opening would proceed was that they agreed that the potential benefits were considerable—not just for foreign firms, but for the Chinese economy as a whole. Thus, they emphasized that recent liberalizations were not simply concessions to placate the U.S. in the midst of contentious trade negotiations. Opening up was seen as essential to address a number of challenges facing the Chinese economy. Participants agreed that more foreign entrants could improve China's financial system in several ways: by increasing competition, improving professionalism by introducing international best practices and new technologies, expanding international links to support Chinese firms growing global presence, and offering opportunities for diversification. Both the maturing economy and the aging population were seen as making this task more urgent. In the face of declining growth and rising debt, competition and professionalization could improve allocation of resources and risk management—and, hopefully, better returns. Moreover, participants pointed to the need for more varied, professionally managed financial services, including the management of pensions and savings for China's growing elderly population.

A number of participants also made the case that financial opening would be a win-win proposition for both Chinese and foreign financial firms, which could be particularly valuable in an era of trade frictions. They argued that Chinese and U.S. financial institutions had complementary, rather than competing, advantages. For example, Chinese financial institutions had particular strengths in retail services, while U.S. financial institutions had

expertise in risk assessment and portfolio management, as well as services such as insurance and venture capital that were as-yet underdeveloped in China. Moreover, some participants argued that one of the most important elements to reduce volatility and improve Chinese financial markets would be to increase the role of institutional investors, given the prevalence of (often inexperienced) retail investors in Chinese markets.

Participants agreed that the benefits to U.S. financial institutions of the opening of Chinese financial services would not be evenly spread; rather, they anticipated significant differentiation across sectors and markets. Thus, they did not see big new opportunities for foreigners in commercial banking (which was already saturated) or in retail fintech (where Chinese services like Alipay were already far ahead of potential foreign competitors). However, they saw significant upside in other areas, including asset management (both for pensions and mutual funds), insurance, investment banking, risk management, wholesale fintech, and trading platforms. Several urged foreign financial firms to make or increase their commitment to the Chinese market, as they predicted that change would happen quickly and argued that ensuring a strong base now would put them in a good position to benefit from opening.

Participants also spent some time discussing the process of opening up. While many were eager to see quick progress, they also cautioned that liberalization should happen step by step, following a rational sequence adjusting policies as necessary according to the actual experience. Equally important, they recommended that the authorities continue to make investments in personnel, training, and IT in order to keep pace with regulatory changes and to better monitor emerging risks. Finally, participants urged the authorities to focus on communication. They saw consultation with foreign financial institutions and domestic actors as essential to good policies. Moreover, clear communication and investor education would help to ensure maximum positive impact of opening up and liberalization.

Trade Disputes

Participants expressed considerable concern over the possibility that trade disputes between China and the U.S. would escalate, and some feared a full-blown trade war. They worried that the complexity of global supply chains would magnify the effects of protectionist policies in major economies, and that tit-for-tat reactions could easily an upward spiral of trade barriers would have profoundly negative effects on world trade and economic growth. Many participants emphasized that trade wars have no winners and urged policymakers to resolve their differences through cooperation rather than confrontation.

Participants were split in their assessment of the likelihood of escalation. A number of participants argued that a global trade war was unlikely. They noted that all sides were aware of how costly such a dispute could become. They also pointed out that the history of the post-war trading system was replete with severe disputes that were resolved through negotiation and compromise. (In particular, many participants pointed to the U.S.-Japan trade disputes of the 1970s and 1980s as key historical examples that showed that even very heated disputes did not lead to systemic trade wars.) Other participants were more

less optimistic. They wondered whether history was a good guide to the contemporary global system. They noted that in the U.S.-Japan trade disputes of the 1980s, arguably the most pitched trade battles of the post-war era, conditions were very different than today. Then, the U.S. presidents were committed to promoting openness in the global trading system, and the main target of U.S. trade pressure was a much smaller economy that was dependent on the U.S. for its security. In contrast, many of these participants saw China as a peer competitor to the U.S., and expressed fundamental doubts about the Trump administration's commitment to the global trading system.

Causes of Trade Friction

In discussing the potential resolution of trade disputes, participants delved into what they saw as the fundamental causes of China-U.S. trade frictions. In this regard, they discussed Chinese trade policies, U.S. domestic politics, and the particular characteristics of the Trump administration.

Participants were divided with respect to the importance of Chinese trade and industrial policies in driving trade disputes. On the one hand, a number of participants were skeptical of claims that Chinese policies were unfair or were harming the U.S. economy. They argued that the sheer scale of China's engagement in international trade and investments (including imports and inward investment) demonstrated China's openness. They also stated that China had fulfilled all of its commitments from its WTO accession agreement and had been an active participant in WTO dispute settlement. While they acknowledged that some sectors remained closed to inward investment, they maintained that these restrictions were consistent with China's WTO commitments and China's political system, and that its industrial policies were appropriate for a country that was still in its developmental phase.

Other participants felt that Chinese policies had contributed to the rise of frictions, pointing to investment restrictions, appropriation of intellectual property, and overcapacity in the production of basic materials. Some expressed concern that sectoral restrictions were set up as infant industry protection that allowed domestic firms either to build up capability and market share so as to disadvantage later foreign entrants or to force foreign partners to provide proprietary knowledge and systems in order to participate as junior partners. There was particular concern over intellectual property rights. Some saw pirating and inconsistent enforcement as the key concern, while others took issue with Chinese industrial policies such as Made in China 2025 that they worried were intended to displace technologically advanced U.S. companies and appropriate their intellectual property. This characterization was disputed by a number of participants, who argued that Made in China 2025 was a common initiative for a country seeking to move up the technology ladder. They cited Germany (including the current "Germany 4.0"), India ("Make in India"), and Japan as examples of other major countries that had proactive industrial policies. Even with such industrial policy, moreover, number of participants expressed skepticism that China would surpass the U.S. in leading technologies, despite the ambition of the China 2025 agenda. Participants also briefly discussed the problem of Chinese overcapacity in basic materials such as steel, which had been accused of driving down global prices and

damaging producers in the U.S. and other countries. Many agreed that policies to support regional SOEs had contributed to overcapacity, which they saw as a major problem for the Chinese economy as well as for foreign competitors.

There was considerable discussion of the role of domestic U.S. politics, which many agreed best explained the timing and intensity of U.S. claims and trade actions. They saw the origins of heightened U.S. frustration with global trade in the twin trends of deindustrialization and inequality. Most attributed declining working-class job opportunities in industry in the U.S. primarily to technological change and secondarily to growing competition from other countries including China. However, they identified the main problem not as displacement (which they saw as a natural outcome of competition, in the spirit of "creative destruction") but as lack of adjustment. This phenomenon was linked to the growth in inequality, which included not only declining opportunities in traditional industries and job categories, but also declining returns to labor and increasing returns to owners of capital and intellectual property. Here too, technological advances and increased trade competition were seen as major factors.

Meanwhile, many participants assigned the blame for both of these trends to policies, including industrial and educational policies, tax and welfare policies, and regulatory policies. (Some explanations were complementary, while others were contradictory.) Those participants who considered inadequate adjustment as the central problem identified two types of problems. Some saw government inaction as a problem, either because the U.S. education system was not producing workers with the right skill set for a rapidly changing, tech-driven society, or because there was no coherent set of industrial policies to encourage companies to make necessary changes. Others felt that excessive government involvement was preventing the birth and development of new companies and sectors, due either to excessive regulation or excessive taxation. They argued that slower growth had developed in recent years, particularly under the Obama administration, because of these supply-side factors; thus, they expressed hope that the Trump administration's tax reform and some of its domestic deregulatory actions would help. An alternative view focused on the issue of distribution of economic gains. Thus, a number of participants argued that the U.S. working and middle classes were disadvantaged by tax policies and by a weak and narrowing social safety net and suite of public services. Although the policy prescriptions differed among participants, most agreed that domestic U.S. politics had led to increasing frustration and even despair among much of the population, and that a variety of political groups had directed the frustration toward foreigners in general and Chinese firms and policies in particular.

Finally, participants discussed the particularities of the Trump administration itself. Although there was widespread agreement that the salience of President Trump's anti-trade message was a result of the broader societal and economic issues already noted, a number of participants argued that Trump's particular beliefs were essential to understanding the patterns of trade disputes and practices pursued by his administration. One of these was the assumption—often stated by the president and key members of his administration—that trade deficits represented a loss to the U.S. economy, that reducing bilateral trade deficits would be effective in empowering U.S. producers, and that bilateral

trade deals were superior to multilateral ones. There was some dispute as whether these were actually the motivation for the administration's trade policy or primarily a means of extracting concessions from trade partners. In addition, some questioned whether Trump's personal beliefs were a driving force behind the administration's Trump's positions, or whether they simply reflected the preferences of his voter base.

Managing China-U.S. Trade Frictions

Participants discussed at length how to manage China-U.S. trade disputes, particularly in the wake of aggressive new policies by the Trump administration including national security-based imposition of tariffs (the first round of which mostly hit U.S. trade partners other than China) and the imminent threat of new tariffs and investment restrictions specifically targeting China. Participants' views on the likely course of events varied, based largely on differing interpretations of the Trump administration's goals.

One group of participants argued that Trump's focus on bilateral deficits and its preference for bilateral agreements were driving trade actions. They took seriously the administration's claim that trade wars are "easy to win" and that bilateral deficit reduction would necessarily benefit the U.S. These participants worried that escalation was almost inevitable, at least until negative economic impacts became evident to the administration's supporters. Other participants argued that the administration's aggressive demands and rhetoric were reflective of President Trump's approach to negotiation, or the "art of the trade deal." These participants argued that Trump's normal negotiating pattern began with maximalist demands and threats or actions that were seen as costly to negotiating partners in order to drive the hardest bargain possible, but that in the end he would accept a good deal for the U.S. even if he had previously ruled out particular compromises. They were thus optimistic that mutually acceptable deals could be reached, although the path there might be contentious. A final interpretation was that the president was focused primarily on elections. These participants expected that the president wanted to appeal to his voter base and had a strong desire to claim "victories" in trade disputes, but would not allow economic growth to be derailed by a trade war.

Turning to China, many participants felt that China was willing to take substantive actions to avoid a trade war, but not at the expense of its overall economic strategy. For example, many were optimistic that China would continue to dismantle barriers to investment in services sectors (including finance), which would not only be attractive to the U.S. but also would bring benefits to Chinese consumers and would advance the strategy of improving service sector competitiveness. There was also general agreement that the Chinese government would be willing to carry out symbolic actions that would satisfy U.S. demands but that would have little effect on Chinese producers or consumers—for example, agreeing to purchase more soybeans from the U.S. However, virtually no participants were willing to predict that China would accept an agreement that contradicted its economic strategy, such as abandoning its technological upgrading goals detailed in Made in China 2025. A few also argued that China would be hurt less than the U.S. by a trade war, so it could be confident in standing its ground. Still, a number of participants broached the question of whether it was time for China to accelerate its move away from protectionist

industrial policies, both for the longer-term benefit of the Chinese economy (which they felt would benefit from more competition and less direction from the center) and out of recognition that the massive size of China's economy meant that developmentalist policies could have negative impacts on trading partners.

These discussions raised the question of whether a China-U.S. deal was possible and what it might look like. One point of agreement was that there were no plausible policy choices that would eliminate the bilateral deficit, even with significant trade diversion. Thus, if elimination of the U.S. bilateral deficit with China—or even narrowing it to a level similar to those with Japan or Germany—were essential to the Trump administration, continued friction would be guaranteed. Some participants argued that there would be more opportunities for mutually-acceptable deals if the U.S. side were to broaden its focus on trade in goods to encompass trade in services, as they saw considerable potential for increased U.S. services exports to China, particularly including health services and finance. Still, it was understood that even a vast increase in U.S. services exports to China could not fill the gap. Some participants argued that one of the most mutually beneficial ways to reduce the bilateral deficit would be for the U.S. to allow more technology exports to China, since there was enormous appetite within China for access to a variety of high-tech products and services. With the Trump administration declaring concerns over China's technology policies and imposing new restrictions on Chinese investment in tech companies, however, few participants saw technology exports as a likely avenue for preventing a trade war.

In the end, many participants accepted that trade frictions would likely be an ongoing factor in China-U.S. relations, just as they were with other U.S. trade partners. They expressed hope that conflict could be minimized and that both countries would take actions that could lower animosity and benefit their economies—such as continued opening of service sectors and better protection of intellectual property rights in China, and pro-business, pro-investment policies in the U.S. To facilitate compromises on issues of core importance to both sides, participants made a number of suggestions to improve communication and to clarify rules of engagement. Many participants felt that cooperation would be easier to achieve if the U.S. tamped down its confrontational rhetoric (including on the president's Twitter account), clarified its actual objectives in trade negotiations, and increased lines of communication with China. In addition, some argued that the administration should pay more attention to the domestic issues associated with the challenges of deindustrialization and inequality. They also urged China to improve communication with the U.S. and to make greater efforts to understand the U.S. point of view on contentious issues. Finally, although most participants agreed that the global trading system should operate on the basis of multilateral rules and procedures rather than bilateral agreements, a number of participants made the argument that one reason that bilateralism had become attractive to some players was that multilateral rules had not kept pace with changes in the global economy. They called for better rules to address a world of global supply chains, information-driven services, and growing SOE participation in international trade and finance. Some also argued for global rules on transparency and the need to address labor and environmental protection.

SESSION 2: NEW TRENDS IN FINANCIAL REGULATION

In Session 2, participants discussed new trends in financial regulation, both globally and within China. They assessed the effects of the G20 agenda as well as indications of a shift in regulatory emphasis from stability to growth. With regard to China, they discussed new regulatory challenges in a variety of activities, including data management, shadow banking, SME lending, fintech, as well as how to deal with financial institutions that might be too big to fail.

Global Trends

At the global level, participants observed that widespread adoption of the G20 agenda had paradoxically not led to uniformity of regulation. Rather, local economic and political conditions had driven some significant divergences among major economies. Several participants made the case that the greatest divergences from the global agenda had occurred in the largest jurisdictions—i.e. the U.S. and EU, which were ironically at the forefront of the G20 efforts.

Divergent major reforms included both provisions that increased the scale of the G20 standards and ones that were not part of the agenda in the first place. In the U.S., the Dodd-Frank Act offered examples of both. It "gold-plated" bank capital requirements relative to Basel standards by requiring higher capital adequacy and a higher capital premium for systemically important financial institutions (SIFIs). At the same time, it introduced new elements of banking regulation and supervision that were not mandated by the G20, including the Volcker Rule and stress testing for SIFIs. While the concept of stress testing has been adopted elsewhere, the implementation in the U.S. was seen as being much stricter and more onerous than equivalents in Europe and elsewhere. Europe, whose regulatory reforms came later than Dodd-Frank, also showed a number of idiosyncrasies in implementation of the G20 standards—including various forms of ringfencing (also a feature of U.S. banking supervision), and domicile requirements for central clearing parties (CCPs). In addition, subsequent regulations not directly related to the G20 agenda, such as the EU's General Data Privacy regulation and the MiFID II research unbundling rule, had increased divergence with other jurisdictions and in some cases created extraterritorial requirements for non-EU financial institutions. Meanwhile, Brexit further complicated the picture, as it potentially threatened EU equivalence agreements with partners that had been designed to bridge regulatory differences.

A number of participants remarked that the global adoption of the G20 agenda had made compliance not only more costly but also significantly more complicated for multinational financial institutions. In some cases, financial institutions operating in multiple jurisdictions faced contradictory requirements that could only be resolved through coordination between the regulators. Meanwhile, financial institutions were generally choosing to apply the highest standard for each activity (e.g., capital buffers, margining) across their entire operations rather than trying to tailor operations and procedures to

each jurisdiction; while this reduced complexity, it increased costs. The management of multinational financial institutions was further complicated by the widespread practice of ringfencing, which prevented centralized management of capital and liquidity.

A number of participants observed that the focus of regulators was shifting away from the post-crisis obsession with stability to increasing concerns about economic growth. U.S. examples of loosening regulation included recent efforts to reduce regulatory burden on non-systemically important banks, to raise the threshold for SIFI designation (and to declassify existing ones), and to make the Volcker Rule less burdensome. Participants noted EU examples as well. Many participants hoped that this would improve the global environment for financial institutions; however, the challenges of diverging and sometimes contradictory regulations remained.

Finally, there was some discussion of global trends in thinking about what constituted good regulation. In particular, some participants pointed to a growing consensus in favor of evidence-based regulation. While participants generally approved of the aims of post-crisis regulation, many argued that it had led to excessive costs (both to financial institutions and to the economies they serviced) and unintended consequences. They argued that the key to making effective, cost-efficient regulation was the collection of uniform, high-quality data and the development of more accurate economic models. Drawing on these, agencies should carry out rigorous cost-benefit analysis to the extent possible before introducing new rules and periodically review the impact of rules. Some participants also argued that data should inform debates on fairness and equity—they noted that many post-crisis policy debates had focused on punishing and restricting financial institutions, without always realizing that restrictions on financial institutions could particularly harm SMEs and lower-income households in need of credit.

Financial Reform in China

Turning to financial reform in China, participants discussed both general issues and specific challenges. As noted in Session 1, many participants agreed that there was a real commitment to openness and liberalization, even though implementation would necessarily be incremental. In discussing developments in financial regulation and supervision, several key issues emerged.

One was the structure of regulation and supervision. Participants noted that China's regulatory and supervisory model had long been based on the principle of segmentation, but that new financial instruments and gray areas of regulation had increasingly been allowing financial institutions to offer products that fell outside of the expertise and authority of particular regulators. While a number of efforts had been made in recent years to coordinate across the regulatory commissions, participants agreed that the growth of shadow banking and fintech had possibly made the old model of regulation by type of institution obsolete. Thus, many participants welcomed the March announcement of the merger of the China Banking Regulatory Commission and China Insurance Regulatory Commission, which they saw as a logical progression of a series of policies to regulate gray-area activities like wealth management products and to increase the macroprudential

responsibilities of the People's Bank of China. Some participants raised the question of whether these moves presaged a "twin peaks" approach to financial regulation. Most participants seemed skeptical that would occur, either because of the political difficulty of merging all three regulatory commissions or because they believed that Chinese authorities had purposely chosen to leave market regulation separate from supervision of banks. The question was also raised as to whether the recently-created Financial Supervision and Development Committee could be an effective coordinator of the various supervisory agencies; a number of participants were skeptical that a small coordinative body would be in a position to do so, given bureaucratic politics and the very different capabilities and missions of the various agencies. Some participants also predicted that the PBOC would increasingly take on a leading role, based on its macroprudential authority. Overall, most participants praised efforts to address the challenges of regulatory gaps and arbitrage, and to move toward a system focused on regulating products and activities rather than on just regulating institutions *per se*.

A second topic of discussion was regulatory process. A number of participants argued that China's regulators needed to improve their planning processes in order to incorporate cost-benefit analysis, avoid unforeseen consequences, and ensure coordination with other policies. In particular, they urged regulatory agencies to adopt a more systematic approach to consultation with financial institutions. Several argued that public comment periods in the U.S. and elsewhere had been very beneficial in ensuring the legitimacy and efficacy of new rules and regulation; while such a formal public comment period might not be feasible in the Chinese political system, they suggested that some of the principles could be adapted. In particular, participants pointed to the need to consult with a broad range of affected parties (including users of financial services) rather than just a few major financial institutions, and to provide enough time to allow for considered responses. A number of participants emphasized that it would be important to solicit comments from foreign financial institutions as well as domestic ones—partly because of China's commitment to opening up its financial system and partly because foreign financial institutions often had experiences in other jurisdictions that were directly relevant to a policy under consideration in China. Finally, some participants urged Chinese regulators to make use of a regulatory sandbox approach for emerging areas of finance. Several noted that this was not really an alien concept in China, given the historic use of Special Economic Zones and Free Trade Zones. They felt that in some cases, such as internet finance, a sandbox approach could have avoided some of the problems that emerged, while still encouraging innovation.

A third topic of discussion was implementation. Many participants agreed that, despite the significant professionalization of Chinese financial regulation and supervision, implementation often lacked consistency, transparency, and predictability, especially for foreign financial institutions and other new entrants. They worried that this could have a number of negative consequences. For example, several argued that the sometimes long and uncertain process of getting licenses, including for branching or provision of specific products, had the effect of discouraging entry. Similarly, the difficulty of ensuring that particular new products would be considered in conformance with Chinese regulation could slow financial innovation. Another concern that some participants cited was a lack of

clear distinctions between supervision and enforcement. They argued that supervision was ideally a consultative process, meant not only to ensure compliance with rules but also to support development of the sector. Thus, supervisors should in principle encourage financial institutions to report challenges and problems in order to manage solutions; however, these participants argued that in China, such consultations over even honest mistakes could lead to enforcement actions. They worried that this situation hurt the development of the financial sector and development of effective regulation.

Participants also proposed a few other recommendations that they thought could contribute to the quality of Chinese financial regulation and supervision. One of these was to use regulation to inject more accountability into the financial system so that investors would know the risks they are taking and to limit the risks taken by government-insured banks.. As an example, a number of participants praised the recently-enacted rule to require asset managers to remove guarantees for investors on investment products, and disclose this to investor (although implementation of the rule was delayed until 2020).

China's Regulatory Challenges

Looking forward, participants discussed a number of challenges facing the Chinese financial system and regulators. These included issues related to both financial stability and to emerging technology issues.

Ensuring Financial Stability

One issue that a number of participants raised was whether China faced a "too big to fail" problem with respect to its financial institutions. Opinions on the question were mixed. Some expressed confidence, noting that the major banks were already rigorously regulated under SIFI rules that included capital requirements and living wills. Moreover, unlike many of the more complex SIFIs in the U.S. and EU, Chinese banks and other financial institutions were relatively simple in both their organization and their business practices. Other participants focused on size, and argued that if a failure of one of the major banks were to occur due to poor lending decisions or overleverage, it would necessarily have profoundly negative effects throughout the economy. Most participants, however, were not worried about the prospect of a massive banking failure, since the only banks large enough to clearly pose a systemic risk to the financial system were state-owned; thus, they felt confident that fiscal resources would be used to bail out depositors and keep the banks operating as going concerns. (Several cited the failure of Anbang as instructive of how the government would deal with failures—ensuring depositors or policyholders were made whole to support financial stability, but being willing to wipe out the shareholders to prevent moral hazard. This was seen as a positive precedent by participants.) Moreover, centrally-owned SOE banks would be in a position to support the economy in the event of widespread failures of smaller banks. Thus, participants agreed that if there were threat posed by "too big to fail" banks, it was probably not financial crisis, but misallocation of credit, distortion of competition, and diversion of state resources. Indeed, the government's desire to ensure financial stability (defined as preventing crises) was seen as actually exacerbating the problem of too big to fail institutions by supporting the continued dominance of SOE banks. Thus, many participants had serious concerns about the too big to

fail problem among SOE banks, even if it were unlikely to create a run on the banking system.

While participants were generally confident about the will and ability of the government to prevent financial instability arising from the failure of a traditional financial institution, some expressed concern that there may be other "too big to fail" institutions that create serious problems for China. In particular, many participants identified the biggest threat as lying in internet finance, where a few massive non-financial companies accounted for much of the country's vibrant mobile payments system. They urged regulators to keep an eye on how the major internet finance companies were managing their affairs and to consider imposing additional supervision on them if deemed necessary.

A number of participants suggested that another potential source of financial instability could be found in China's vast shadow banking sector. (While the term "shadow banking" is often used loosely in the media, the PBOC's definition is "credit intermediation involving entities and activities outside the regular banking system" that are involved in "liquidity and credit transformation.") The lack of transparency, concentration of risk in sectors such as real estate and stock market investment, and expectations of guaranteed returns by investors raised concerns. One was the possibility that a financial crisis could start in the shadow banking if a bubble were to burst in assets like real estate—indeed, several pointed out that the stock market bubble and crash of 2015-16 had been fueled by shadow banking and then rippled across credit markets in general. Some participants also suggested that the lack of transparency and the manifold linkages between shadow banking entities and other financial institutions could be a powerful transmission channel for financial instability—for example, in cases where banks were offering wealth management projects that were formally off-balance sheet but had hidden guarantees from banks.

In discussing Chinese shadow banking, many participants were disconcerted by the lack of understanding of its size, risk profile, and interconnections with regulated financial institutions. Indeed, there was a debate as to what shadow banking was and whether shadow bank lending was growing or shrinking. Some participants noted evidence of deleveraging, as shadow banking institutions lost access to key funding mechanisms such as interbank lending markets. Others argued that ongoing real estate price rises suggested that shadow bank lending was not in decline. A number of participants also expressed concern that if shadow banking were to be squeezed, credit availability to SMEs and households would be constricted. Some suggested that the best way to address all of the contradictory concerns about shadow banking was by improving data and transparency, ensuring that investors understood that they could lose money rather than being bailed out in case of loss, and using macroprudential measures to address problematic lending. Several participants pointed to recent efforts by the PBOC to restrict lending on real estate in regions where price rises were rapid as an example of the type of macroprudential approach that might reduce some of the excesses of shadow banking without unnecessarily constricting credit to SMEs and households. Others made the case that, in order to improve financing options for SMEs over the long term, it was essential to build a more diverse financial ecosystem that included venture capital and private equity, rather than relying on shadow banking to fill the gaps left by banks.

Participants also discussed a less well-known threat to financial stability: the shareholding and governance structures of the country's major economic groups, both private and state-owned. Chinese economic groups, many of which had financial institutions as subsidiaries, were controlled by a small number of shareholders who knit the groups together though complex webs of cross-shareholding relations. Because of the lack of transparency, it was argued that studies to date showed only the tip of the iceberg. This was seen as raising several challenges to financial stability. One concern was that, in addition to opaque shareholding relationships, companies within each group also engaged in lending and providing loan guarantees to each other. This not only weakened the impact of market discipline, but also created significant risks of contagion as some companies or financial institutions within the group could be highly leveraged without the knowledge of external lenders or regulators. As in the case of Korea's *chaebol* cross-loan guarantees in the 1990s, these relationships could be an avenue of contagion, causing a single failure within the group to lead to a cascade of failures. There would also be strong intra-group incentives to increase the risk held by financial institutions within the group, so as to extend the protections of China's financial safety net to other group companies in order to reduce costs of capital. Participants agreed that greater transparency with regard to ownership, corporate governance, intra-group lending would be essential to reducing the potential dangers. Some noted that there were already restrictions on inclusion of financial institutions within corporate groups—for example, the "one participation, one control" principle only allowed corporate groups to control a single financial institution and to hold a minority position in one more. However, participants agreed that these rules were not consistently enforced. Participants offered a couple of models for addressing the issues. Some suggested that China should draw lessons from the U.S., by regulating the entire group as a financial institution and requiring simplification of ownership structure. Others suggested that Japanese and Korean models that emphasized reduction of cross-shareholding and elimination of cross-lending and loan guarantees would be more appropriate.

Emerging Issues

Participants also discussed some technology-driven emerging issues. One of these was financial technology (generally known as "internet finance" in China and "fintech" in the U.S.). They noted that China had developed the largest retail fintech sector in the world, with mobile payments having become a vehicle for a range of person-to-person, business-to-business, and retail transactions. The spread of internet finance had significantly improved financial inclusion and supported businesses across the country. At the same time, the very success of financial technology had spawned a number of challenges. One of these, as noted above, was the possibility that the most successful internet finance companies had become too big to fail. But even beyond that possibility, questions abounded as to how—and even whether—to regulate internet finance firms as financial institutions. While many participants referred to them as "fintechs," some preferred to call them "techfins" or even just "tech" firms. The distinction between being primarily a financial institution and being primarily a tech firm was of considerable importance to those firms. As tech firms, they could avoid the stricter regulations imposed on financial institutions. However, many participants expressed concern about this sort of regulation

shopping. They noted that internet finance firms benefited from lighter regulation of their financial activities and their use of customer data, even when they were engaged in similar functions. Moreover, there were concerns expressed about the lack of information about how they were modeling their financial risks, and thus their potential for sparking or amplifying financial shocks.

Participants also discussed the broader issue of how to regulate data in the financial system. One aspect of this was what would be appropriate standards for data privacy and security, and how to enforce them across the full range of financial institutions. More generally, there were questions about how data should be used to assess and manage risk, both within financial (and fintech) firms and at the regulatory level. Many participants agreed that Big Data had the potential to transform financial institutions and markets, for example by monitoring almost in real time the spending habits of clients. Particularly given the lack of credit data on the majority of Chinese residents, this was understood to be an essential resource for gauging credit risks. However, a number of participants cautioned against trusting that Big Data and new assessment algorithms were a panacea. They noted that the risk models remained untested in conditions of stress, and thus they called for continued efforts to develop high-quality, standardized data that could be used by regulators to monitor risks in the financial system.

Finally, participants recognized that cross-border cooperation was an ongoing challenge. Most felt that data localization rules would impede cross-border financial transactions, and they called on authorities around the world to come to clear agreements on what information could and could not be shared or stored across various locations. Some participants also raised a particular concern that Chinese regulators were refusing to share some key financial data with their international counterparts; they urged China's regulators to start doing so to improve regulatory and supervisory cooperation.

SESSION 3: RETAIL MOBILE PAYMENTS—OPPORTUNITIES AND CHALLENGES IN CHINA AND THE US

In Session 3, participants discussed retail mobile payments. Most of the discussion was focused on China, but there was also some discussion of regional expansion opportunities for Chinese mobile payments providers. Participants agreed that the rapid growth of retail mobile payments in China resulted both from the pragmatic approach of regulators to the new technologies and from the low penetration of traditional banking and credit card services.

Development of Retail Mobile Payments in China

Participants remarked on the extremely rapid growth of retail mobile payments in China over the last decade, making it the world's leader. With 700 million users (including 20 million SMEs) and a cumulative total of $10 trillion payments by mobile phone, China's retail mobile payments industry was the largest in the world. Mobile payments had become ubiquitous, and Chinese people had embraced them because they were believed to be safe, secure, convenient, and easy.

Some participants compared China's experience with that of the U.S. While the U.S. had become a leader in the use of electronic payments, they noted that the U.S. system had built on the existing, well-developed infrastructure of banking and credit cards. The nearly universal access to banking services and credit cards in the U.S. meant that it was easier to build upon that base rather than to build a new system. In contrast, China had much lower levels of financial inclusion (and particularly penetration of credit cards). Therefore, electronic and mobile payments operators had to build up their own systems, which at the retail level largely bypassed banks. This meant that when Chinese households and SMEs plugged into mobile payments systems, it was their first foray into the formal financial system, and the only alternative to mobile money for most was cash. In the U.S., in contrast, economic actors had multiple payment options ranging from cash to checks to credit and debit cards. New services would have needed to displace these well-established systems.

Another contrast between China and the U.S. could be seen in regulation. Despite traditions of strict regulation of financial services in China and relatively *laissez-faire* attitudes in the U.S., the opposite was largely true in mobile payments. In the U.S., mobile payments providers and other fintechs were regulated as financial institutions, creating compliance costs and restrictions that led most participants to operate within existing models. In China, in contrast, mobile payments providers initially operated in a largely unregulated space, other than having to meet the general requirements of company law. Indeed, the first e-payments law was only passed in 2010, and regulators took a largely hands-off approach to the industry—valuing innovation and experimentation over prescriptive prudential and conduct rules—at least until 2015, when problems such as fraud and mismanagement began to arise among some internet finance providers. By then, however, the leading firms had already emerged and the basic contours of Chinese digital financial

inclusion and e-commerce were already in place. Even in the present day, retail mobile payments remained a remarkably lightly-regulated corner of China's financial system.

Remaining Challenges

Participants considered two main challenges for the Chinese mobile payments industry. One was how to keep growing as the Chinese market became saturated. Some participants indicated that there were still a number of domestic opportunities. For example, it was noted that penetration was uneven, with opportunities remaining to extend into poorer areas that were less well-served. Even in the more well-to-do regions where nearly all households made use of mobile payments, it was argued that business expansion was still possible by offering new financial services, such as asset management and brokerage services, in addition to payments. To do so, however, would require new business models, new licenses, and increased scrutiny by regulators and supervisors.

While much of the discussion of Chinese mobile payments focused on Chinese providers, a number of participants pointed out that the government had committed to opening the credit card market to foreign entrants. This raised the question of what the prospects were for those foreign entrants if/when they were able to obtain licenses to operate. The question was what the comparative advantage would be for credit card companies, given the apparent saturation of mobile payments by a small number of dominant domestic companies. Participants suggested several possibilities for growing the credit card business in China. One of these was to service China's increasingly internationally mobile population, both of businesspeople and tourists, who needed a universally accepted means of payments when traveling abroad. Others pointed to emerging technological developments, which created their own set of needs; for example, it was noted that VISA was working to create a digital platform that could manage payments across the "internet of things" as businesses and households increasingly sought to make transactions based on internet-connected appliances, sensors, and devices.

Most participants saw bigger expansion opportunities outside China. They noted that Alipay and Ant Financial had been seeking to enter a variety of markets. While Ant Financial's thwarted acquisition of MoneyGram in the U.S. had received particular attention, participants noted that Chinese firms were much more active in nearby emerging markets. The most attractive markets were seen to be those most similar to China's financial markets in the early days of its mobile payments industry—i.e., low degree of financial inclusion, low penetration of credit cards and debit cards, and high penetration of smart phones. In these markets, Chinese firms could apply the lessons they had learned at home, while encountering limited competition from global financial firms and service providers like VISA. Regional and global expansion were seen to present new challenges for firms and regulators, particularly to the extent that Chinese firms were looking to manage cross-border transactions. In such cases, technical issues of interoperability combined with economic and regulatory challenges associated with exchange rate risk, provisioning, and currency controls. Still, participants were optimistic about the prospects of Chinese mobile payments providers as they looked to new markets.

The other major challenge was that of regulation. Pragmatic, light-touch regulation had been instrumental in the development of China's electronic and mobile payments industry. However, the rapid growth of mobile payments and the high degree of concentration raised significant challenges. A key question was how to handle data privacy and protection—since mobile payments and internet finance companies were built on their ability to collect, manage, and analyze data, any new regulations that affected those functions were clearly of great importance to them. On the other hand, participants agreed that the sheer scale of data meant that it was important to come up with clear rules on how it could be collected and used, and it was argued that the major players would actually welcome a process that would result in rules that both protected consumers and allowed for innovation.

Competition policy was another major concern, given the size and dominance of the major players. Participants recognized that there were clear advantages to scale in mobile payments, including network effects, lower transaction costs, and the ability to invest in the systems that would be necessary to ensure fast and secure transactions and to collect, analyze, manage, and protect users' data. However, they also expressed concern that mobile money providers could use their market power to force out competitors, raise prices, or drive transactions to their own businesses. Some participants also questioned whether the Chinese government would continue to be willing to allow privately owned companies such as Alibaba and Tencent to amass such economic power and to control such an important part of the Chinese payments system.

A number of participants raised the question of how mobile payments providers were dealing with the problem of fraudulent or erroneous transactions, as well as whether they were prepared for future developments. It was noted that in the U.S., laws limiting the liability for cardholders had been crucial to the success of credit cards. Credit card companies, for their part, had dedicated significant resources to monitoring accounts for fraudulent activity in order to stem losses. In China, digital payments providers were not similarly bound. While some participants considered this a major problem for the digital payments going forward, others were unconcerned. They pointed out that providers such as Ant Financial were proactively addressing the potential for fraudulent activities, both by constantly monitoring payments behavior and by indemnifying consumers through insurance of fraudulent transactions up to a cap of 1 million RMB. Nonetheless, some participants felt that firmer and clearer legal protections for consumers would be an important step in ensuring the safety and growth of Chinese digital financial services.

Finally, the rise of mobile payments providers and other fintechs laid bare the flaws of China's longstanding system of finanial regulation by type of institution. The dominant mobile payments providers were either commercial or communications firms rather than traditional financial institutions. This had contributed to the shift (described above) away from regulation by institution toward regulation by function. Already, mobile service providers were required to be licensed to provide payments. Also, more recently, rules had been promulgated regarding P2P lending and upper limits on mobile payments using QR codes (two-dimensional bar codes), in order to prevent evasion of "know your customer" rules. Similarly, Ant Financial's decision to limit consumer lending to RMB 8000 showed a

desire not to be regulated as a bank. It was anticipated that regulators and providers would continue to face choices about how to manage risks and competition in the industry.

SESSION 4: IMPORTANCE OF THE U.S.-CHINA RELATIONSHIP

In Session 4, participants discussed the importance of the U.S.-China relationship, both to the two countries themselves and to global order. They considered both the strengths of the relationship and some of the threats that could weaken or unravel mutually-beneficial relations.

Participants strongly agreed that positive U.S.-China relations were of great importance to both countries and to the world. One aspect was the large and robust trade and investment relationship, which had provided benefits to firms and consumers in both countries. Moreover, due to the extent of global supply chains for most manufactured goods—which for many goods included final assembly in China out of components sourced from China, the U.S., and other Asia-Pacific economies—it was noted that many other economies, particularly in the Asia-Pacific benefited economically from good U.S.-China trade and investment relations. However, trade was also seen as one function in which disruption of the relationship could have dire consequences for the two countries, which relied heavily on each other for particular goods and services and in the aggregate.

As the world's two largest economies and as permanent members of the UN Security Council, it was also agreed that U.S.-China cooperation could contribute significantly to the management or resolution of a variety of global challenges, including transnational crime and terrorism, environmental protection, nuclear proliferation, and conflict resolution. Without such cooperation, solutions to global problems would be less likely.

Participants described a number of threats to U.S.-China cooperation. One of these was trade, as noted. Growing frictions between U.S. priorities and Chinese economic policies and ambitions had set the stage for more conflict. Meanwhile, trade frictions had become more difficult to manage as new issues emerged that were not adequately covered under WTO rules, most of which were agreed in the 1990s. Technology policy was another point of contention, which some participants saw as more intractable than other trade frictions. Longstanding resentment on the part of the U.S. (and other countries such as Japan, Korea, and various EU members) regarding what they saw as theft of intellectual property was becoming more pitched as China moved up the technology ladder—increasingly, those countries were not only irritated by loss of profits from intellectual property theft, but also feared that Chinese firms would displace their own firms in international technology competition. Finally, geopolitics created perhaps the most intractable issues. Rivalry over global leadership and regional order, including competition over military capabilities was seen as complicating cooperation in areas of common interest.

Despite the reemergence of threats and the increasing bellicosity of threats surrounding the trade relationship, participants also noted a variety of factors that contributed to maintaining a stable and positive relationship. They pointed to a number of common

interests as noted above, and argued that successful cooperation on those issues created incentives for resolution of differences of opinion. There was also a strong consensus that the multiplicity of ongoing, multilayered communication, travel, and personal relationships had been effective in reducing misunderstandings and suspicions between Americans and Chinese at all levels of society, increasing the desire and scope for mutually beneficial resolution of issues. In this sense, a number of participants saw in the nearly 15-year history of the Symposium and the cooperation between PIFS and CDRF important lessons in how to work together toward common interests, even in the face of occasional disagreements or differing points of view.

Finally, participants discussed what a successful U.S.-China relationship would look like in the future. They made three main points. First, there was strong support for rule-based trade and investment relations. Where existing rules or agreements were not adequate, participants agreed that new rules should be devised through negotiation; the worst outcome would be resorts to unilateralism, threats, and pressure. Second, participants agreed that issue-by-issue cooperation should be pursued where possible, and encouraged the Chinese and U.S. governments to actively look for opportunities where Chinese and U.S. interests converged. Finally, a number of participants argued that the two governments must recognize the fundamental differences in their political and economic systems, accept that these would persist, and cooperate despite those differences. As one U.S. participant put it, "A global system that depends on common ideology will fail. China will not become just like us." Thus, participants called for an understanding that there were many approaches to capitalism and state participation, and urged mutual respect despite such differences.

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