

China and the Global Financial Tsunami: The Eleventh OYCF Annual Meeting Summary 中国与全球经济危机：OYCF 第十一届年会会议摘要

[EDITOR'S NOTE] The Overseas Young Chinese Forum (OYCF), the publisher of *Perspectives*, held its 11th annual meeting on May 30-31, 2009, at Wagner College, New York City. The meeting was co-sponsored by the Chinese Finance Association and Chinese Business Lawyers Association. The theme of the meeting was the impact of the global financial crisis on China. There were one keynote speech, five panels, and a special session on a documentary of the 2008 Sichuan earthquake. As with previous annual meetings, discussants of each panel have written the following summaries of panel presentations and discussions.

[编者按] 本刊出版者，海外中国青年论坛，于2008年5月30-31日在纽约市的瓦格纳学院召开了第十一届年会。这次会议由中国金融协会与中国商务律师协会联合主办。会议的主题是全球金融危机对中国的影响。会议总共分为一个主题演讲、五个讨论小组和一个关于2008年四川地震纪录片的特别时段。每个小组的主持人记录了会议演讲和讨论的摘要，于本期发表。

KEYNOTE SPEECH

Global Financial Crisis and China: Major Policy Issues

(Speaker: Yasheng HUANG; Discussant: Ling YANG)

The speaker was Yasheng Huang, Associate Professor of the Sloan Business School, Massachusetts Institute of Technology. The Discussant was Ling Yang, Ph.D. student in sociology at Stanford University.

Despite its high GDP growth, China ranks the highest in exportation yet drastically low in domestic consumption. Huang argues that this puzzle should be examined by asking not why China exports so much, but why it consumes so little. The high exportation, in his view, is an endogenous result of low domestic consumption.

As shown in figures, China has experienced a decline of domestic consumption from around 2000. Researchers mainly have two hypotheses to explain this phenomenon: (1) Low income growth leads to low consumption; (2) Low consumption is a result of high savings rate, which is due to high income growth. So the tension between these two hypotheses lies in whether there is a high income growth.

Statistics from the Rural Household Survey Yearbook show that rural household per capita income did grow steadily by year but the growth rate over the previous year is surprisingly low, with only 4% in the 1990s, and 6% from 2003 to 2006. Moreover, statistics show that the slight growth in rural household per capita income from 2003 has to a large extent due to the growth of agricultural income, not non-farm income such as remittance by migrant workers, as many people would assume. According to this survey data, only 20% households actually received remittance in the 1990s.

The low rural household per capita income growth from 2003 calls attention to the effectiveness of policy adjustments initiated in this year. There is a renewed emphasis on rural issues by Hu and Wen administration, which is implemented by abolishing rural taxation, reducing education and health fees, reviving rural finance and land reforms. In Huang's view, it is

insufficient to just pour money into the rural welfare system, and more urgent and important to ensure and strengthen the credit access for rural households. Rural migration, which causes a lot of social problems, is a result of the stringent credit access in rural areas forbidding people to run business in-house and therefore forcing them to migrate to cities for work.

PANEL ONE: CAUSES AND FINANCIAL IMPACT OF THE GLOBAL FINANCIAL CRISIS

(Speakers: Qianli WU, Maggie JIANG, Yong WENG; Discussant: Bin LI)

The speakers were Qianli Wu, Senior Portfolio Manager at Rydex SGI, Maggie Jiang, Director in Asset Securitization Group at Barclays Capital, and Yong Weng, Head of Active Quantitative Equities within Structured Equities at UBS Global Asset Management. The discussant was Bin Li, graduate student at Duke University.

Wu's presentation, "What Causes the Largest Crisis in the History?", provides inspiring insights of the formation, development, and impact of the current global financial crisis. Mr. Wu reviewed the causes of this most severe financial crisis since *World War II* from two levels, i.e., the country level and the market level. Specifically, he analyzed how the economic structures of the United States and China interact and whether this interaction would be a driver of financial crisis today. On the market level, Wu pointed out that free market competition may also have some side-effects. For example, hedge funds' and investment banks' investments used to be embedded with high hidden risk, because they believed the government would protect them when the crisis came ("Greenspan's mistake").

Jiang's presentation on "Causes and Financial Impact – Role of Securitization" provided an overview of asset-based securitization and its profound benefits, discussed about its role in financial crisis and how securitization can help restart the economy, and introduced Term Asset-backed Securities Loan Facility's ("TALF") implications for credit markets. She demonstrated that, under the general economic conditions in current years, securitization can overcome balance sheet weaknesses and provide a significant proportion of all financing.

In his talk, Weng addressed the causes and financial impacts of this global crisis from a different perspective. He thought the key contributors to the current financial crisis were the credit boom and housing bubble, e.g., driven mainly by mortgages, total household debt quadrupled during last 20 years, and home prices doubled from 1997 to the peak in 2007. Although fed rate target helped by exceptionally stable and loose monetary environment and sub-prime mortgage loans were fueled by securitization, banks and financial institutions, being the largest holder of mortgage debt, suffered most when the housing bubble burst. In addition, Weng summarized the federal policy responses to this crisis and raised further comments on issues about bank regulation.

PANEL TWO: ECONOMIC IMPACT AND POLICY RESPONSE

(Speakers: Tao SUN, Victor SHIH; Discussant: Zhenhua CHEN)

The speakers of this panel were Tao Sun, Economist at the Monetary and Capital Market Department of the International Monetary Fund, and Victor Shih, Assistant Professor of Political Science at Northwestern University. The discussant was Zhenhua Chen, graduate student at Duke University.

Sun talked about spillovers of the U.S. subprime financial turmoil from the United States to mainland China and Hong Kong. In his recent two papers, Sun found that China's stock market

was not immune to the financial crisis, as evidenced by the price and volatility spillovers from the United States. He also found that HK's equity returns had exhibited more significant price and volatility spillovers from the United States than China's returns had, and past volatility shocks in the U.S. had a more persistent effect on future volatility in HK than in China, reflecting HK's role as an international financial center. Sun's research suggested that the "decoupling" story may not exist in China or Hong Kong, and highlighted global integration of financial markets.

Shih talked about hidden vulnerability in China's financial system. He argued that China's debt level as a share of GDP would have been much higher than the official numbers if we counted local debt as sovereign debt. Professor Shih provided examples of how these local debts are formed through municipal investment companies to fund public projects that are mostly unprofitable. These municipal investment companies are pervasive across China on a provincial and municipal level, and most of them are highly leveraged. According to Professor Shih's estimate, the real debt to GDP level in China is closer to the 80% to 100% range.

PANEL THREE: LEGAL AND REGULATORY PERSPECTIVE

(Speakers: Xiang CAI, Ying WANG, Pengyu HE; Discussant: Xuefeng YANG)

The speakers of this panel were Xiang Cai, Assistant General Counsel at Barclays Capital, Ying Wang, Associate at Simpson Thacher & Bartlett LLP's Corporate Department, and Pengyu He, Associate at Polk & Wardwell's Corporate Department. The discussant was Xuefeng Yang, MBA student at Stanford Business School.

In his presentation, Cai used the case of Accumulator, a once popular structured product in Asia, to illustrate his perspectives on how legal and regulatory system should respond to financial innovation in the aftermath of crisis. He began with a broad discussion on financial derivatives, and based on the analysis of Accumulator, Cai further posited four insightful points with which he attempted to address the policy issues on ongoing financial turmoil. These four substantive points could be summarized by "FDIC": Form and fragmentation; Denouncement and discrimination; Incentive and infrastructure; and Cause and correlation. By inquiring about the causal relation between derivatives and the financial crisis, Cai argued that regulators should not denounce the past financial innovations simply, but distinguish good elements from bad ones and set up a fact-finding based adjudication, which he thought would be more efficient than a blank regulatory ban. Moreover, the regulations would be based on forms, but not blindly. The critical task, according to Cai, was to delineate sensible forms based on economic functionality, business reality and user orientation. In the end, Cai argued that the key to preemptive prevention was to rectify promoters' incentives and focus on investors' education. Meanwhile, a well-established infrastructure, including enhanced regulators' competence/compensation and a cool-headed judiciary system, would help balance the current biased interests and prevent derivatives from going wrong again.

Wang's presentation on "U.S. Regulatory Update on OTC Derivatives" described the latest development from the Treasury Letter and short-sell regulations. On May 13, 2009, U.S. Treasury Secretary Timothy Geithner outlined in a letter the regulatory proposal relating to the conduct and oversight of the OTC derivatives activities, in which four objectives were mentioned: 1) Preventing risk to the financial system; 2) Promoting the efficiency and transparency; 3) Preventing market manipulation, fraud and other market abuses; and 4) Protecting unsophisticated parties. Wang pointed out that although some measures to carry out the four objectives were listed in the proposal, lots of details remained to be worked out, which created a certain level of uncertainty in the market place. Wang also provided a dynamic overview of the

short-sell regulations and their consequences. The story began with the short sell restrictions that the SEC imposed on the publicly traded securities of substantial financial firms in July last year in an effort to ease the turbulence in the financial market. As a result, many hedge funds suffered great losses from the inability to carry out these hedging transactions. Perhaps somewhat coincidentally, since the expiration of the ban, there was an upturn in the convertible bond market. In Wang's observation, over 50% of the convertible bond issuances this year also had a call spread overlay, suggesting that these transactions had been well received by the market.

He's presentation on the "U.S. Financial Regulatory Restructuring" provided an overview on the agenda of the U.S. regulatory reform in response to the financial crisis, with a particular emphasis on the bank regulatory regime. Using a regulator-financial entities graph, He clearly illustrated the current messy financial regulatory system in the U.S., in which he argued there were 1) no regulators overseeing the systemic risk posed to the entire financial system; 2) over fragmentation in the current regulatory framework that led to regulatory arbitrage; 3) lack of mechanism to resolve major financial institutions in an orderly fashion and 4) lack of international coordination. He pointed out several key issues in the current debate on the regulatory reform. One of them is whether there should be a single entity or a council of regulators to oversee and supervise all systemically important firms. From his point of view, such a systemic risk regulator, be it a single entity or a council, would be almost certain to happen since there are broad support in Congress and internationally. However, it is not clear how multiple regulatory agencies would be consolidated and streamlined because of the intense political pressure to keep the status quo. For instance, the merger of the SEC and the CFTC is probably not going to happen, though the merger of the two institutions is very logical. However, the OCC is very much likely to merge with the OTS, as the latter already lost its credibility during the financial crisis. He concluded that the financial crisis presented a great opportunity for an overhaul of the U.S. financial regulatory regime, but the on-going political turf-fighting among multiple interests would delay the process and make the outcomes highly uncertain.

PANEL FOUR: LEGAL DEVELOPMENT AND ECONOMIC RECESSION

(Speakers: John DU, Sida LIU, Catherine PAN, Angela ZHANG; Discussant: Weiwei SHEN)

The speakers were John Du, Partner of Jun He Law Offices, Sida Liu, Ph.D. candidate in sociology at the University of Chicago, Catherine Pan, Associate at Goodwin Proctor, and Angela Zhang, J.S.D. student at the University of Chicago. The discussant was Weiwei Shen, Ph.D. candidate in sociology at Stanford University.

Economic development and rule of law have been considered as two most important pillars of the post communist regime. It is very interesting to go over the progress of the Chinese legal development historically and recently, especially under the macro environment of global economic crisis. In this panel, three legal practitioners and one legal sociologist reviewed and discussed Chinese legal development in the reform era.

Du, an attorney with over 10 years of practice experience, went over the recent legal development of China. The revision and legislation of new laws were accompanying with the blooming of Chinese economy since 2000. Numerous laws and regulations have been modified and legislated, including some important ones such as antitrust law, property rights law, labor contract law and so on. Such laws, according to Du, have such key features: to satisfy the need to blooming Chinese economy, to comply with China's WTO commitments, to unify the legal

system and to make better legal enforcement. Du then went over the details of those important laws.

Liu, a sociologist of law, reviewed the development of Chinese legal profession and how the entry of international law firms affected endogenous legal entities. The earliest lawyers, back to 30 years ago, were mostly demobilized soldiers and lacked sufficient legal trainings. Ever since then, Chinese lawyers came on the way to the professionalization. With the rapid development of Chinese economy and the increasing need for professional legal service, the number of Chinese lawyers rocketed up from about 200 in 1979 to over 150,000 in 2006.

Just as the tiny number of the legal profession, early legal service was also in low quality. Early Chinese law firms, according to Liu, were incapable of completing international transactions (such as merge & acquisition in China). The major work was finished by international lawyers, and Chinese legal firms mostly served as a rubber seal (sign the legal documents and provide them to the state agency). However, conditions changed much after 2000, Chinese law firms and endogenous lawyers became competent in doing international business in China. International firms felt pressure and changed the old strategy of distrusting local lawyers. They started to ‘steal’ lawyers (mostly 3-5 years associates) from local firms by raising the salary and promising good packages of bonus. Such actions brought much trouble to local law firms, many of whom encountered the problem of maintaining and expanding the size of their business. Liu also discussed how financial crisis affected the legal service profession. The previously “hot” firms were affected fiercely, while other firms such as firms providing labor contract service became popular and in demand.

The panel also discussed the enforcement of antitrust law by Zhang and the popular issues of cross-border transactions by Pan. Zhang discussed the controversial issue of enforcing the anti-trust law in Coca-cola-Hui-yuan case with a claim of protecting local industry. Pan reviewed popular issues among the practice of cross-border transactions.

PANEL FIVE: THE FINANCIAL CRISIS’ SOCIAL IMPACT IN CHINA

(Speakers: Ming XIA, John TIAN, and Qiang LI; Discussant: Dongtao QI)

The speakers of this panel were Ming Xia, Professor of Political Science, College of Staten Island, CUNY, John Tian, Associate Professor of Political Science, Connecticut College, and Qiang Li, Director of China Labor Watch. The discussant was Dongtao Qi, Ph.D. candidate in sociology at Stanford University.

Xia started his presentation with the assessment that the global economy has descended into a meltdown unseen since the Great Depression in the 1930s. He continued to compare and contrast three orientations to look at the current crisis in China: “Think as a bureaucrat” (James Scott’s discussion), “Think as an engineer” (Megaproject mentality) and “Think as an economist.” He argued that in today’s Chinese decision-making process, the combination of the first two has dominated; the third orientation has been neglected. This problem has blindfolded the Chinese decision makers and the latter misinformed and misled the populace. Although the world has been in a state of doom and gloom, the Chinese leaders and most residents have demonstrated an irrational confidence. Xia also applied a variety of theories (such as Ted Gurr’s “relative deprivation theory”, James Davis’s “J-curve theory”, Hunting’s “Threshold” theory, the transition theory in the former Soviet Union and Eastern Europe, etc) and several analogies (most conspicuously, Mexico and Indonesia) to gauge the resilience of the current regime and the possibility of China’s democratization. He concluded that this economic crisis may catalyze China’s transition to democracy.

Tian in his presentation examined the various aspects of the impact on China's rural economy by the ongoing global financial crisis and economic recession. He first presented the impact on rural employment and migrant workers; then he analyzed the impact on farmers' income growth; then, he discussed the difficulties the global economic recession posed on the structural change of Chinese rural economy by slowing down the pace of more recent reforms in rural China – land transfers system; finally he showed the implications for rural stability and local governance institutions as a result of pressures on college graduates going to work at local levels of government.

Li, as one of the leading activists on the forefront of Chinese labor rights protection, introduced several cases of his organization investigating and protecting Chinese labor rights in recent years. He presented workers' living and working conditions in the Chinese contractor plants of world famous company such as Disney, and discussed how the negotiations between his organization and these multinational companies have pushed their contractor plants to improve workers' safety and living conditions. He also touched on the bankruptcy cases in China under the economic crisis and how workers were influenced by the bankruptcy. In conclusion, he suggested that this economic crisis might push the Chinese government to further its effort of protecting Chinese workers' economic interests.

The discussion after the three presentations was unexpectedly heated among the three speakers. While Xia severely criticized the Chinese government's growing incapability in managing Chinese society and saw the necessity and high possibility of China's transformation to democracy, Tian insisted that it was still a question if democracy would help redress current major problems in Chinese society and bring Chinese a brighter future. Li, although being a long term challenger to the Chinese government, was optimistic about the Chinese government's capability of keeping China stable and managing various social issues.