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2020

China - U.S. Symposium on Building the Financial System of the 21st Century



Expanding or Restricting US-China Financial Market Access? CFIUS, Delisting, and the Opening of Chinese Markets

Will Financial Integration Continue to Grow?

- Mutual benefits of financial integration
  - Capital flows, and transnational listings strong and growing
  - Complementary characteristics – more stable returns for Chinese savers, lower interest rates for US borrowers
  - Foreign FIs help to improve Chinese financial markets and intermediation – e.g. promoting fundamental investing and risk management tools
- Chinese financial liberalization and openness
  - Liberalization and opening have proceeded despite political tensions
- Strategic competition and political headwinds
  - Rising rhetoric in US of new Cold War, “wolf warrior diplomacy” in China
  - Growing strategic flashpoints: South China Sea, Hong Kong
  - Growing technonationalism: IPR concerns, entity restrictions, AI competition, possible conflict over tech standards
- Can financial integration continue despite strategic tensions and calls for decoupling?

US Political Landscape

- Growing distrust of China
  - Resentments over COVID-19 common in political discourse
  - Both popular and elite levels
  - Increasingly comprehensive – economy, security, technology & IP
- Presidential election
  - Both Trump and Biden teams share strategic and tech concerns about China
  - Biden may be more likely to use multilateral mechanisms, search for areas of win-win (e.g., finance, climate change)
  - Coming months could bring strong actions against China, regardless of election
- Congress
  - Considerable distrust of China, reflected in bills about delisting, trade
  - Unlikely to be changed by election
- Financial institutions
  - US FIs see benefit in financial integration, economic cooperation
  - How important are their views in the political process?

US Financial Regulation and China

- Treatment of Chinese firms and FIs by US regulators
  - Financial regulation based on equal treatment, but concerns remain
- CFIUS
  - Has signaled negative attitude toward Chinese acquisitions, especially tech
  - Would that change under Biden administration?
- Sanctions and export controls:
  - Sanctioning of Huawei, WeChat, other firms and individuals has chilling effect
  - Trump administration has signaled likely increased use of sanctions
- Threats of delisting of Chinese firms
  - Effects on Chinese firms likely to be limited to smaller firms – ample liquidity in Shanghai, Shenzhen, HK
  - Effects on US could be larger and more lasting – loss of attractiveness of US markets, less convenience for US investors
  - Chinese accounting standards still problematic – how to protect US investors?
- Could overuse of financial sanctions lead to displacement of USD?
  - PBOC digital currency efforts may be reaction to US sanctions and threats

Chinese Financial Liberalization

- Strong commitment, driven by national interests
  - Desire to improve financial system
  - Need to effectively price equity, debt and commodity risk
  - Need to effectively manage Chinese savings
  - Need to recycle capital surpluses
  - Concerns about continued access to US financial markets
- Continued progress despite growing US-China tensions
  - Approval of foreign entrants in payments, mutual funds, etc.
  - Foreign access to more instruments and markets
  - State Council pledge to achieve full capital convertibility by 2030
- Will this be politically sustainable?
  - Has strong support from leadership
  - Economic slowdown or financial instability could create backlash

Is There a Path Forward?

- Bear in mind mutual interests
  - US-China relationship is complex and interdependent – decoupling would be painful for US, China, and world
  - US-China financial integration and openness benefit both sides
- Need to stick with the process
  - Establish joint, impartial investigation to better understand origins and responses to COVID-19 and derive lessons for future
  - Seek areas of cooperation – e.g., PCAOB auditing of US-listed Chinese firms
  - Keep communicating honestly and respectfully
  - Avoid “nuclear options” of financial sanctions, weaponizing USD, delisting, capital controls
- China and US must avoid a new Cold War
  - Need to create framework for competition and cooperation that doesn’t require the other side to sacrifice core interests

UPCOMING EVENTS

The Role of Asset Management in ESG Investing
September 17, 2020

IOSCO Policy Development Seminar – COVID response
September 29, 2020

Japan – US Symposium
November 5-6, 2020

IOSCO/HLS-PIFS Virtual Special Training Seminar
December 7-10, 2020

To receive an invitation to other PIFS Symposia,
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