LUJIAZUI FORUM
2013陆家嘴论坛 会后刊

June 27–29, Shanghai | Shanghai Pudong Shangri-La Hotel

A New Vision For Financial Reform and Opening Up

YANG Xiong: Expanding the Breadth and Depth of Shanghai's Financial Market

ZHOU Xiaochuan: Building Shanghai into an International Financial Center

SHANG Fulin: Planning the Top-level Design of the Banking Reform and Development: Five Ways to Promote and Improve Construction

XIANG Junbo: Four Major Reforms Will Be Pushed Forward in the Insurance Industry

ZHUANG Xinyi: China Securities Regulatory Commission Neither Takes Part in Transactions nor Controls Prices

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Preface

The 2013 Lujiazui Forum has come to a successful close thanks to the coordinated efforts of the organizer and all parties concerned.

Titled "A New Vision for Financial Reform and Opening-Up", the forum was held over three days from June 27 to June 29. The forum included two Keynote Sessions, three Plenary Sessions, 10 Panel Sessions and eight Night Chats by the Huangpu River. Officials from the government, financial regulators both from home and from abroad, senior financial executives, renowned experts and scholars exchanged their views on important issues in the economic and financial sectors in China and elsewhere, and came up with many enlightening and constructive opinions and suggestions.

Here we would like to express our heartfelt respect and sincere gratitude to all distinguished guests for their active participation and insights.

The theme of this forum, A New Vision for Financial Reform and Opening-Up, has been highly approved of by all participants. Many of the topics we discussed are closely related to ongoing domestic and foreign economic and financial events and straightforwardly reflect the tough issues both in China's financial reform and opening-up and in the economy's structural transformation. Discussions were heated and thorough.

On the topics of "New Changes in the Global Landscape & New Balance in the Global Economy," "Developed Economies' Quantitative Easing Policies," and "New Challenges & New Impetus for Economic Growth in Emerging Economies," discussions were centered on promoting balanced economic growth worldwide and speeding up the establishment of a new international financial structure.

With regard to expanding China's financial reform and opening-up and strengthening the financial industry's support to the real economy and the economic transformation and upgrading, the topics "China's Financial Reform and Opening Up & Economic Transformation and Upgrading, " "Opening Up the Financial Sector, New Opportunities & New Challenges of RMB Cross-border Use", "Roadmap for Interest & Exchange Rates Liberalization," "New Path of Financial Support for Urbanization," and "New Vitality in Economic Development – Financial Support for Small & Micro Enterprises" were all hotly discussed.

As for emerging trends in financial reform and innovation, there were discussions on the topics of "Expansion of Private Capital into the Financial Sector," "Prospects for Internet Finance," "Development & Supervision of Shadow Banking," and "New Impetus for Expanding Domestic Demand – Exploring the New Mode of Consumer Finance."

The guests' speeches, punctuated with witty remarks, conveyed valuable ideas. There were also fascinating interactions between the speakers and the audience. Both Chinese and foreign media actively provided coverage on the forum, which can most definitely be called a "brainstorming session" full of passion and wonderful moments.

Topics related to the construction of Shanghai as a global financial center were also a heated issue at this Lujiazui Forum. Guests actively shared their opinions and suggestions for how this goal can be achieved in discussions revolving around the topics of "Wealth Management & Construction of Shanghai's International Financial Center," "Coordinated Development of Onshore & Offshore RMB Markets," "Construction & Development of a Multi-level Capital," "Accelerate Construction & Development of China's OTC Market," "Development Outlook for Crude Oil, Gold & Commodities Markets," and "New Aspects of Cross-Strait Financial Cooperation."

We will carefully study and learn from the guests' views, broaden our horizons and be creative as we steadily move towards the goal of building Shanghai into an international financial center. We will follow the trends of marketization, internationalization and legalization, work in a down-to-earth manner, insist on the financial market system as the core of our project, and emphasize the creation of a favorable development environment, which makes the most of the exemplary role of pilot programs.

This year's successful Lujiazui Forum has reinforced the forum's status as a leading financial event in China and in Asia. To make better use of the forum's achievements, we invited Caixin Media to glean the highlights of every speech and compile them into this post-forum book. We believe that this content-rich book full of novel ideas will be warmly received by readers.

It is also our firm belief that the grand objective of building Shanghai into an international financial center will one day come true. With this goal in mind, we look forward very much to meeting you again at the next Lujiazui Forum in 2014.

The Secretariat of the 2013 Lujiazui Forum

Keynote Session I:

China's Financial Reform and Opening Up & Economic Transformation and Upgrading (I)

Moderator

TU Guangshao

Executive Vice Mayor of Shanghai

Keynote Speeches

YANG Xiong

Mayor of Shanghai

ZHOU Xiaochuan

Governor, The People's Bank of China

ZHUANG Xinyi

Vice Chairman, China Securities Regulatory Commission

Expanding the Breadth and Depth of Shanghai's Financial Market

Yang Xiong,
Mayor of Shanghai

Yang Xiong

All distinguished guests, friends, and ladies and gentlemen: Good morning. Today, the 2013 Lujiazui Forum is opening here in Shanghai, and both old and new friends bring wisdom and friendship to Shanghai when we get together at the Huangpu River. So please allow me, on behalwf of the Shanghai Municipal People's Government, to express our warm welcome and appreciation to all the leaders and distinguished guests both from home and abroad.

Currently, Shanghai is experiencing a profound development transformation. We have entered into a stage of stable growth different from that of rapid growth in the past. In recent years, with the support of the central government, we have made efforts to get rid of the bondage of the traditional development model and opened up a new situation of "innovation-driven, transformational development," as well as maintained the sustainable and healthy development of our economy andw society.

In 2012, Shanghai's GDP amounted to 2 trillion yuan, of which the GDP of the tertiary industry accounted for 60% of the city's total. Economic development driven by consumption accounted for more than 70%. Actually utilized foreign investment capital was 15.2 billion dollars, with an increase of 20% on a year-on-year basis. There are 403 multinational corporations and regional headquarters in Shanghai. The incomes of urban and rural residents have enjoyed sustainable growth. Their incomes, which have increased by 7.9% and 8.2% respectively in real terms, have exceeded the growth rate of the economy.

Shanghai will present herself in front of the world with a more open attitude in the future. To be a bellwether in the national reform and opening up, a forerunner in scientific development, as well as to achieve the goal of turning Shanghai into an international center of economy, finance, trade and shipping and a modern socialist international metropolis by 2020, we have to deepen reform and opening up to the outside world. We also have to promote "innovation-driven, transitional development." In this process, we should emphasize the role of finance more. We need financial experts, both at home and abroad, to join us.

Ladies and gentlemen, this Lujiazui Forum, with its theme of "A New Vision for Financial Reform and Opening-Up," has a very strong practical significance. It is also distinctly characteristic of the times. As the reform and opening-up deepens, we have always been thinking about how Shanghai can enrich its construction of a financial center. We are looking forward to hearing the illuminating ideas from all the distinguished guests.

Let me take this opportunity to introduce some of the city's practices in building a financial center. Ever since the central government made the great decision of building

Shanghai into an international financial center, this has been our priority over everything else.

First, we have focused on developing the financial market. Being close to the market and relying on the market are the distinctive features by which Shanghai differs from other cities in terms of the financial industry's development. These are also the outstanding advantages of the development of financial center in Shanghai. In recent years, on the basis of consolidating and promoting the existing functions of the financial market, we have successfully launched a multitude of financial products and tools such as stock index futures, gold futures, medium-term notes, and private placement bonds for small-and medium-sized enterprises. The scale of the financial market has expanded rapidly. By 2012, the trading volume of financial market had reached 528 trillion yuan, with an increase of threefold of the trading volume in 2007. The trading volume in the stock exchange and the combined marketization of stocks in the exchange rank the fourth and the seventh, respectively, in the world. For the spot trading of gold, Shanghai has maintained its top position for several years in a row. And next, along with improving its functions, we are going to expand the financial market in terms of width and depth. In terms of the width of business, we should further expand the market's coverage and improve its overall capacity of the market. With regards to depth, we will further optimize the structure of market participants, enrich the tiers of the market, and accelerate to improve a financial market system that possesses multiple tiers and strengthened functions.

Second, we have further improved the competitiveness of financial services. By the end of last year, the number of the financial institutions in Shanghai had reached 1227. Bank of China has established a headquarters in Shanghai for yuan operations. The number of functional and headquarter-level institutions in the fields of banking, securities, and insurance in Shanghai is constantly increasing. In particular, 423 foreign financial institutions are settled in Shanghai, among which foreign-funded banks account for more than 50% of the total number in the country, in addition to joint-venture security companies, joint-venture fund management companies, and foreign-funded property insurance companies.

Third, we have seized the lifeline of financial innovation and have been constantly enhancing the driving force of financial development. The government has always been a firm supporter for Shanghai's financial innovation. We have developed a series of new products and businesses. For instance, cross-border yuan trade settlement has been expanding, which totaled nearly 500 billion yuan in 2012, a nearly 50% year-on-year increase.. The number of foreign exchange management pilot enterprises in the international trade settlement center has increased to 50. A pilot program has been launched for multinational companies' headquarters to collectively manage the foreign exchange positions of their corporate members in China. A batch of innovative businesses, such as futures bonded delivery, margin requirements, and financial leases have been smoothly developed.We will promote the innovation of financial derivatives, develop and extend the yuan's use across borders, advance the integrated development of the financial and the real economy, and build Shanghai into an innovation center for yuan products.

Fourth, we know that financial talents are the key to making our financial environment more attractive. Shanghai has always appealed to talents, but given recent developments in the financial sector, the inadequacy of financial talent has become a major bottleneck confining the growth of Shanghai's financial industry. We realize the importance of financial talents more than ever before and feel the urgency of introducing more of them. Shanghai calls for financial talent, and we will continue to make Shanghai a haven for financial talent. We will improve the incentive mechanism to attract talents through various channels, optimize talents' dwelling environments, and deal with problems they are widely concerned about.

Ladies and gentlemen, we will spare no efforts to provide a better environment through better services to attract more and better financial elements to Shanghai. We will further promote innovation in the government's services and management, improve the financial environment, promote financial reform, and accelerate the building of Shanghai into an international financial center.

We know very well that to build Shanghai into a global financial center, we still have a long and tough way ahead, and that we need a more insightful global vision and strategic way of thinking. We believe that the foresight and sagacity as well as the penetrating judgement of all the distinguished guests here will give us profound enlightenment and help. In conclusion, I wish all the guests good health and a happy stay in Shanghai. Thank you.

Building Shanghai into an International Financial Center

Zhou Xiaochuan President of People's Bank of China

Zhou Xiaochuan

Respected Mayor Yang Xiong, distinguished guests, ladies and gentlemen, Good morning! I am glad to have been invited again to the 2013 Lujiazui Forum. Since the forum is held in Lujiazui, Shanghai, I think the theme should focus on how to make Shanghai an international financial center. In my speech, I will respond to some issues just previously mentioned by Mayor Yang, and, of course, I will talk about some other issues.

First, I would like to brief you on the significant progress in the financial sector in terms of building Shanghai into an international financial center. I would also like to talk about how to speed up our efforts in building Shanghai into an international financial center in our future work based on future potential and favorable conditions. These are some specific points of the theme.

Since Mayor Yang Xiong has already brought up some issues, I will try to make my remarks a bit briefer.

In recent years, we have made some remarkable achievements in building Shanghai into an international financial center, and all these achievements have received great attention and strong support from the financial sector.

I want to especially emphasize that it is an essential component of our country's modernization construction and the comprehensive deepening of reform and opening up. We must establish an international financial center. In recent years, we have made a lot of productive work in improving the competitiveness of Shanghai as an international financial center. At the core of this productive work is the construction of the financial market system, focusing on financial reform, liberalization and innovation. There are several aspects of building Shanghai into an international financial center.

The first is to vigorously promote the development of a capital market. A capital market is the core of an international financial center, and it is also the component with the most significant regional effects. It will act as the leader in speeding up the construction of Shanghai as an international financial center. Shanghai has always stood at the forefront of the development of China's capital market, which promotes the financial and economic system reform in our country and also advances the optimization and transformation of the allocation of social resources.

Giving free reign to Shanghai's key role as a capital market is a practical choice for promoting Shanghai's economic and social development. It also better serves the whole country, is an intrinsic characteristic of the construction of a mature international financial center and the development of the financial industry, and most importantly, is a requirement for building Shanghai into a better international financial center.

In recent years, thanks to the sustainable and healthy development of the Chinese economy on one hand, and the steady advance of market-oriented reforms on the other hand, the core function of Shanghai's capital market in leading and driving the construction of the Shanghai International Financial Center has become increasingly prominent. Now, Shanghai has basically built up a capital market system of great international influence with relatively strong functions of transaction, pricing and information, which is suitable for the joint participation of domestic and foreign investors. In addition, Shanghai has gradually developed into the center of cross-border investment and yuan-denominated financing, as well as the center of the formation of yuan products' benchmark prices, the center of bulk commodity pricing, and the center of financial information services. It has fostered a batch of relatively large-scale leading public companies with comparatively complete management mechanisms. It has also created the main mechanism that facilitates the innovative development of its capital market and the prevention and defusing of risk.

The main index of the Shanghai Stock Exchange and the prices of commodity futures have become more influential. More and more fields have been opened up in Shanghai. Meanwhile, Shanghai's Zhangjiang High-Tech Park, as one of the three early-stage pilot areas for the "New Three Boards,"", will propel the construction of the multi-layer capital market system of Shanghai and play a positive role in the collaboration between regional curb markets and national markets.

The second aspect is that Shanghai has been also actively promoting the development of the interbank market and the reform and innovation in the financial market. The issuers that issue bonds in the interbank market are becoming increasingly diverse. Various types of Chinese and foreign financial institutions have been permitted to issue in the interbank market subordinated financial bonds and special-purpose financial bonds that raise money to finance small and micro businesses. This has strengthened the capital base of financial institutions, diversified their financing sources and improved their capability of serving the real economy. Shanghai has also encouraged more non-financial institutions to issue in the interbank market debt-financing tools including short-term financing bills, medium-term notes, short-term commercial papers and private placement bonds. These tools have enriched the financing channels of non-financial companies, improved their liability structure and optimized the financing structure of the society as a whole.

Meanwhile, Shanghai has also diversified the interbank lending market and the investment and fundraising market, activated transactions in the money market and improved its liquidity. This has laid a foundation for the SHIBOR to act better as a benchmark, encouraged companies and non-incorporated entities to issue collective bonds in the market and made the bond market broader and deeper.

Shanghai has been also actively promoting the development of the interbank market and the reform and innovation in the financial market

In the third aspect, we have seen the effects of developing cross-border yuan services and promoting Shanghai as an innovation center for cross-border yuan products. To begin with, yuan services in cross-border trades have been advancing. Cross-border yuan trade settlement has been expanded from a few pilot regions at first to across the country. The service does not have any geographic restriction overseas. All domestic enterprises operating a business in imports and exports, garment trades and other trades under the current account can opt to use the yuan for pricing, settlement and making or collecting payments. Some foreign central banks, yuan clearing banks and banks that have yuan businesses can invest their holdings of yuan in the interbank bond market. Innovative services, such as yuan direct investment overseas, yuan-denominated foreign direct investment, yuan loans to overseas projects and yuan-pool lending, have been under development. The RQFII program, which everyone cares about, has been formally kicked started and running smoothly. The amount of cross-border yuan trade settlement is still expanding. Its first pilot program was launched in September 2009. The mechanism of cross-border yuan flows has been operating smoothly and the yuan has been more and more widely accepted overseas. All this has strongly supported the development of foreign trades and the real economy.

The development of yuan services in Shanghai has been good. As one of the first pilot cities to conduct cross-border yuan trade settlement, Shanghai has kept a steady and fast development in yuan services, ranking among the top nationwide. Supported by a favorable market environment, Shanghai has actively pursued pilot programs of financial innovation. Last December, it launched a pilot program which allows companies to lend in yuan to affiliated firms overseas. It is by far the only pilot area in the country.

The fourth aspect of development is to explore convenient ways for the cross-border flows of foreign exchange, facilitate investment, and actively promote the reform of the foreign exchange system. All of these are actions and attempts to push forward the reform of foreign exchange administration in Shanghai. In 2010, a pilot program concerning forex management in foreign trade settlement was launched involving qualified enterprises in Shanghai's comprehensive bonded zone. In 2012, another pilot program was launched with the goal of facilitating multi-national companies' funds transfers. These pilot programs have made it easier for multi-national companies to settle in Shanghai and increased the city's attractiveness to foreign investors.

The fifth aspect is encouraging companies to set up offices and especially their headquarters in Shanghai. Mayor Yang Xiong mentioned this just now. Shanghai has seen the creation of a stock market, a futures market, the interbank market and a derivatives market. Moreover, the Shanghai Gold Exchange, the headquarters of China UnionPay, the Shanghai Clearing House and Credit Reference Center, the Anti-Money Laundering Monitoring Center and the Clearing Center of the People's Bank of China are all in Shanghai. People's Bank of China set up its Shanghai headquarters in 2005, because it wanted to be close to the market, improve the efficiency of its services to the financial market and support Shanghai's effort to build an international financial center.

Many other financial institutions have also set up offices and headquarters in Shanghai. The People's Bank of China Financial Consumer Protection Bureau formally started operation in Shanghai last year. At the same time, we have also supported some foreign institutions, including the Norges Bank and the Bank of Korea, to set up a representative office in Shanghai, in the hopes that they can play an important role in promoting bilateral financial cooperation. Many overseas monetary authorities and international financial institutions have also invested in China's markets, including the inter-bank market.

Shanghai has the conditions and potential to be built into an international financial center. Although great efforts need to be made and time needs to be spent, these advantageous conditions should be seen.

With the development of direct financing, there will be a huge amount of investments in our capital market, which will put us under the international spotlight

First, the growth and structural transformation of our economy has laid a solid foundation for making Shanghai a global financial center. The steady and fast growth of our economy will speed up the development of the modern service and manufacturing industries and emerging industries with strategic significance. The overall strength will improve and serve as a solid foundation for the transformation of Shanghai into an international financial center. With that comes new and higher demand.

Second, as a large economic entity, China has an outstanding feature – namely, a high domestic savings rate, even though we don't need such a high savings rate as far as structural readjustment is concerned. The current situation is that nearly half of our GDP is made up by savings. To put this in perspective, it means when our GDP is over 50 trillion yuan, the combined amount of our savings, when including companies, governments and individuals, would be around 25 trillion yuan. Traditional commercial banks have been the main channel for these savings, but we have a clearly stated guiding principle of policy that emphasizes the development of the capital market and direct financing. More policies are being made towards this goal. With the development of direct financing, there will be a huge amount of investments in our capital market, which will put us under the international spotlight.

Based on others' experience of developing an international financial center, one of the most important preconditions is that there are many investors with a huge amount of capital looking for investment opportunities. The capital market will play a significant role in the resource allocation of investments. From this perspective, Shanghai's potential will be greater and its motivation will be stronger. In addition, our domestic savings are denominated in yuan. As the yuan's use across borders expands and the yuan's international status improves, there will be a new and strong impetus to Shanghai's effort of building a global financial center.

Third, the international financial crisis has shown that the current international financial system and financial patterns still need continuous adjustments in its development. One important feature is that emerging economies and developing countries have been more vigorously participating in global economic and financial affairs and have more say over them. Against this background, the international society has thought more highly of China's development in international finance. These changes have also offered a favorable external environment for Shanghai to build the international financial center.

In the end, after years of concerted efforts, Shanghai has consolidated its position as an international financial center, and its international influence has been getting stronger. Its momentum of building an international financial center has been very healthy.

Next, I would like to talk about some ideas of further promoting the construction of Shanghai as an international financial center. Under the new circumstances, we need to speed up the construction and promote our economy to develop stably and healthily. This is to meet the demand of an upgraded economy for Shanghai and for the country, and the demand of optimizing the industrial structure and promoting the financial reform and opening-up. In the future, we will continue to actively and energetically support and promote the construction of Shanghai as an international financial center in line with the spirit of the State Council's policies, continue opening up and promote the city's effort of building a global financial center to a new high.

First, we should expand the use of the yuan to promote Shanghai as the center of innovation, trading, pricing, and settlement of worldwide yuan products. After the outbreak of this international financial crisis, to meet the demand of the market, we have actively carried out pilot projects of cross-border yuan trade settlement, orderly promoted yuan settlement in cross-border investments, steadily conducted the business of making yuan loans to overseas projects, and deepened various bilateral and multilateral currency cooperation. Now the market for using the yuan in cross-border activities has begun to take shape.

We should promote it step by step, in accordance with our comprehensive national power, respect the market and adapt to changing needs, keeping a low profile with a down-to-earth attitude, pushing for progress in a systematic and orderly manner, and making sure the risk is under control.

We support the opening-up of yuan financing and investment both ways across the border. Here I would like to emphasize both ways

The development of the yuan's use across borders has presented a great opportunity for Shanghai's construction of an international financial center in the next five years. While the yuan becomes more widely used in cross-border activities and internationally, we will actively develop Shanghai into a center for the innovation, pricing, trading and settlement of global yuan products, according to the outline of "the 12th Five-year Plan.

On the one hand, we will expand the use of the yuan in cross-border transactions, primarily by increasing the proportion of yuan settlement in cross-border transactions, supporting foreign-invested multinational corporations to conduct yuan businesses across borders, promoting the yuan to be incorporated into multi-national companies' asset portfolios, and launching a refinancing market for cross-border yuan trades to expand the amount of yuan trade financing.

In addition, we support the opening-up of yuan financing and investment both ways across the border. Here I would like to emphasize both ways. We are actively preparing to launch pilot programs for qualified individual investors to invest overseas and for qualified privately offered yuan funds to make securities investment overseas. We are also building the infrastructure to expand the yuan's use across borders. The yuan cross-border payment system, which is being developed in Shanghai, plays an important role in supporting the yuan's use across borders as well as improving the yuan payment and settlement mechanism and preventing and controlling risks that come with it. It is important in the creation of a market environment with fair competition and is conducive to the goal of developing Shanghai into an international financial center.

Second, we should accelerate the opening up of our financial market to the outside world and build in Shanghai a multi-level financial market system with comprehensive services to both domestic and foreign investors. The People's Bank of China will actively promote the reform and opening up and development of the financial market in areas including the money market, the bond market and the foreign exchange market. It will also expand the breadth and the depth of the market, diversify the main participants and the trading products, and form an effective financial market with transparent regulations.

First, we should promote the two-way opening up of the bond market, encourage more qualified issuers to issue yuan-denominated bonds and increase the total amount of yuan bonds issued, and allow qualified commercial financial institutions with relatively high credit worthiness to issue yuan bonds in China.

Second, we should broaden the participation scope of the money market, as well as continuously support foreign-invested commercial banks and their branches and foreign-invested non-banking financial institutions to enter the interbank market and foreign exchange market. We should also increase the number of foreign-invested institutions, scale up the amount of yuan transactions within approved quotas, and promote the development of the interlinked domestic and overseas yuan markets.

Another aspect is to expand the depth and breadth of the foreign exchange market. We should continue to support the participation of foreign financial institutions in interbank foreign exchange transactions. We have had banks in Hong Kong and Macau that can clear yuan transactions. We need to include other yuan clearing or yuan participant banks to enter the interbank foreign exchange market, enhance the guiding role of onshore exchange rate to those outside the country, and establish a direct exchange rate calculation system for more currencies, in addition to the U.S. dollar, the Japanese Yen and the Australian dollar. We should also show in the interbank foreign exchange market the yuan's exchange rate against the currencies of more emerging economies and neighboring countries.

Third, we should actively and steadily move towards realizing capital account convertibility, taking into account the progress of domestic economic and financial reform as well as the environment at home and abroad. Gradually making the capital account convertible has repeatedly been written into a number of important policies of the communist party and the government. It is in the country's 12th Five-Year Plan as well. A more convertible capital account will encourage financial innovation and financial market development, promote the concentration of financial institutions, enhance the level of internationalization of the financial system, expand the yuan's use across borders and improve the market economy system. It will enable the market to play a greater role in the allocation of resources, better satisfy the market's demand for investment and enhance the level of openness of the economy. This is also a crucial element in Shanghai's development towards an international financial center.

We should also show in the interbank foreign exchange market the yuan's exchange rate against the currencies of more emerging economies

In 1993, the proposal of making the yuan a freely convertible currency was raise for the first time in the Third Plenary Session of the 14th Central Committee of the Communist Party of China. In 1996, China formally committed itself to the eighth article set forth by the International Monetary Fund, which means we pledged to make the current account convertible. We have also been working unremittingly to promote the convertibility of the capital account. In this century, with greater national power and reform progress in the interest rate and exchange rate systems, state-owned banks and financial market, the conditions have been increasingly mature for us to further promote the account's convertibility.

Under the new circumstances, we will quicken the pace of making the capital account convertible to open up more, enhance the financial industry's support to the real economy and strengthen our country's ability to engage in global resources allocation more efficiently to improve the people's welfare. Seizing this opportunity will enable Shanghai to play a better role as a global financial center.

Of course, we should control risk well when making the capital account convertible. It is a flexible institutional arrangement to have a convertible capital account, which is not an either-or choice. Other countries' experience shows that, even with a convertible capital account, the government still retains the power to regulate suspicious capital, foreign debt and short-term capital flows from the perspective of macro-prudence to prevent the risk of cross-border capital flows. We need to draw on advantages and avoid disadvantages and make the most of having a convertible capital account. The timing of when each specific measure would be taken is also flexible. Depending on domestic and international financial circumstances and changes in the foundation for the reform, we should choose the timing opportunely. A measure should be pushed forward when it the conditions for it are mature.

Fourthly, we should strengthen our exchanges and cooperation in the financial industry on a global scale, deepen the cooperation between Shanghai and Hong Kong and between Shanghai and Taiwan, expand the services Shanghai provides as a financial center, strengthen international and regional financial cooperation, and participate in global economic and financial governance.

All of these can help Shanghai play a greater role in exchanges with the external world, and enhance its publicity and influence in the global financial community. We should further deepen the mutually beneficial financial relationship between Shanghai and Hong Kong, Improve the mechanism of their cooperation and strengthen their exchanges and cooperation in the fields of financial market, institutions, products, services and talents. We shall support the connection of financial infrastructure and products between Shanghai and Hong Kong, vigorously promote the communication and cooperation between Shanghai and Taiwan in financial fields and establish a cooperation mechanism for more joint working in a broader range. These are what should be done in the next step and they all have great growth potential.

In the end, I will share some views about the current economic situation. Based on the country's economic and financial conditions, the Central Economic Work Conference last year decided to pursue a prudent monetary policy this year. Currently, the overall economy and financial industry has been running smoothly with relatively stable prices. This means the prudent monetary policy suits our conditions and has been effective. Meanwhile, the international economic and financial situation is complex and changing, and the domestic economy is facing new circumstances with new problems. The financial market has always been quite sensitive and responsive to any signals in the market. It helps us find problems and fix them. The People's Bank of China will continue to implement a prudent monetary policy, strengthen the foresight, pertinence and flexibility of policy making, and fine tune policies appropriate and timely when necessary. In cooperation with other authorities, we shall, on one hand, guide financial institutions to make loans reasonably, arrange for an optimal asset-liability structure and avoid severe maturity mismatches, and support the structural transformation and upgrading of the real economy. On the other hand, we shall use a combination of tools and measures to adjust the level of market liquidity in a timely manner to maintain the overall stability of the market and create a monetary environment conducive to the stability and development of the financial market.

The international economic and financial situation is complex and changing, and the domestic economy is facing new circumstances with new problems

This year, the country's money supply has steadily increased without much fluctuation. We have strengthened structural adjustment, so the growth rate has fallen a bit, but it is still within a reasonable range. Overall viewing, it has been stable with a modest increase. Meanwhile, the dividends of various reform measures will keep coming, the results of government agencies cutting back on administrative interventions and delegating power to the lower levels will continue to be revealed, the pace of adjusting the economic structure will be accelerated, and the efficiency of economic growth will be enhanced.

At present and for some time to come, China will in an advantageous position facing a strategic opportunity. Its potential is immense. Globally speaking, the Chinese economy remains a major driving force of the world's economic growth. We have every confidence in China economic growth in the future, and in the development of its financial industry and financial market, as well as the prospect of Shanghai being developed into an international financial center.

China Securities Regulatory Commission Neither Takes Part in Transactions nor Controls Prices

ZHUANG Xinyi
Vice Chairman of China Securities Regulatory Commission

ZHUANG Xinyi

Distinguished guests, good morning.
I was entrusted by Chairman Xiao Gang to attend this forum. First of all, on behalf of Chairman Xiao Gang and the China Securities Regulatory Commission, I would like to extend my warm congratulations on the opening of the 2013 Lujiazui Forum.

Since the 18th CPC National Congress, the Party Central Committee and the State Council have made the strategic decision to forge an upgraded version of the Chinese Economy. Recently, the State Council has pointed out that finance plays an important role in stabilizing the growth rate, adjusting the structure, enhancing the transition and benefiting the people. Furthermore, the State Council has carried out targeted policies and measures with respect to the current financial system endorsing the adjustment, transition and improvement of the economy structure. The theme of the forum this year, "China's Financial Reform and Opening Up & Economic Transformation and Upgrading", relates to current concerns in China's economy and directly deals with the center of our work, so it is an important subject that needs to be further studied and fully implemented for the present and the future.

Today, we gather on the banks of the Huangpu River, putting our heads together on this theme, and we will certainly provide useful inspiration and play a positive role in implementing the decisions of the Party Central Committee and the State Council. From the perspective of the global history of economic development, economic restructuring and industrialization are significant and practical issues that are faced by each economic entity when it develops to a certain stage. All major economic powers maintain and enhance their core competitive power and comprehensive strengths through numerous successful transitions and improvements.

In recent years, the international financial crisis has cast a shadow over the whole world, and the European sovereign debt crisis is still developing. The economic pattern and the pattern of market competition are undergoing profound and complicated changes. Today, as the original source of momentum for growth has weakened and the new one hasn't yet formed, both developed countries and new economic entities must change their methods, adjust their structures and seize the commanding heights in this new round of development. It is important for China, now the second largest economy in the world, to adjust its economic structure, transform its growth model and effectively improve the capacity of finance to serve the real economy.

Since the establishment of capital markets in our country, we have consistently worked towards marketization and legalization, promoting market development's basic role in resource allocation and boosting the efficiency of investment and finance. In recent years, the China Securities Regulatory Commission(CSRC) has continued to promote the infrastructure construction of the market and has made active and pragmatic exploration on many subjects. Thanks to the concerted efforts of all the parties involved, step by step we have made progress and achieved results.

The capital market is a platform for direct interactions between investors and investment receivers. We should give the market free reign to realize macro-economic targets and promote the microeconomy. But this is a continuous process that involves many aspects. We must have confidence and make a concerted and unremitting effort towards realizing the goal.

Taking everything into consideration, the current stage is the most important period for enhancing the reform and opening up of the capital markets. The CSRC, as the legal regulatory institute, is duty-bound to take advantage of this moment. We must turn pressure into motivation, focus on the transformation and upgrading of the real economy, make efforts to propose practical methods, rely on and cooperate with all parties, actively boost the construction of market, make efforts to strengthen law enforcement within the market, steadily promote the opening up and spare no effort to usher in a new era of reform and opening up for the capital markets.

Regulation is an indispensable part of the capital market and an important foundation for the capital market to function successfully. Safeguarding the market order effectively is the duty of market regulators in every country. To achieve healthy development of the capital market in our country, we must ensure that the job market is open, fair and just, and safeguard the legal rights and interests of investors, especially investors of small or medium size. Only by constantly bearing these two purposes in mind and putting them into practice can we maintain the good order of the market.

As a market regulator, the CSRC is neither a trading party nor a price regulator. The main responsibility of CSRC should be safeguarding the three principles of "openness, fairness and justice". The implementation of the two types of maintenance is an important standard for inspecting the commission's work. Boosting the capital market's development and enhancing its functions ultimately depends on the power of the market. Respecting the market rules and bringing the market forces into play will be supplemented and complemented by strengthening regulations. In a certain sense, regulation is there to promote the fairness of the market, suppress evil trends, encourage positive forces that help the market run under regulation, prevent negative forces that hinder normal market operations and build a good market environment.

It is important for regulators to ensure the accuracy of market information. The authenticity of information is what the market relies on. Improving the accuracy of information in the market requires that all information provided by each part of the market must be accurate, timely and complete. In addition, there should be no false records, misrepresentations or major omissions. Benefits cannot be pursued in a fraudulent way. Only authentic information can contribute to reasonable prices and allow the market to allocate resources properly. Only authentic information can guarantee investors and investment receivers have equitable rights and allow the market's system of restraints and counterbalance to work effectively. Only authentic information can make room for solving problems in a market-driven manner, provide the necessary precondition for the market to repair itself and make regulations better and more transparent. Only authentic information can make market entities trust each other and interact in a positively way, lower the cost of market operations and improve the efficiency of the whole market. Only with authentic information can professional analyses and investment and financing tools get the chance to play their roles, permitting investors to have clear and reasonable expectations and promoting a rational culture for investment and fundraising. Only with authentic information can we discover and assess risks quickly and improve the market's stability.

The authenticity of market information is an important basis for the marketization, institutionalization and internationalization of the capital market, a basic requirement for the sound development of the capital market and the core of the protection system for investors. The authenticity of information is the most fundamental, the most important and the most long-lasting subject in the reformation and development of the capital market. Therefore, safeguarding the authenticity of market information is a major task for the CSRC and a key method for the CSRC's daily regulation and inspections. In terms of how to improve the authenticity of market information, we must do the following.

First, we must improve the transparency of market regulations. When making rules and regulations, the CSRC must publicize the information in advance, ask for suggestions and collect different ideas. As for the approval of administration licensing, it should stick to the principle of "Three Opens" and enhance the transparency of day-today supervision over market access, inspection, law enforcement and so on. In terms of responding rapidly to investor doubts and worries, the CSRC must release information quickly and accurately. In all, the CSRC must start from within, voluntarily making itself subject to societal supervision and public opinion, encouraging concerned parties to promptly learn about the market and the direction in which regulation is moving.

Secondly, it is necessary to implement disclosure rules fully, and to reform the IPO system. We shall show no leniency towards fraudulent information disclosure, strictly implement the investor eligibility system and ensure information, including the nature and risk of the product or service, the arrangement of investors' rights and interests, and ways of consulting and protecting the rights, is disclosed as required, in order to fully protect investors' right to know. We will improve the details of listed companies' information disclosure rules, encourage market entities to develop a variety of channels to allows investors to obtain information conveniently and swiftly. When there are problems that concern the whole market but investors are unable to get timely responses, we should, through strict monitoring and regulating, urge the parties responsible to publish accurate and timely information.

Thirdly, we must intensify the battle against fraudulent and illegal acts, make full use of the existing laws and regulations, make counterfeiters pay a heavy price, and continue to enforce laws strictly. We shall not engage in movement-type enforcement or change enforcement attitude quickly. As for insider trading and using false or ill-obtained information in illegal activities, we shall always maintain a zero-tolerance policy.

Fourthly, we need to strengthen the construction of the market credit system and create a supervision system based on industry standards and good faith disclosures. This mechanism should have credibility and promote information exchange and sharing. It should have as its foundation a database of borrowers' credit histories and place emphasis on the integrity of supervision and punishing dishonest behavior.

Fifthly, vigorously strengthen the construction of the market information system. Actively promote the integration and sharing of resources in securities and futures systems, constantly enhance the security of information systems, further standardize market information and make its transmission efficient, timely, convenient and continuous, reduce the cost of obtaining information as much as possible, guarantee every market participant's right to obtain information equally, and strengthen the ability to analyze information so financial crimes can be handled more promptly and more efficiently.

Finally, we must strengthen the protection of investors' rights and interests. We will set up a practicable investor protection mechanism, incorporate investor protection into every link of our regulation, and continue to enhance investor education and services so individual investors' ability to protect themselves can be substantially improved. We must also enrich the dispute settlement mechanism and marketize the investor compensation system which taking into consideration of the reality of our market.

Shanghai has always been the frontier of reform and opening up in the Chinese capital market. In 2009, the State Council proposed building Shanghai into an international financial center. This plan not only emphasized the deepening of reform and opening up in Shanghai, but also brought great opportunities and new breakthroughs for the development of the capital market in recent years. Shanghai, a land full of vitality, has witnessed the growth of financial institutions and various financial products. Great progress has made in cross-border businesses. Research and exploration is under way to push forward the internationalization of the market. Securities and futures exchanges have obviously become more innovative and their services have improved a lot.

The CSRC has supported and will continue to support Shanghai in its effort to build a global financial center. We hope that we can further strengthen our cooperation with all concerned parties, follow the trends of capital marketization, legalization and internationalization, and seize firmly the strategic opportunity to forge ahead innovatively to explore and make more contributions.

Keynote Session II:

China's Financial Reform and Opening Up & Economic Transformation and Upgrading (II)

Moderator
TU Guangshao
Executive Vice Mayor of Shanghai

Keynote Speeches
SHANG Fulin
Chairman, China Banking Regulatory Commission
XIANG Junbo
Chairman, China Insurance Regulatory Commission

Planning the Top-level Design of the Banking Reform and Development: Five Ways to Promote and Improve Construction

Shang Fulin, Chairman of China Banking Regulatory Commission

Shang Fulin

Mayor Yang Xiong, Deputy Mayor Tu Guangshao, all honored guests, ladies and gentlemen, good morning!

First of all, I warmly welcome all of you on behalf of the acting chairman of the 2013 Lujiazui Forum. Warm congratulations on the construction of Shanghai International Financial Center—what an achievement!

The theme of this Lujiazui Forum is the" New Layout of the Financial Reform and Opening Up". Everyone knows that over 30 years since the reform and opening up, under the strong leadership of the Party Central Committee and the State Council, Chinese banks have achieved historic breakthroughs and remarkable achievements in the process of reform and development. This year, China's banking industry continued to operate in a stable and healthy way. Through the end of May, banks' asset scale increased stably, and banks' total assets reached 140 trillion yuan. Assets increased 16.3 percent over last year, and the rate of increase was similar to last year's. There has been a steady growth in deposits and loans; the total value of deposits has reached 102 trillion yuan, a year-on-year growth of 16.2%, and the total value of loans has reached 72 trillion yuan, a year-on-year growth of 15.6%, basically the same as the previous year. The asset quality is generally stable, and the rate of bad loans of merchant bank is 1.03%, a little higher than last year, but still a relatively low level; the provision coverage is 280%. That is to say, every one yuan in bad assets corresponds to 2.8 yuan in provisions, and the provision coverage remains at a relatively high level.

In the past few days, the market faced a liquidity squeeze. In general, there is no shortage of liquidity in our banking system. As of June 28th, the balance of excess reserves in all the financial institutions is about 1.5 trillion yuan, more than twice the normal demand of payment and settlement. The deposit reserve rate has been around 20%. The liquidity squeeze will not affect the overall smooth operation of China's banking industry. However, it does show that there are some shortcomings in liquidity management and business structure of some commercial banks, The banking sector should take these shortcomings seriously and work on risk management, structural adjustment and business transformation. Going forward, we will work on top-level development planning, giving play to the basic role of the market in resource allocation, promoting economic restructuring and transitioning to better methods, and improving the economy in five ways in accordance with the essential requirements of the real economy and the prevention of financial risks.

Firstly, improve wider coverage, diversify the industry and improve the efficiency of the banking system. We must guide all kinds of banking institutions to deepen their reforms, position themselves reasonably and scientifically, improve the efficiency of financial resource allocation and increase banks' ability to support economic change. Banks must develop their characteristics, distinguish themselves in competitions and provide professional services.

First, we must optimize the license-based system of differentiated regulations. Banking institutions that are different in geographical and business scope should be managed differently, so we need to establish a corresponding assessment and evaluation system. We should encourage all kinds of banking institutions to provide clients with more comprehensive and better financial services by diversifying their operations and distinguishing themselves in competition. This will reduce the risks brought about by the lack of diversity in competitions. . We all know that nowadays banks, big or small, all tend to appear similar and there is a trend of growing more like each other in competitions. So following the demands of the real economy, we encourage differentiated competition in order to provide better financial service for the real economy.

Second, we must encourage private capital to enter the banking sector. We should encourage people to invest their capital, buy shares and participate in the reconstruction of financial institutions. We should allow village and township banks that are relatively developed and have stable operations to have more flexibility adjusting their share ownership structure between the initiating founder and other shareholders, as long as the former's holding of shares stays above the floor limit. We should permit the establishment of private banks, financial leasing companies, consumer finance companies and other private financial institutions that use private capital at their own risk, so long as they go through the relevant institutional arrangements to prevent moral hazard and risk spillover.

Third, we should promote the specialized and regulated development of non-banking financial institutions. Trust companies should be encouraged to carry forward their structural reform to make the best of their advantages in the new system of property rights and in areas including social welfare and wealth management. In this way, we can boost the efficiency of connections between social capital and good projects. We should encourage financial leasing companies to broaden the range of their leases and actively develop leasing services with whole sets of equipment and capital-intensive projects. We should promote technological innovation and industrial upgrading. We should also promote the upgrade of industrial structure by optimizing the entry threshold of conglomerates' financial management subsidiaries, strengthening companies' internal management and helping them improve the quality and efficiency of development.

Secondly, we should improve the banking service system, which should be close to the market and rooted in the real economy. We must take advantage of the strategic opportunity for the Chinese banking industry brought by industrialization, urbanization, information technology and agricultural modernization, by firmly establishing the "customer-centric" service concept and perfecting the modern banking service system to provide targeted, sustained and high-value-added financial service for the real economy.

First, we should use credit as leverage to promote the adjustment of industrial structures. We should strengthen credit support for promising industries in advanced manufacturing, emerging industries of strategic significance, modern technology and information consumption, high-end services and environmental protection, and we must actively foster the growth of new industries. We should apply different credit policies to different industries and promote the restructuring of excessive capacity, according to the "four batches" requirements set by the central authorities.

Second, we should promote increased consumption by developing consumer finance. We should accelerate the improvement of debit card consumer service functions, optimizing the environment for credit card use and expanding the scope of card use among urban and rural residents. Gradually we must expand the boundaries of the pilot cities for consumer finance companies and cultivate new growth points for consumption. We can adapt product services according to the consumption habits of rural migrant workers, and improve the adaptability of financial services to increase their popularity among consumers.

Third, we should enhance our service system to improve efficiency. We should encourage banks to cooperate with Internet and telecom operators, to create an innovative service model, service channel and business product, and further enhance their service functions of payment and settlement, capital financing, consulting, etc., through Internet technology. The networks of financial institutions should penetrate deeper into society, and financial products and services should be developed according to the needs of small and micro enterprises, new agricultural business entities and agricultural wholesalers. The improvement of financial services will provide support to enterprises that "go out."

Thirdly, we should improve the financial market system of the division of labor and coordinated development. We should focus on revitalizing our reserves, making good use of increments and using social capital more efficiently. Direct financing should be increased in order gradually to form a financial market system with complementary direct financing and indirect financing, a reasonable structure and coordinated development. As an important participant in the Chinese financial markets, the banking industry should play a leading role in the construction of the financial market system.

The first step is to regulate the development of financing management. We must make full use of the technology, network and personnel advantages of the banks, transform wealth management products into standardized debt financing tools, and continuously explore new products and new models for financial services in the real economy.

The second step is to promote the normalization of credit asset securitization. We must support the securitization of credit assets and revitalize the current stock of loans, so that credit can promote economic restructuring.

The third step is to actively promote the development of the bond market. We should encourage small and micro enterprises to issue bonds, explore the issuance of agricultural financial bonds, create innovative asset and liability management methods and continue to support economic transformation.

Fourthly, we must improve risk control and operate an efficient business management system. We must encourage banking institutions to improve their risk control system and make it the first defense line against systemic or regional financial risks, which we must avert. Recently, some international institutions and industry delegates have expressed concerns about China's economy slowing down with risks building up in the fields of local government debt and real estate. It should be mentioned that these risks resulted because of the transitioning taking place in China's models of economic growth, development and institutional structure. As long as we take the right measures, these risks can be controlled.

Next, we will follow the principle of "total quantity control, classified management, differential treatment, gradual elimination", strengthening the management of financing platform loans and easing the potential risks. Meanwhile, we will accelerate our research on how to solve the problems of local government debt. As for real estate loans, at the end of April, the loan balance was more than 13 trillion yuan, of which housing mortgage loans accounted for almost 70%. Chinese people follow through on their word, so the rejection ratio of mortgage loans has been far below 1%. The rising trend of housing prices is under effective control and the regulation of real estate agents has been strengthened. Now, we are using a system based on a name list to regulate real estate agents. The sector's financing from non-bank channels has been effectively reined in, so the overall risk of the industry has been under control.

In terms of wealth management business, by the end of the first quarter, the book balance of banks' wealth management plans was 8.2 trillion yuan, more than 70% of which has been invested in the real economy. To prevent the funds from being detached from the real economy, we imposed a cap on the amount of non-standardized debt assets money raised from wealth management products can be invested in. Document No. 8, which we released at the beginning of the year, detailed the control. It also requested the investments to fall in line with macroeconomic and industrial policies. We have also required banks to manage non-standardized assets according to the standards applied to regular loans. Under the principle of "separating wealth management from making loans, setting up separate account management, information disclosure and transparency", our will continue to standardize commercial banks' wealth management business, strengthen the regulation of their operations and tightening risk controls.

Fifthly, we must improve the banking regulatory system with steady prudence and collaboration. As the financial industry develops, supervision becomes more important. The supervision department will perfect the system and strengthen supervisory measures such as simplifying financial structures, preventing related-party transactions, controlling leverage and increasing transparency. These suggestions that we put forward summarize the experiences and lessons of this global financial crisis for our financial regulation. The more complex financial derivatives are structured, the more likely that they don't cater to the needs of the real economy. In the end, it becomes financial institutions trading with each other. The real economy uses derivatives to hedge against risk, but now the risk would keep building up and finally lead to a financial crisis. Therefore, we hope the whole financial structure can be simplified and that the reform of the financial system can be pushed forward focusing on the real economy. We hope attention can be paid to prevent related-party transactions, and we hope that leverage can be controlled since more leverage leads to higher risk. This is an impressive lesson the financial crisis has taught us. Furthermore, transparency should be reinforced, so that risks can be exposed and discovered in a timely manner.

First, we must further improve the supervision and control framework of the banking industry. We should continue to perfect the supervision and control framework which dynamically integrates micro-prudence and macro-prudence, and improve the ability to identify and cope with individual institutional and systemic risks. We must speed up the innovative process of regulation mechanisms, improving regulatory tools and methods as well as the quality of data. We should strengthen behavior correction and punishment of illegal actions, and improve the proactive, targeted and authoritative nature of regulation.

Second, we must strengthen the coordination of regulation policies. We must perfect the financial regulation coordination mechanisms, use regulation standards and measures in a consistent way, solve the problems of regulatory gap or duplications in cross-domain fields, prevent regulatory arbitrage, reduce regulation costs and make financial risk easy to spot and contain. Now that the financial industry has launched pilot programs to explore all-service operations, some products, especially some wealth management products, are at the risk of creating room for regulatory arbitrage and producing contagious problems. Therefore, we should perfect the regulatory coordination mechanism and apply regulation standards and measures uniformly to prevent risk contagion and transfer.

Third, we must strengthen financial consumer protection. Financial consumer protection should be considered an important supervision target and should be put in a prominent position, and we should strengthen market restraint and public supervision through perfecting the protection mechanism for consumer's rights and interests. We must drive financial institutions to improve their management mechanism for pricing, strictly regulate their fees for financial services, promote information disclosure and transparency, and protect the lawful rights and interests of depositors and financial consumers. With more and more financial consumer products, product information should be shown to consumers and the probable returns of the product need to be made clear. Meanwhile, it is particularly important to tell consumers where risks may exist. From the perspective of banks, they have been taking deposits, and everyone assumes that their money is safe with a bank. When we advertised to attract savings in the past, there was a slogan, "Achievement for the country, benefits for individuals". Nowadays, banks are working on wealth management products, which are essentially an investment tool. Unlike savings, investment comes with risk. Banks are obliged to clearly inform investors of the risk.

It's important to sell the appropriate product to the appropriate people, and fully assess the consumer's tolerance of financial risk. It is not appropriate to sell high-risk investment products to investors who have low risk tolerance. It conforms neither to our supervision requirements, nor to the social responsibilities that the financial institutions should shoulder. Thus, with the changes in the financial market, there is still a lot of work to be done in terms of strengthening the protection of financial customers. On one hand, transparency must be enhanced. On the other hand, the right product should be sold to the right people. Also, consumers and investors must improve their abilities to protect themselves and identify risks.

The development of China's economy and finance is still in an important stage of strategic opportunity. The China Banking Regulatory Commission will work to strengthen its sense of mission, and an overall awareness and sense of urgency in firmly holding the bottom line of risk control, encouraging financial innovation and actively guiding the banking industry to make great contributions to the establishment of a well-off society and the realization of the Chinese dream about the great rejuvenation of the Chinese nation.

Four Major Reforms Will Be Pushed Forward in the Insurance Industry

Xiang Junbo
Chairman of China Insurance Regulatory Commission

Xiang Junbo

Distinguished Mayor Yang Xiong, Chairman Shang Fulin and Vice Mayor Tu Guangshao, dear friends, ladies and gentlemen:

I'm glad that we have come together again by the Huangpu River to discuss the development of financial sectors. The CPC Central Committee has made strategic decisions and arrangements to perfect the modern financial system so that it improves macroeconomic stability and supports the development of the real economy. These decisions are based on timely lessons from the global financial crisis as the Chinese financial sector's reform and development entered a crucial stage, with a comprehensive understanding of the changing situation of China's financial development.

The theme of this forum, the reform and opening up of financial sector, is undoubtedly the core issue of the current financial sector, and the focus of all sectors of current society. For our insurance industry, it is worth discussing and researching where the impetus of deepening reform comes from and how to provide the market with a new engine that will fill the industry with new momentum through reform.

The history of the insurance industry is one of us actively putting ourselves at the forefront of the country's reform and opening up and forging ahead with an innovative spirit and greater openness. Starting in 1980, China's domestic commercial insurance industry began to recover. In the past 30-odd years, the insurance industry has achieved rapid and healthy development thanks to a series of reforms that developed market entities and institutions and improved regulations.

In the early stage of reform and opening-up, there was just one insurance company and the premium income was only 460 million yuan. By the end of last year, there were 165 insurance companies with a total premium income of 1.55 trillion yuan, total assets of over 7.35 trillion yuan and net assets of 792 billion yuan. A number of insurance companies with international influence have been growing. Among the 2012 Fortune Global 500 companies selected by Fortune Magazine, there are 12 Chinese financial institutions, including four insurance companies -- China Life Insurance, People's Insurance Company of China, Ping An Insurance and China Pacific Insurance Company. They accounted for one third of all shortlisted Chinese financial institutions. Insurance services have extended to all aspects of national economic development and residents' daily life, and have played an irreplaceable role in assisting the transformation of the economic growth model, promoting urbanization and building a social safety net.

While acknowledging all those achievements, we should also realize that the insurance industry still has problems, including limited service coverage and weak service capabilities. It is imperative to deepen reforms in order to prompt the sustainable and healthy development of the insurance industry. China's GDP is the second-largest in the world while its insurance industry ranks merely the sixth. The insurance industry's growth has not matched up to the scale of China's economic development.

Secondly, judging by the situation of developed countries, a country's total insurance assets should make up 25% to 30% of its total financial assets, but in China, the ratio is only 8% to 9%. Therefore, there is still room for further development in the next 10 to 20 years, and only by reforming can we promote the sustainable and healthy development of the insurance industry.

In the past, the insurance industry developed fast because of reform, and today we should still rely on reform to promote its sustainable and healthy development. In the past, reform was a survival issue and it helped the insurance industry grow large. In the future, it must focus on development and make us a country with a strong rather than simply large insurance industry.

The following four aspects will be our priorities in the reform.

The first one involves ideological reform. We shall have a global vision when seeking development and construct a new pattern of development featuring comprehensive coverage and multi-layer services. In retrospect of the insurance industry's development over the past 30 years, we have learned that the key to success is constantly adapting to society's needs and developing ourselves with a holistic view of services. In the future, as the system of socialist market economy improves, the government will increasingly perform its job in a market-driven manner. As a market-oriented means of managing risk, the insurance industry should look beyond its own realm and contribute more to the growth of the socialist market economy.

Second, the insurance industry should be an important pillar in the social security system. The plight of some European Union countries has indicated that it is not in the best interest of the long-term stability of a society or the sustainability of a country's fiscal health for a government to make promises it cannot keep on social welfare and public spending. On the other hand, developing commercial old-age insurances as well as health insurances and building a multi-pillar social security system will help alleviate the fiscal burden on the government in the future.

Third, we must become an important pillar in the disaster relief system. Through the insurance mechanism, we can spread the damage of disasters and accidents across the country and even across the world. This improves our ability to cope with the impact of major disasters and accidents. In the United States and EU countries, insurances usually cover 30% to 40% of the damages from catastrophes such as earthquakes, wind damage, tsunamis and typhoons. In our country, the ratio is less than 3%. This has put tremendous fiscal pressures on the central and local governments. So making the most of insurances, which represent the power of the market, is also an important theme in the next stage of our reform.

Fourth, we should become the backbone of China's social risk management system by developing liability insurances for transportation, work safety, health care and environmental protection and settling disputes over compensation in a market-driven and legal manner. The burden on the government, authorities involved and enterprises would be greatly lessened if we can actively use insurances against medical accidents, fire hazards and losses when we travel.

Fifth, we should be a vital pillar in the system protecting our agricultural production. By integrating the insurance mechanism into the agricultural insurance system, we can be a lever that amplifies the support of government subsidies and we can channel them to where the money is needed the most. These measures are especially urgent for an agricultural country, like China, where droughts and floods happen every year. In provinces and cities that have done a good job in this respect, after a crisis, people do not immediately turn to the government for help. Instead they ask whether the agents of their insurance companies have arrived. This is an example of putting insurance to use. This is our first task of reform, promoting an ideological change about the insurance industry.

Our second reform task is to push forward the market reform of the industry, re-sharpen the edge of the system and culture an integrated insurance market that is open and full of orderly competition and vitality. After years of rapid development, the benefits from the share ownership reform and opening-up in the early stages have been wearing thin and are taking time to sink in. The combined impact of the industry cycle and the external economy has undermined the growth momentum of insurances, which have seen premiums growing by around 10% annually in the most recent two years. Previously, the growth rates were all above 20%. Therefore, we need to deepen the reform so as to give full play to the market in resource allocations and continuously motivate the development of the industry.

Reforms should focus on three things. The first is the establishment of a market-based risk pricing mechanism. For example, the yield of life insurance products has remained at 2.5% for more than a decade, lower than current bank deposit interest rates. This has dampened the demand for insurances. So our next step will focus on researching life insurance reform, which includes liberalizing interest rates and managing the assessment rate of insurance reserves. Secondly, we should establish a market-oriented capital operation mechanism and improve our investment ability. Several days ago, we invested 36 billion yuan in China National Petroleum Corporation's pipeline projects. Several other insurance companies joined us. This will not only support the the real economy but also improve the rate of return on investments with our insurance capital within the boundaries of the rule of law. Thirdly, we should establish a market-driven system of entry and exit. In other words, we should establish an entry and exit mechanism in line with the market principles. This will encourage the survival of the fittest and stimulate the vitality of the market.

The third part of our reform needs us to update our business model, enhance our industrial competitiveness and create a dynamic environment with rich products, diversified channels and excellent services. To catch up with leading international insurance companies, Chinese insurance companies need to improve their management and innovation ability. In the future, we will focus on serving the demand of the public and the social and economic development, and guide and promote the transformation of the insurance industry's business model, in order to completely open up our operations and services.

First, we shall promote the diversification of insurance products through shifting the focus from non-financial risks to comprehensive coverage. We should constantly widen insurance coverage and strive to provide our society with a well-rounded and in-depth risk protection system.

Second, we shall personalize insurance services. There must be a shift from sales to customer-centered services. We should adapt to clients' new demands by expanding our services from post-disaster compensations to a complete industrial chain of disaster relief.

Third, we shall promote the diversification of our marketing and sales models and gradually expand from traditional channels to the Internet. We should also actively use new channels and new technologies and keep a close eye on the opportunities they may bring to the industry.

The fourth aspect of our reform is about regulation. We shall promote the reform of insurance regulation by making it more efficient and establishing an external environment conducive to an open, transparent and effective regulatory system. The more we move towards a free market, the more complicated and more vulnerable the financial industry will become, and the higher the requirement will be for insurance regulations. In the future, regulatory authorities should continue to innovate and improve regulation by letting the market run its course and control only what needs to be managed more scientifically and more efficiently.

First, risk control. Develop the second-generation system for supervising and regulating insurance companies' solvency, further strengthen the regulation of risk capital and the binding effect on market entities.

Second, internal control. Specify insurance companies' management and internal control measures, and reinforce their responsibilities in improving management and risk control.

Third, regulating the market. Further improve our market inspections and off-site supervision, take effective measures to decrease problems that consumers report frequently, such as misleading ads and difficulties in making claims on insurances, in order to better protect consumers' interests.

Shanghai has always been an open metropolis. The Shanghai spirit of "tolerance, pursuing excellence, wisdom and openness, greatness and modesty" reflects the true nature of Shanghai. With good financial infrastructure, huge financial transactions, strong financial markets and high-quality financial talents, Shanghai has some advantages in the construction of an international financial center.

In the future, the insurance industry will continue to support Shanghai as it always did in its transformation into a global financial center. We will treat Shanghai as a testing ground when encouraging innovations in products, services, investments and institutional designs. We will continue to support Shanghai in attracting and fostering competitive and influential insurance institutions, and in the end, form an insurance system with various institutions which provide good services and are strong innovation. We will also look for insurance talents in the fields of management, actuarial science and investment to come to Shanghai and join our efforts towards the goal of building a world-class environment for the insurances industry and for development.

Three Changes in This Forum

TU Guangshao
The executive vice mayor of Shanghai

TU Guangshao

Good morning, distinguished guests!
This June, Shanghai ushers in the sixth Lujiazui Forum, co-hosted by the Shanghai Municipal Government, the People's Bank of China, the China Banking Regulatory Commission, the China Securities Regulatory Commission, and the China Insurance Regulatory Commission.

First of all, please allow me to express my heartfelt gratitude, on behalf of the organizing committee, to the organizers, the contractors, and all related parties for their endeavors for this forum. Without their efforts, this forum could not have been held successfully..

This forum is the sixth Lujiazui Forum. It should be said that in the process of holding these forums, we have been continually examining the experience to make sure that this forum can be better. After each forum, we make some suggestions for improvement. I want to take this opportunity to say that this forum, compared with previous ones, has made some changes in several aspects. Maybe you have noticed them.

There is no doubt that the first change is in our theme. Given the need of our forum keeping pace the changing times, we have changed not only the theme, but also the contents, of each parallel as well as thematic session. This is in order to better adapt to current economic and financial development trends.

As for the second change, you may have noticed it. We have left out many formal things in this forum, such as an opening ceremony and closing ceremony. The thematic meeting, general meeting and all the parallel sessions are highly focused, which makes our forum more efficient and practical.

As for the third change, everyone will see it. This forum has a thrifty spirit. Thus, we canceled the luncheon and welcome dinner and provided a buffet instead. In order to hold the forum more effectively, we examine the experience of previous forums and continuously make improvements. Certainly, we hope to hear suggestions from each attendee. In this way, the forum will be held more effectively in the future.

Although there have been some changes, one mission of our forum remains unchanged: to provide a platform for exchanges. By absorbing everyone's insights, this forum can promote our healthy economic development, create more energy for improving our financial system, and continue to support the transformation of Shanghai into a global financial center.

Plenary Session I

New Changes in the Global Landscape & New Balance in the Global Economy

Moderator: WANG Boming \ Chairman, SEEC Media Group Limited; Editor in Chief, CAIJING Magazine

Andrew SHENG
President, Fung Global Institute Chief Adviser, China Banking Regulatory Commission

Anne Marion-Bouchacourt
Group Chief Country Officer, China, Société Générale

Reto Francioni
Chief Executive Officer, Deutsche Boerse AG

Phupinder Gill
Chief Executive Officer, CME Grouop

Antony LEUNG
Member of Executive Committee, Senior Managing Director, Chairman of Greater China, Blackstone Group

John Dacey
Group Chief Strategy Officer and Member of the Group Executive Committee, Swiss Re

Andrew SHENG
President, Fung Global Institute Chief Adviser, China Banking Regulatory Commission

I would like to talk about my personal views about the new landscape of the global financial system, some changes that have taken place and the progress the reform has made.

The United States' trade deficit growth has slowed down, which helped resolve the global trade and financial imbalance. This time, the crisis has played an important role in global financial reform, so I would like to say a few words about the future evolution of finance. The origins of the financial crisis are obviously too much consumption and too much leverage. Where did the leverage come from? It came from banks taking on excessive leverage through shadow banking. Developed countries didn't pay enough attention to this until 2008 after the Lehman Brothers went bankrupt, when they realized the disease was internal. The Basel III accord is one of their more recent attempts to tackle this problem. It has apparently led to some progress, but the regulation of shadow banking is still insufficient.

In fact, using loose monetary policies to stimulate economic growth is in conflict with the principle of macroprudential regulation. We are now facing this conflict. Many central banks have lowered their benchmark interest rates, but this has exerted a great deal of pressure on long-term investors and the investments of social security funds, insurance companies and common depositors. Shanghai is China's financial center. If we make capital markets work coherently with the banking industry, and promote the yuan internationalization, we will attract lots of long-term international investors, and develop more domestic long-term investors. This is in the interest of both China and the rest of the world.

ZHU Xinkun

Ken WILCOX

Normalization of liquidity conditions, coping with higher interest rates will be a challenge, for countries which have not yet corrected their imbalances

Anne Marion-Bouchacourt
Group Chief Country Officer, China, Société Générale

Having relied too heavily on debt, advanced economies have had and still have to deleverage, and historical experience shows it's long and painful. New normal means lower GDP growth in developed market economies. Global trade has nevertheless continued to expand since the crisis, especially in Asia, so global imbalances have been much reduced.

It's however too early to speak of a new balance in the global economy. Six years after the beginning of the crisis, central banks are still massively engaged in the United States and the European Union in the process of sustaining liquidity, activity, and asset prices. Public sector debt to GDP ratio continues to grow in many mature economies, reaching in some cases close to 100 percent. Normalization of liquidity conditions, coping with higher interest rates will be a challenge, for countries which have not yet corrected their imbalances.

One of the main lessons from the crisis is the need for global and coordinated approaches to regulation and supervision of the financial and banking sectors. After strong efforts and some early successes through the G-20 and the FSB and other international agreements, it seems though that the determination is weakening, with an increased trend toward more regulatory fragmentation.

China, an emerging market

economy, has a strong interest in preventing financial de-globalization. Emerging market economies have large investment needs and infrastructure, which requires the assistance of international banks and international markets.

Emerging market economies, and especially China, are very large investors in the United States and Europe, and thus have a strong interest in an orderly resolution of the current crisis. But achieving consistency is not easy. Policymakers should limit deviation or exception to those measures absolutely needed to keep financial stability.

Reto Francioni
Chief Executive Officer, Deutsche Boerse AG

I wish to focus on the exchange industry, and start with what I regard as the five major structural drivers over the past 25 years.

First, exchanges used to be national institutions. Cross-border distribution of financial instruments has expanded, and today we are right on track to a truly global trading and post-trading network.

Second, technological innovation has at the same time enabled high-frequency and algorithmic trading, in other words, trading generated by computers in millisecond speed.

Third, exchanges used to be owned by their members as a consequence of electronic trading. However, many exchanges have demutualized – in other words, separated market participation and ownership.

Fourth, public listing has in turn paved the way to industry consolidation. A wave of national and cross-border mergers and acquisitions has created new multinational exchange

ZHU Xinkun

Ken WILCOX

organizations, most of them dominated by US exchanges.

Fifth, regulation consisting of two opposing trends. On the one hand, there has been an ongoing trend towards its de-regulation. On the other hand, in the wake of the financial crisis starting in 2008, re-regulation has again entered the political arena.

Phupinder Gill
Chief Executive Officer, CME Grouop

In the last decade, the epicenter of global economic center of growth and activity has been shifting from developed nations to the emerging economies. This trend has resulted in an international reallocation of capital, commodities, and labor from the developed economies to the emerging market economies.

The continued emergence of the Chinese RMB is very relevant at the critical time. In a few short years, we can expect greater flows of capital to and from China. Raw materials or commodities are likewise essential for production purposes. Tremendous quantities of commodities have flowed into emerging market nations, most notably China, to be turned into high quality finished goods that the world has come to rely upon and to expect. But because many emerging market currencies are undervalued, commodity prices in emerging markets are too high. The law of one price does not work well in the context of labor markets. This represents a major source of structural change and distress.

China is on a path to an industrial economy that integrates three powerful trends. One, diminishing labor productivity returns from infrastructure and capital spending; two, the slowing of the rural to urban migration which will occur probably in the 2020s; and three, the aging of the population with more retirees and slower labor growth force.

Regulators need to commit to a mission of driving economic growth in addition to responsibilities of policing firms and trading values. Investor protection should be first and foremost, but regulators should be promoters of strong markets that facilitate investment and risk management, which are essential drivers of sustained economic prosperity.

Antony LEUNG
Member of Executive Committee, Senior Managin g Director, Chairman of Greater China, Blackstone Group

Since the global financial crisis, there has been unprecedented growth in quantitative easing amongst the world's economies. This has led to continued printing of money, risk of inflation, and rising asset values. Banks require higher capital adequacy ratios, risking slowing circulation velocity. Prices have increased in the stock and real estate markets.

With this comes income inequality, especially in democratic countries which, through increases in social benefits and lessening of tax levies, are seeing huge deficits in government spending as politicians pander for votes instead of long-term social well-being. As we have seen in the U.S. and other European countries, the so-called government funds for social security are merely using the savings of future generations to pay for the current generation's benefits.

The world's increasingly globalized market is accelerating inequality. Without a good product or advanced technologies, the only advantage you can have is in low labor cost. And in globalized world, you are competing with the world's cheapest labor. This is worsening the global wealth gap. New technologies may have changed our lives for the better. But they've also made many low-tech jobs obsolete. Now everyone is talking that maybe we should take it easy on quantitative easing. But we know in a political system where every person has a vote, whoever wants to go down that road may end up losing the election. So many governments' deficit will continue increasing. Rebalancing is not only a fiscal problem. Every government needs to think about it carefully.

ZHU Xinkun

Ken WILCOX

John Dacey
Group Chief Strategy Officer and Member of the Group Executive Committee, Swiss Re

Let's talk a little about the macroeconomics to set up what might be three important points.

In the first case, there has been a remarkable shift in global GDP. You cannot underestimate not only the size but the speed of this adjustment. In 2005, emerging Asia was responsible for about 8.8 percent of global GDP. The forecast in 2015 is for that to far more than double to over 18 percent. It already doubled in 2012 to 17.2 percent of global GDP.

Two other important things on the macroeconomic front I think are important to understand. The first is that the current account of Asia has actually started to move back into balance. But we don't see the consumption coming up in a material way in these economies. So what can we do about this? I actually think there are very clear initiatives that can be pursued by governments in this part of the world. The first is emerging markets need to strengthen the social security nets. One of the reasons the savings rate remains stubbornly high in China and other Asian economies is because people are uncertain about their future. If we're able to socialize and put in place a combination of public and private sector initiatives, of which insurance is likely to be part of the solution, you will unleash a consumer spending capability that is not there today. Second, on the banking side, a continued re-allocation of funding to small and medium enterprises, which tend to not only create jobs but also to increase spending, would benefit many Asian economies.

I think that the opportunities remain massive. Last night Mayor Yang mentioned a modest growth rate of 7.5 percent. The absolute numbers matter here. China should be proud of the continued strong growth as the second largest economy in the world. Your concern should be putting in place some additional measures, which allow people to feel confident in the future and spending today.

Plenary Session II

New Opportunities & New Challenges of RMB Cross-border Use

Moderator: Chun CHANG \ Executive Dean, Shanghai Advanced Institute of Finance, Shanghai Jiao Tong University

YANG Mingsheng
Chairman, China Life Insurance (Group) Company

LI Lihui
Vice Chairman of the Board of Directors and President, Bank of China

QIN Xiao
Chairman of the Board, Boyuan Foundation

Ong Chong Tee
Deputy Managing Director, Monetary Authority of Singapore

K.C. Chan
Secretary for Financial Services and the Treasury, The Government of the Hong Kong Special Administrative Region

LI Jiping
Vice President, China Development Bank

YANG Mingsheng
Chairman, China Life Insurance (Group) Company

I will talk about this topic fromthe perspective of the insurance industry.

First, the cross-border uses of the yuan are a result of our economy growing stronger and more open. We cannot simply rely on having a massive foreign exchange reserve denominated in the U.S. dollar. We have to make our currency a more commonly used and more influential one in the international world.

Second, the cross-border uses of the yuan will promote the internationalization of the Chinese insurance industry. Compared with the real economy and other parts of the financial industry, domestic insurance companies have fallen behind in terms of internationalization. Some of them have raised funds from overseas markets. But that's it. The overall industry is still largely limited to the domestic market. The cross-border uses of the yuan can generate more demand for cross-border insurances, because more and more investments, trades and foreign aids are now conducted in yuan.

Since 2008, the returns on investments with insurance capital have fallen sharply because of a weak stock market. The industrial average rate of return on investment for 2012 was the lowest in the recent few years. This has weighed on insurance companies' ability to expand businesses and retain old customers. The pressure is unprecedented. That is why we need to diversify domestic investment channels and at the same time look for opportunities abroad.

The development of offshore yuan centers in Hong Kong, Singapore and London has created favorable conditions for domestic insurance companies to raise funds there by issuing stocks and bonds. It will be more convenient to do so after the regulations are relaxed further.

ZHU Xinkun

Ken WILCOX

We have entered a period of major adjustment. The international monetary system dominated by the U.S. dollar is facing profound changes

LI Lihui
Vice Chairman of the Board of Directors and President, Bank of China

There are some things worth noticing in the cross-border uses of the yuan after four years of development.

The first is the rapid growth of cross-border trades and investments conducted in the yuan. The amount of yuan-settled foreign trades as a share of the total increased from less than 0.1 percent in 2009 to 8.4 percent I 2012.

Second, the use of the yuan as a settlement currency is the on the rise, but its share in the global total is still low. In April, yuan international payments made up only 0.69 percent of the global payment market, ranking the 13th. Considering the size of China's economy, this ranking is indeed low.

Third, overseas yuan deposits have grown significantly, though in the recent two years, the growth pace has slowed.

Fourth, the cross-border uses of the yuan have formed two markets with different prices. The interest rate of one-year deposits in the mainland is 0.63 basis points higher than in Hong Kong. The offshore exchange rate of the yuan is also different from the onshore exchange rate. This is primarily because our capital account is not fully convertible yet. We have not completed the interest rate and exchange rate reforms, so the pricing mechanism of the yuan cannot adequately reflect the market's supply and demand.

The internationalization of the yuan should be gradual and progressive. We think it would take about 15 years for it to be a reserve currency and used widely in global investments and settlement.

I would like to make some policy suggestions. First, we should gradually make the capital account freely convertible. Second, we must deepen market reforms for interest rates and allow the market to play a fundamental role in allocating resources. Third, the coordination between off-shore and on-shore markets for the yuan must develop further.

QIN Xiao
Chairman of the Board, Boyuan Foundation

The yuan offshore market has grown a great deal, but there is still a long way to go before it really becomes an international currency.

I think there are two factors that are crucial in building a market: one is scale, and the other is trading volume. Scale means yuan-denominated assets stocked in Hong Kong, which include bank loans and outstanding bond debt. The trading volume means the traffic in the yuan market, including trade settlements, banks' trade financing, newly issued bonds and various types of derivatives based on them.

The market's scale should be at a level of equilibrium determined by the market's supply and demand. In the first quarter, yuan-settled trades accounted for only 11.4 percent of all of the country's foreign trades. Yuan foreign direct investments are still in a pilot stage. There is plenty of potential demand from Chinese and foreign governments and Chinese-owned companies overseas.

ZHU Xinkun

Ken WILCOX

From the supply side, yuan deposits in Hong Kong made up only 0.68 percent of the country's total. This is a very small figure.

If it so requires, the central bank can inject more RMB into Hong Kong and Hong Kong can absorb many more yuan deposits. The supply of capital is sufficient. The demand can be developed further. The current policies of yuan direct investment and cross-border uses of yuan are still complicated and full of uncertainties. The authorities need to interpret them more clearly.

We should also relax the regulations of cross-border capital flows by, for example, permitting qualified Hong Kong institutions to borrow from the interbank market. We can also increase the quota of relevant programs, such as the RQFII program. These steps can increase the stock of yuan, encourage transactions and establish an effective mechanism for overseas yuan to flow back.

Ong Chong Tee
Deputy Managing Director, Monetary Authority of Singapore

The currency internationalization policy will clearly depend on many factors. A key part of this is not a policy in and by itself, but it moves alongside the economic development and financial market developments, and to some extent, the regulatory environment in terms of macro-surveillance and macro-prudential policy, taking into account regional and global trade flows and investment flows.

I think it's useful to think of RMB internationalization in the context of regional and economic development in Asia. Firstly as we all know, there is a large increase in intraregional trade in Asia, and with China very much in the middle of it. The growth is not just in intraregional trade but also in intra-firm trade. So within a company you see a lot more trading within the region. There is also an increased volume of re-exports, meaning you bring in exports to re-export them, value-adding in the process.

And the other observation is the emergence of services trade, alongside merchandise trade, that we think will spur the next phase of regional trade and financial flows. China has emerged as a key node in this regional, cross-border network, which I think in turn will spur the next phase of RMB internationalization. There will be a need to raise the resilience of capacities of Chinese companies to cope with economic and financial volatility.

I think a key feature or impetus for internationalization will be the redenomination of China's claims on the rest of the world, which sort of normalize the country's international balance sheet, which is currently long on dollars and short on domestic currency. But clearly internationalization is not without its risks; the pace has to be managed and we have indeed seen this in the calibrated steps from the Chinese authorities, which I think is correct. I also think it's correct that the initial focus is on RMB for trade settlement, and clearly one needs to think about the impact of liberalization for example on domestic interest rate management and money supply and so on.

ZHU Xinkun

Ken WILCOX

K.C. Chan

Secretary for Financial Services and the Treasury, The Government of the Hong Kong Special Administrative Region

If we look at the policies pertaining to the yuan's internationalization and cross-border uses, from the point of view of the entirety of those policies, it is hoped that an orderly process can be made to push the yuan overseas. This leads to a big question of how policies should be made to facilitate the process.

Hong Kong has had many discussions with the central government regarding the development of a mechanism that allow overseas yuan to flow back to the mainland. Fortunately, we have become the most important off shore center for the yuan.

We would like to take advantage of the strength of Hong Kong's markets and its international network to make the most out of our policies and allow investors from all over the world to use the yuan through our market mechanism. Through the course of the yuan's cross-border uses, Hong Kong has been adapting, changing its market to improvement its appeal to investors.

The development of Hong Kong's yuan services can be roughly divided into three phases. The first one is the development of traditional banking services. The second one starts with the cross-border uses of yuan. We've developed offshore yuan assets, financing and settlement centers. Over the past two years, our overall development has pushed Hong Kong into becoming an international off-shore center for yuan products.

LI Jiping

Vice President, China Development Bank

I have two points about today's discussion topic. First, right now the cross-border uses of the yuan has a rare and time-critical window of opportunity. We have entered a period of major adjustment. The international financial markets are highly unstable, and important foreign reserve currencies fluctuated wildly. The international monetary system dominated by the U.S. dollar is facing profound changes. The world needs a relatively stable currency backed up by a relatively strong real economy. More and more China's trading partner nations have been willing to use the yuan in settlement. A few countries have started treating the yuan as a reserve currency.

My second point is that the cross-border uses of the yuan already have a solid foundation. But we still face challenges. The flow-back mechanism for the yuan is still incomplete. There is still a long way to go to promote the use of the yuan across borders. I think our efforts should follow two principles. First, promote yuan trade settlement hand in hand with cross-border yuan investment and financing. Second, put as much emphasis on developing the offshore yuan market as improving the onshore one.

Plenary Session III

Wealth Management & Construction of Shanghai's International Financial Center

Moderator: HU Shuli\ Editor-in-Chief, Caixin Media

Mark BOLEAT
Chairman, Policy & Resources Committee, City of London

Andrew STONER
Deputy Premier, Minister for Trade and Investment, Minister for Regional Infrastructure and Services, State of New South Wales, Australia

ZHANG Yun
Vice Chairman, Executive Director and President,Agricultural Bank of China

ZHU Congjiu
Vice Governor, People’s Government of Zhejiang Province

LAI Xiaomin
Chairman, China Huarong Asset Management Co., Ltd.

ZHU Hongbo
Vice President and Chief Disciplinary Officer, China Construction Bank

Mark BOLEAT
Chairman, Policy & ResourcesCommittee, City of London

I want to speak briefly about the role of wealth management in an international financial center. Wealth management is an increasingly important subject for China. As the Chinese economy has grown, so has the number of high net-worth individuals and so has the demand for wealth management services.

As private wealth clients become more financially literate and increasingly experienced, with international travel, work and education, they're becoming ever more sophisticated in their requirements. We therefore see a distinct move from wanting simply to preserve wealth to developing sustainable wealth and investment management strategies over the long term.

I believe there are three features which are common to each of these leading wealth management centers. Firstly a strong regulatory framework in line with internationally recognized standards and a predictable tax regime. It is important that wealth management products do not pose systemic risks to the financial system and that they are not unduly pushed into the shadow banking sector without a strong regulatory framework behind them. Tax planning is an important part of wealth management and therefore so is a stable and predictable tax regime.

Secondly, wealth management needs an open diverse and innovative capital market structure. Private wealth individuals recognize that they're living in an increasingly international world and want to be offered the broadest range of investment opportunities.

Thirdly and finally a strong wealth management center requires a highly skilled global workforce in the financial and professional services sectors. The wealth management sector employs not just staff working in private banks, financial advisors and investment managers but also highly skilled lawyers, accountants, trustees and those providing ancillary services such as IT.

Wealth management offers an opportunity for Shanghai in line with its development of other areas of asset and fund management. Opening up access to a wider range of institutional investors, as well as increasing options as to which products and services will be available to private wealth customers, will go a long way to promoting this development.

ZHU Xinkun

Ken WILCOX

Wealth management offers an opportunity for Shanghai in line with its development of other areas of asset and fund management

Andrew STONER
Deputy Premier, Minister for Trade and Investment, Minister for Regional Infrastructure and Services, State of New South Wales, Australia

New South Wales is the largest economy in Australia, around one third of the national economy. As such our government greatly values the strong relationship we have with China and especially the relationship between our capital Sydney and Shanghai. As Shanghai is the financial gateway to China, Sydney is the financial gateway to Australia. Like China, over the past three decades, Australia and New South Wales have had to confront the risks and barriers facing the global economy. Improving financing governance in Australia has helped us to sustain economic growth. Australia is one of the few developed economies in the world which has experienced uninterrupted economic growth over the past twenty-two years and we continue to maintain our AAA credit rating.

In terms of our globally focused business culture and our time zone proximity, Sydney and Shanghai are well positioned to continue working closely together to develop a strong role for financial services in our region. Our interactions to date have identified a number of themes important to the development of our markets, including how regulations will impact on the future development of both Sydney and Shanghai as financial centers, the role that education can play in sharing best practices in the financial sector, and the importance of understanding cultural factors on both sides in doing business.

In April 2013, Australia and China announced an agreement to allow for direct conversion of our currencies. Australia is only the third major country in the world after japan and the United States to allow foreign direct exchange trading with the yuan. This agreement is a strategic step in advancing investment and trade between our two countries and I believe will help position Sydney, New South Wales and Australia as a major RMB offshore market and a financial center in the Asia Pacific region.

ZHU Xinkun

Ken WILCOX

ZHANG Yun

Vice Chairman, Executive Director and President,Agricultural Bank of China

I have several pieces of advice regarding commercial banks' wealth management business.

First, we should insist on the principle of serving the real economy. Wealth management plays a crucial role in allocating financial resources and facilitating the development of the real economy. We should learn from the financial crisis and avoid being detached from the real economy. The most recent liquidity squeeze in the market is caused by high financial leverage and the rapid expansion of the shadow banking. Wealth management businesses must revolve around the real economy, give full play to commercial banks' advantages in price discovery and financial intermediation, and facilitate the development of the real economy.

Second, we should maximize commercial banks' role as a wealth integration platform. Currently, the supervision of the wealth management industry is fragmented. Commercial banks can integrate clients' wealth by taking advantage of its potentials and cooperating with securities, insurance, trust and third party wealth management institutions to construct a diverse, open and coordinated framework of wealth management services.

Third, we should build a distinctive and customized service model. Commercial banks should transform their model of extensive growth to one of specialization. For high-end customers, we should provide customized services that invest their wealth in a diversified manner. Commercial banks also need to explore offshore wealth management markets to improve clients' investment portfolios.

ZHU Congjiu

Vice Governor, People's Government of Zhejiang Province

I want to talk about the importance of wealth management as a driving force behind the financial reform in China from three aspects.

First, the combined savings of governments, companies and individuals account for half of China's GDP, enterprises and households. With deepening securitization and monetization, the duty of wealth management has fallen upon the entire financial system. The share of tangible gold and silver in our wealth has kept shrinking. In the future, wealth management is going to the main theme of the financial industry and it will generate many more financial operations.

Second, wealth management ultimately serves the people. Wealth management is intricately related to the quality of our livelihood and personal development. Our education, medical care and unemployment insurance are all related to how much wealth we generated when we are young. How well we manage that wealth determines the quality of our life.

Third, in modern times, wealth is measure in monetary terms, but it mostly exists in various forms of financial assets, including stocks, bonds, securitized products and wealth management products, which are subject to fluctuations. Some of the fluctuations in the market are rational and reasonable; some are irrational and twisted. We need a rational and predictable market environment to better manage our wealth.

LAI Xiaomin

Chairman, China Huarong Asset Management Co., Ltd.

China's wealth management market has a number of major trends and characteristics.

First, with the rapid growth of the Chinese economy, there is a huge market for wealth management and the demand is strong. Individual savings in banks have grown exponentially since the reform and opening-up to 44.17 trillion yuan by the end of May this year.

The ballooning private wealth in China stimulates rapid expansion of China's wealth management market. By the end of 2012, the combined value of bank wealth management products have hit 7.1 trillion yuan. According to official projections, the annual income of Chinese urban and rural residents will double by 2020. The 18th National People's Congress said the country's affluent population will reach 280 million by 2020. Hence, the demand for wealth management will undoubtedly surge.

ZHU Xinkun

Ken WILCOX

Second, the wealth management market is divided by banks, trust companies, securities firms, investment fund managers and insurance companies. From third-party wealth management institutions to alternative investment schemes, investors have a wide variety of options to choose from. The overall scale of the market is about 35 trillion yuan now, with banks having a dominant market share.

As far as wealth management is concerned, I think Shanghai should speed up its financial opening-up, strengthen its institutions and encourage innovation.

ZHU Hongbo

Vice President and Chief Disciplinary Officer, China Construction Bank

We should seize the opportunities in the wealth management industry. China's wealth has been accumulating at a fast pace because of rapid economic growth and financial market development. Our research shows that in 2012, the combined value of accounts held by individuals with at least 6 million yuan of investable assets has totaled 33 trillion yuan. In years to come, the country will continue to be the fastest growing market for wealth management in the world.

We also need to answer the market's new demand. Wealth management has increasingly become a major source of income for financial institutions. With the interest rate system being reformed, banks must innovate and diversify their investment possibilities to offset the impact of narrowing interest spreads. There is also a greater demand for specialized wealth management institutions. Good wealth management can make the allocation of financial resources more efficient.

The key to success in the wealth management industry is whether the service provider can offer something different in a niche market that caters to a segment of the population. Compared with developed countries, the wealth management industry in China is in its infancy. Banks and specialized wealth management institutions should shift their business model from selling products to providing customized services to help clients improve the returns on their investments.

Panel Session I

New Path of Financial Support for Urbanization

Moderator: LIAN Ping \ Chief Economist, Bank of Communications

ZHOU Yanli
Vice Chairman, China Insurance Regulatory Commission

JIA Kang
Director and Research Fellow, Research Institute for Fiscal Science, Ministry of Finance

JIANG Caishi
Executive Vice President, PICC Property and Casualty Company Limited

BA Shusong
Deputy Director-General and Researcher, Financial Research Institute, Development Research Center of the State Council Chief Economist, China Banking Association

SHEN Minggao
Chief Greater China Economist, Citibank

PENG Wensheng
Chief Economist, China International Capital Corporation

ZHOU Yanli

JIA Kang

JIANG Caishi

ZHOU Yanli

Vice Chairman, China Insurance Regulatory Commission

Everybody knows that the insurance industry can serve the development of the service economy through financial compensation, that it can support the building of important programs through improved financial circulation, and that it can serve social management. The insurance industry is an important component of the financial industry. At the same time it is also an important component of social protection.

First, everyone knows that the next step of our economic and social development is focused on urbanization. How to use insurance effectively to provide service, and to promote the development of the insurance industry, one in step with the other, is an important question that we should consider carefully.

Second, the system of social security has been enriched and there are over 100 insurance companies providing more than 2,000 insurance products. Insurance has also played a significant role in promoting the development of infrastructure. After the restriction on insurance companies investing in immobile properties was lifted, a number of pension projects have been developed in areas including Shanghai, Tianjin, Wuhan, Nanjing and Chongqing.

Third is the promotion of constructing eco-friendly cities. Fourth, insurance can support market economy by strengthening consumer protection. It pools people's short-term capital to make long-term investments. Insurance can also support exports.

Moving forward, we must continue to strengthen our communications with government departments, enhance public awareness of insurance, strive for more financial support, and contribute more to economic development especially urbanization.

Urbanization will only be successful when people coming from the countryside into the city can truly be transformed into 'city people'

JIA Kang

Director and Research Fellow, Research Institute for Fiscal Science, Ministry of Finance

First of all, compared with urbanization in the past 30 years, the new urbanization we are discussing focuses on urbanizing the population. The rate of urbanization, even according to the official census of permanent urban residents, has already reached 52 percent. But if we count only those people who enjoy basic public services, then the rate of urbanization measures somewhere between 34 and 38 percent. Urbanization will only be successful when people coming from the countryside into the city can truly be transformed into "city people."

The second thing I'd like to emphasize is that under the current fiscal system, we must find a way to prompt public services efficiently and equitably. This requires not

BA Shusong

SHEN Minggao

PENG Wensheng

only institutional reform but also higher technologies.

The third part of the process of new urbanization involves reform in many aspects. Then there is the issue of whether it can fall back on government finance. We have had innovations such as BOT (build-operate-transfer) and TOT (transfer-operate-transfer). I think we can use fiscal resources to leverage commercial finance.

JIANG Caishi

Executive Vice President, PICC Property and Casualty Company Limited

New urbanization would be the next focus of reform and have a significant impact on the insurance industry.

I think there are five important aspects to understanding the implications of new urbanization. The first has to do with infrastructure. Great amounts of investment will be needed in this sector. The second has to do with basic public services; these will help to equalize the public services offered to the peasant population and the urban population. The third is the structural upgrading of industries. The fourth aspect is the integration of city and countryside which enables both urban and rural residents to enter a modernized society together. The fifth aspect is making everyone happier.

I also want to discuss the ways in which the insurance industry can serve an important role in urbanization. First, insurance companies can provide expert risk managers who pay attention to long-term stability of profits. In this way we can provide funding support to cities trying to accomplish basic construction. Second, as an important component in the social security system, we can provide residents with equalized, high-quality public services. Third, we have been instrumental in promoting the upgrading of industries. Some of our more recent developments can help with the development of small-and medium-sized enterprises, encouraging them to upgrade their business model. Forth, we have helped improve the efficiency of agriculture industrialization. Fifth, by developing customized services and more insurance policies to choose from, we can make urban and rural residents feel safer and happier.

BA Shusong

Deputy Director-General and Researcher, Financial Research Institute, Development Research Center of the State Council
Chief Economist, China Banking Association

On the topic of financial support for urbanization, the first issue is about whether local governments should build infrastructure. The answer is yes. And when there is mismatch between the rights to tax revenue and the obligation to spend, is it right for them to borrow for infrastructure construction? The answer is also yes. So they are in fact doing the right thing using an unconventional financial method. The problem, however, is that they are not subject to proper constraints and do not have effective information disclosure.

Also, we need a market-oriented innovation mechanism. After a lot of research on financial support for urbanization, I've realized that it hinges on reform progress in other fields. Changes in the land system, for example, will need to an overhaul of local governments' financing mechanism. So does reform to the residency registration system. When the bond market is underdeveloped, banks have served as the primary source of capital needed for building infrastructure.

But it is important for us not to shut financial institutions outside the door so they can rate and analyze local government bonds and prompt them to improve budgeting. Many rating agencies told me that they think of the relationship between local and central governments as one between a parent company and its subsidiaries. So they think there is nothing to worry. That points to the necessity of setting clear the central government's responsibility in repaying debt.

SHEN Minggao

Chief Greater China Economist, Citibank

I have two points to make about the role the financial industry plays in urbanization. The first one is that I think our current mode of financing cannot support urbanization. Because the investments are not efficient, we need to take on more leverage. That is the biggest problem we face with the current growth model.

Local government officials are saying their debt-to-GDP ratios are around 30 percent. Small-and medium-sized enterprises' debt-to-GDP ratios are around 120 percent, the highest in the world. For every yuan invested, the amount of GDP growth has been falling. This is our largest restraint. To increase the support of the financial industry to urbanization, the most important thing is to allocate funds to high-efficient and low-leverage productive areas.

The second point is how finance can support urbanization. It does not mean urbanization projects can raise money regardless of the interest rates and investment efficiency. From a market-based perspective, for example, they can finance through bonds. We can consider issuing medium-to long-term bonds tied to urbanization projects. This type of bonds could be open to both domestic and foreign investors. A lot of fixed-income investors around the world need Chinese assets in their investment portfolios. Unless local governments' debt conditions make sense, I don't think foreign investors will buy the bonds.

Permitting private investors to set up banks has pointed us to the direction where more credit is allocated to the private sector where leverage rates are low.

PENG Wensheng

Chief Economist, China International Capital Corporation

Urbanization inevitably works together with regional governments' public financing. So the issue of financing boils down to managing public finance. One problem is that the financing demand for urbanization is strong. But local Governments' debt has been huge. How should we look at this conflict? Rather than saying we don't have enough money, we should improve the efficiency of our investments and make them sustainable. The sustainability of a government's debt is measured by the growth of the local economy relative to the interest payment on the debt. When the economy grows faster than the cost of debt, the debt is sustainable.

Rather than saying we don't have enough money, we should improve the efficiency of our investments and make them sustainable

There are three ways to raise capital for urbanization: taxation, debt (bank loans or bonds), and land sales. Which one is more sustainable? Taxes are levied from the current generation. Infrastructure, on the other hand, benefits several generations to come. So obviously we cannot simply rely on taxation to build infrastructure. Debt amounts to taxing future generations, which are to benefit from the infrastructure. So financing with debt is more reasonable in a macroeconomic sense.

How about land sales? From other countries' experiences, this would cause land prices to soar and give rise to many problems. Why?

When issuing bonds, the government is subjecting itself to the evaluation of investors. It is draining cash from the market and is bound by a mechanism that can correct itself. This is not what happens with a land sale. A government sells a piece of its asset to private investors. When everyone expects a rosy outlook, the price of the asset increases. This imposes a pro-cyclical impact on the economy. So selling lands will lead to much higher property prices, which, in the short term, may have a pulling effect on the economy. But in the long run, when bubbles burst, the financial risk will be significant.

Panel Session II

Roadmap for Interest & Exchange Rates Liberalization

Moderator: ZHU Ning \ Deputy Director and Professor of Finance, Shanghai Advanced Institute of Finance, Shanghai Jiaotong University

Pierre LAGRANGE
Chairman, Man Group Asia; Managing Director, GLG
LI Mei
Executive Board Director and General Manager,
China Galaxy Financial Holdings Company Limited
QIAO Yide
Vice Chairman and Secretary General,
Shanghai Development Research Foundation
CHEN Xuebin
Executive Director, Institute for Financial Studies, Fudan University
Andy XIE
Independent Economist; Director, Rosetta Stone Capital Limited
Markus RODLAUER
Deputy Director of Asia and Pacific Department, IMF

Pierre LAGRANGE

LI Mei

QIAO Yide

Pierre LAGRANGE

Chairman, Man Group Asia; Managing Director, GLG

What China has been absolutely fantastic at doing over the last thirty years is to see what mistakes the rest of the world has made and then making sure not to do the same thing, or not to the same extent. And to that extent I would applaud the central bank's willingness to prick or to reduce the bubble before it explodes. But I think that it's very important that we spend a lot of time looking at the unintended consequences of what the Central Bank is doing, because they are happening.

It's also a very important thing not to focus on the symptoms but on the cause. The foreign exchange is something that you can spend an enormous amount of time, or waste an enormous amount of time, trying to control. It has to be managed, but it can't be controlled. And at the end it's a reflection of the domestic policies more than anything else, especially with the size of China's economy compared to the rest of the world, it's a reflection of what's happening internally.

I would also say is that shadow banking is not big enough. Why? Because if you look at America, it's actually bigger than there. What is not working is that it's actually not non-banking loans, it is banking loans but they are repackaged in the wrong way. The problem is the opacity of the shadow banking system. So then what do you do? You can try to control shadow banking, or you can try to do something at the origin of the problem, which means asking what can we do with the interest rates? What can we do without damaging the profitability of the banks that have borne a large part of Chinese growth for the last twenty years?

LI Mei

Executive Board Director and General Manager,
China Galaxy Financial Holdings Company Limited

I think that today, China's foreign short-term capital flow has become one of the most important parts of the Chinese economy. Since 2010, short-term cross-border capital flows have become the norm.

Everybody knows that for the past 30 years since the reform and opening-up, China's economy has developed incredibly fast; in fact, China is an economic miracle. For the past 30 years we've always had long-term, stable foreign capital inflows. Thirty years later, China has become the world's second largest economy, and one of the biggest manufacturing countries in the world. We have built an industrial structure for everything from textiles to heavy industry.

Cross-border capital flows in the past 30 years were dominated by foreign direct investment. After 2010, however, the situation has changed. Short-term capital flow is now a normal state of affairs. Short-term capital flows have two goals: first, making a profit from the price differences between the two markets, and second, investing in assets with high liquidity. They usually come and go on a large scale, stay in China for only a short period time, and as they change direction, the impact on the economy will be large.

Therefore, if we say that short-term capital flows play a determinant

CHEN Xuebin

Andy XIE

Markus RODLAUER

role in the forming of exchange rates, then in the foreseeable future, interest rates will be more important in determining exchange rates. Personally, I think that according to the situation and China's current stage of development, it is imperative to reform interest rates and exchange rates.

QIAO Yide

Vice Chairman and Secretary General,
Shanghai Development Research Foundation

I think our economic system needs to change, because the financial system's problems are not isolated; they are closely related to the country's economic growth model, which in simple words can be described as investment-oriented and export-oriented.

An export-oriented economy means our exchange rates have to be kept relatively low and it means the central bank has to buy U.S. dollars. This creates an enormous amount of foreign exchange reserve and leads to a surge in domestic money supply. On the investment side, because we want to encourage investment, our banks' deposit interest rates are kept very low. It wastes money and is not fair for ordinary depositors. Our real interest rates have been negative for the past few years, widening the wealth gap and giving rise to other problems including shadow banking and local government debt.

This is not a sustainable development model. This year the economic growth has slowed, and it's not a short-term, occasional phenomenon. The reasons for the slowdown are very simple: foreign demand has decreased, and our labor costs have increased, but we are not innovative enough. We must let the markets set interest and exchange rates, and let capital be applied efficiently, in order to achieve a more balanced way of economic growth.

CHEN Xuebin

Executive Director, Institute for Financial Studies, Fudan University

On the topic of interest rate and exchange rate market reforms, we support "gradual and steady appreciation against the U.S. dollar." This method has advantages and disadvantages. The advantage is that exchange rate reform won't have too big an impact on our economy, because the government is able to control it.

When evaluating the impact of exchange rates on the economy, we need to look at our effective exchange rate, the weighted average of the yuan's exchange rates the currencies of our major trading partners. More than 70 percent of our foreign trades are with countries that do not use the U.S. dollar. The yuan's exchange rate against the U.S. dollar may have been stable, but its value has fluctuated by wide margins against many other currencies. Since the reform of exchange rate system in 2005, the yuan has appreciated about 25 percent against the U.S. dollar. Its effective exchange rate, on the other hand, has appreciated 36 percent.

Our exchange rate system needs to be reformed. The exchange rate must be determined by the market. As far as the U.S. dollar is concerned, first, we need to expand the range in which the exchange rate can fluctuate, and second, we need to marketize the formation mechanism of the central parity rate. But when we talk about marketization, it doesn't mean the government should not pay any attention to the exchange rate.

In addition to allowing the exchange rate to fluctuate naturally, we should also manage it a bit. How? The goal of exchange rate must adapt to changes in the market. We need to shift focus from stabilizing the yuan's exchange rate against the U.S. dollar to stabilizing the yuan's effective exchange rate. That will allow the yuan to fluctuate more widely against the U.S. dollar, thus reducing the room for arbitrage based on the one-way expectation for the yuan to appreciate.

Andy XIE

Independent Economist; Director, Rosetta Stone Capital Limited

For twenty years, we've been talking about exchange rate reform without doing anything about it. This has to do with the proportion of the economy that is government-controlled, and it has to do with local governments spending money. I think this reform will be relatively difficult; it won't just be a technical matter, it will involve the entire system.

Second, China will face many more difficulties reforming today than it would have ten years ago. The consequences of not reforming are already apparent. After China joined the WTO, competitiveness increased, which required a big change in the exchange rate. But we didn't want to do it ten years ago, and starting in 2004 we can see from capital flows that there was a rapid increase in money supplied. 2004 was the last time China could reform of its own accord. International pressure to increase the exchange rate began in 2005, which complicated everything. The path that China chose was to let the yuan's value go up slowly, and this was the worst choice, because it amounted to inviting "hot money" to enter the country, so there many bubbles in the economy. In 2008, after the American QE policy, the pace of "hot money" entering the country increased.

For years, debt has increased fast. In the first quarter, the nominal growth in debt was six times the rate of the GDP growth. That means much money has flown to bubbles. Now everyone expects the yuan to depreciate rather than appreciate, the inflows of hot money have reversed direction. This is very important for reform in the future. It is possible that the domestic economy can adjust itself if capital interest rates are allowed to grow.

Markus RODLAUER

Deputy Director of Asia and Pacific Department, IMF

This is really a critical time for China in many ways. It has come a long way on capital accounts, exchange rates, interest rates and domestic financial markets. You half-opened your capital account already. On the exchange rate, we started with the fixed exchange rate, but since 2005 when the opening first happened, China has appreciated by over 30 percent in real terms. And you have opened up a whole new area of market-determined financial intermediation, the so-called shadow banking system. So that's the good news. The bad news is, once you let the cat out of the bag, it starts running around very fast. Once you give markets in an economy as large and dynamic as China's some leeway, they tend to expand very fast, so you have almost no option except to go further and go faster to make sure that you're moving forward with the markets. China has no option but to continue on the path of reform, because the markets tend to take over otherwise.

China has no option but to continue on the path of reform, because the markets tend to take over otherwise

China has traditionally had three anchors in the financial sector: you had a fixed exchange rate, you had quantitative credit controls by the central banks or the regulators and you had controlled interest rates. Now you are removing all three anchors from the system, but unless you put something else in place that works, the risks are very large. You have to have a new anchor.

Once you move from a centrally planned system to one where you give increased liberalization, that is perhaps the most dangerous and difficult phase of the transition. Once you move to the market and give increased latitude to individual enterprises, you must establish financial discipline, you cannot continue with widespread government guarantees for everybody. Removing this widespread government guarantee, establishing true market discipline, establishing true loss, true risk of default, together with liberalization, is really one of the most difficult experiences that transition economies have.

Panel Session III

Coordinated Development of Onshore & Offshore RMB Markets

Moderator: Henny SENDER \ Chief Correspondent, International Finance, Financial Times

Magnus BECKER
Chief Executive Officer, Singapore Exchange
Graham HODGES
Deputy CEO, Australia and New Zealand Banking Group
GUAN Tao
Director−General, Balance of Payments Department,
The State Administration of Foreign Exchange
SUN Lijian
Vice Dean, School of Economics, Fudan University;
Director, Financial Research Center, Fudan University
ZHANG Bin
Institute of World Economics and Politics,
The Chinese Academy of Social Sciences
GAO Feng
President, Deutsche Bank China

Magnus BECKER

Graham HODGES

GUAN Tao

Magnus BECKER
Chief Executive Officer, Singapore Exchange

The general consensus is that the liberalization or internationalization of the yuan has taken an accelerated form, so it will happen, and it will need a lot of calibration to make it happen in a good and organized way. We need to focus more on making it a regionalized, stronger currency. Some people think we can easily jump from being a local currency to a global currency, but I think we need to focus on making it a regionalized currency first, and then it can become a reserve currency for its neighbors and its strongest trading partners.

Capital markets need to offer new services and new products to make that happen. I think there is no doubt that Shanghai needs to play a more important role in making it happen. But I think if we need to wait for Shanghai to be ready, it will never happen. You need to get going whether you're ready or not, and then you learn while you're doing it.

As I'm the representative for capital markets, there are a few things that I'd like to reflect on. You need to have wider band, you need meet quotas, you need to have more backflow in, all these kinds of things are pretty given, but the question is, what are we as consumers looking for? All consumers look at the same thing. We don't buy the best product; we buy the product we like. You will never find any good products unless you spur competition. We need to create a lot more competition among the different capital markets, whether it's in Hong Kong, Singapore or London, product innovation need to be more enthusiastic, and it needs to be more supported. I think if you try to control innovation, innovation will never happen. If you want to control competition, competition will never happen. Let innovation and competition grow on their own, and you will see a lot more sexy products coming.

Graham HODGES
Deputy CEO, Australia and New Zealand Banking Group

It seems clear that there is still a lack of practical understanding of how to do RMB transactions. One of the first practical issues which still needs to be addressed is providing fully translated, official information for people trying to understand how to conduct trade in RMB.

Second, the forms that are required for people participating in RMB transactions are more complicated and there are more forms than if you're doing foreign currency transactions.

Third, customers when they're dealing with on-shore banks are finding that there are new fees being created to charge customers, because those banks have lost income by not doing the foreign exchange transactions, so they've just decided to charge a fee. So the banks are actually circumventing that benefit that the customers would otherwise get by doing an RMB transaction.

I think the principle issue is that the authorities in charge need to get regular, direct feedback from the customers who are doing the transactions and try to deal with those issues where there are bottlenecks or increased costs or difficulties in the transactions.

From a participant perspective,

SUN Lijian

ZHANG Bin

GAO Feng

at the moment offshore counterparts have less incentive to receive RMB while there are limited uses for the RMB on the marketplace. So the greater the use of the RMB internationally, the more the participants have uses for the RMB and therefore the more trade will improve.

We think allowing more capital market activities in RMB here from foreign players, either issuing bonds or raising funds, and more participation which will result in more traffic across the exchange, both in and out, which will allow movement in the currency so it'll find it's natural course. I think that's inevitably where things will go. The question is the phasing and the pacing.

GUAN Tao

Director-General, Balance of Payments Department,
The State Administration of Foreign Exchange

The pro-cyclical effect of capital flow will amplify economic fluctuations, because large cash inflows tend to come when an economy grows and large cash outflows will follow after the economy plunges into an recession. We have not established an effective mechanism to monitor the capital flows on the macro-economic level.

As for the Asian financial crisis, some countries took International Monetary Fund's advice and also the terms of their financial assistance, but did not at the same time impose capital controls and squeeze their public finance. This resulted in a recession that took a lot of pain to resolve. Countries like Malaysia did not accept the terms of IMF financial assistance, but managed to stabilize at last. The expenses they paid were short-term. The IMF has reflected upon and summarized Malaysia's experience. It has in fact become more open-minded regarding the regulation of cross-border capital flows. When there are violent fluctuations in capital flows into and out of a country, the IMP now thinks that it is alright for the country to impose temporary restrictions.

One of the focuses of our work is to have the financial sector serve the real economy. How can a more freely convertible yuan serve the economy? It can enable domestic companies to learn more about overseas markets. It is also a macroeconomic regulatory tool which can be used to nudge the economy towards balanced development. For example, we are running a large surplus on our international balance of payment, because there are not many cross-border investment channels for capital to flow outside the country.

To open capital accounts, we should rely on market forces rather than administrative intervention. There is no such thing as "the optimal timing" to push forward this reform. We should neither leap into action nor wait until everything is ready.

There is no such thing as "the optimal timing" to push forward this reform. We should neither leap into action nor wait until everything is ready

SUN Lijian
Vice Dean, School of Economics, Fudan University;
Director, Financial Research Center, Fudan University

I would like to share with everyone my opinions. First, I feel that the demand for a freely convertible capital account comes from within our society. We expect the capital account to be opened soon because there is something wrong with the current international monetary system. We've been talking recently about the securities of our assets. It is a risky bet to rely on only the U.S. dollar, so we very much hope the yuan can become strong quickly.

Second, many scholars think this is a bad timing to push forward the internationalization of the yuan because the circumstances are not favorable. There is a large gap in interest rates between the onshore and offshore yuan markets. It is the reason why there are so many arbitrage investments and why the market's conditions hinge upon America's policies. In the short term, an outflow of capital may cause the yuan to depreciate. But in the long run, as long as the United States sticks to its low interest rate policy and the currency mechanism in Hong Kong does not change, there is bound to be a huge inflow of capital into the Chinese market.

ZHANG Bin
Director, Global Macroeconomy Research Division; Institute of World Economics and Politics; Chinese Academy of Social Sciences

I want to mention a few problems, some of which I'll propose a few answers to.

The first concern is of a relatively volatile external market environment, and whether or not this is an opportune time for the yuan to continue pushing forward reform and opening up? From looking at experience, in the past few years, every time China faced a volatile external market, what choices did it pick? One aspect was to stabilize the exchange rate of the yuan against the U.S. dollar, which was the policy choice made during the 1997 financial crisis, subprime housing mortgage crisis, and the European credit crisis. Another option is to further strengthen control over either outflow or inflow. This time whether or not we can do this, the statistics convince me that it can be done like this. But I think that this is absolutely not the best option for dealing with this.

The second concern is related to what will happen after the exchange rate control is loosened. Will the yuan's value increase or decrease? We can look at the yuan and see that supply and demand is the primary explanation for the yuan's increase in value. At the same time, we have lots of pressure to allow its devaluation, because residents do not hold foreign currency, and the past ten or more years have seen an expectation of the yuan's unilateral appreciation.

Reforming ourselves alone in this international environment is simply not enough. We need to make collective effort

The third problem is that reforming ourselves alone in this international environment is simply not enough. We need to make collective effort. A lot of talk has been done about reforming the international monetary system. The United States does not care about this now, but the other countries, those who don't print a global reserve currency, need to show initiative in this respect.

GAO Feng
President, Deutsche Bank China

I want to respond to the question of whether or not the yuan will appreciate or depreciate. I think the market is highly anticipating an increase in the value of the yuan, because the regulatory environment causes fluctuations in the yuan to be very small. This causes the risks to be small, so much so that we could create an expectation for yuan appreciation by ourselves. Had the controls been removed, in last couple of years when the U.S. economy improved, it would not be far-fetched to say that the yuan would become cheaper because of capital flows out of the emerging markets.

I also want to make four points here. First, as such a large economy, we cannot shy away forever from having an internationally accepted currency. This is more about the competition for international resources, especially in the financial sector. Why do we say the U.S. dollar is dominant? Because there is no substitute for it. The second point is about the timing of yuan internationalization. This is dependent on many factors. Third, if we keep the trade account open but not the capital account, how to invest the yuan capital received in trades is going to be a really big problem.

Panel Session IV

Financial Consumer Protection - Law and Practice

Moderator: ZHOU Hao \ Professor, PBC School of Finance, Tsinghua University

JIAO Jinpu
Director-General, Financial Consumer Protection Bureau,
The People's Bank of China
LIU Yuan
Director-General, Banking Consumer Protection Department,
China Banking Regulatory Commission
LI Shiling
Director General, Insurance Consumer Protection Bureau,
China Insurance Regulatory Commission
San Ngan Wong
Senior Legal Counsel, Legal Vice Presidency, World Bank
YANG Lu
Senior Judge and Chief Judge, Financial Judicial Division,
Shanghai High People's Court

JIAO Jinpu

LIU Yuan

LI Shiling

JIAO Jinpu
Director-General, Financial Consumer Protection Bureau, The People's Bank of China

The central bank set up its Financial Consumer Protection Bureau (FCPB) relatively late. Like others, we have four major responsibilities.

First, we propose draft regulations with government agencies to solve major problems in the field of financial consumption. Second, we conduct research on the standards of cross-sector financial products and monitor their implementation in practice. Third, we test the risk of financial products to protect the stability of the financial industry. Finally, we protect financial service consumers' rights within the central bank's scope of duty and we also educate investors about investment risk.

Since the FCPB was established last December, we have improved the central bank's organizational structure of financial consumer protection. We have also opened a hotline for financial consumer protection, which now covers five pilot regions.

There are many challenges. We have neither a sound legal system nor well-established institutions. The responsibilities of financial consumer protection were scattered among many governmental departments. It will take some time to unify these scattered institutions into a functioning bureau.

The second challenge is to mediate the relationship between financial consumers and financial institutions.

The third challenge is to test and standardize an enormous amount of financial products. It's impossible to inspect each and every financial product, so we strive to educate the financial consumers to improve their ability to identify and guard against risks. In addition, we need to guide financial institutions and encourage them to make consumer protection part of their development strategy.

China's financial consumer protection system is different from its western counterparts because it is a component of the regulators' duties

LIU Yuan
Director-General, Banking Consumer Protection Department, China Banking Regulatory Commission

Financial consumer protection was brought up to the agenda of regulators all over the world after the financial crisis in 2008. Most major countries established specialized financial consumer protection agencies. Every country has its own organizational structure, but their consumer protection bureaus are all independent from their financial regulators.

China's financial consumer protection system is different from its western counterparts because it is a component of the regulators' duties. China Banking Regulatory Commission, for example, works to make sure the banking system is safe and consumers are protected by

San Ngan Wong

YANG Lu

implementing prudent risk control measures. On the other hand, we supervise banks' operations to consumer confidence in banks and the banking industry. This makes our consumer protection system unique with Chinese characteristics.

The driving philosophy of our work is represented in four points.

First, the priority is on preventing disputes. That means we strive to minimize the chances of disputes. It needs the regulators to require banks integrate consumer protection into the design of their financial products before they are introduced to the market.

Second, we aim to educate the mass consumers. Banking products and services are different from other consumer goods. Consumers need to be informed about their characteristics.

Third, we protect consumer rights according to law. This means all of our actions are bound by laws. We uphold consumer rights, but we only protect those that are legal.

Fourth, we handle consumer complaints jointly with financial institutions. We have made clear from the very start the respective duty of us as a mediator and the financial institution themselves. In principle, we handle only complaints that financial institutions have failed to properly respond to.

LI Shiling

Director General, Insurance Consumer Protection Bureau, China Insurance Regulatory Commission

China Insurance Regulatory Commission (CIRC) attaches great importance to consumer protection efforts. It is the first among the major financial regulators to establish a consumer protection bureau.

We put emphasis on preventing disputes. That means we require insurance companies to improve their services so there are fewer disputes. A lot of work has been done in this respect. We have required insurance companies to make their service terms public so consumers can compare their promises with actions. We will also evaluate their performance. This put a stress on those insurers and impelled them to improve services.

We conducted a survey of how satisfied consumers are with their insurers. The ratings were below what the insurance companies said they could achieve

We also care about how consumers feel. We conducted a nationwide survey of how satisfied consumers are with their insurers. The ratings were far below what the insurance companies said they could achieve. Why? Because surveys submitted by those insurance companies were done by institutions of their choice and the questionnaires were designed to cast them in a favorable light. The results of our survey were not released to the media, but everyone in the industry knows.

We tap into the exemplary effect of high-achievers as well by compiling a new list of Top 10. Insurance companies have been accustomed to ranking employees based on their sales record. It is our job to rephrase this culture and put more emphasis on service.

Consumer education is also an important. We have made every July 8 the day for having big consumer awareness activities. This is still a weak link and a lot more efforts need to be done.

San Ngan Wong
Senior Legal Counsel, Legal Vice Presidency, World Bank

I have four recommendations for protecting consumers of financial services.

First, transparency; second, choice; third, redress or dispute resolution; and fourth, privacy. Let me explain a little bit about each.

In terms of transparency, consumers must be provided with easy access to full, plain, adequate, and comparable information about the prices, terms, and conditions of financial products. With regards to choice, the consumer protection regime must ensure that reasonable practices in the selling and advertising of financial products are available. For redress, consumers must be provided with inexpensive, independent, and speedy mechanisms to address complaints and disputes. And in this regard, a court-based dispute resolution system often does not work, because it's not cheap, it's not fast, and it's not so simple.

Finally, in terms of protecting the privacy of consumers, the consumer protection regime should provide some level of protection and barrier to access to their information so that it is not easily sold to private, third party users or vendors.

I wish to highlight three areas, which are critical at this point of the financial sector in China.

The first is that the law, whether it is the general consumer protection law, or the specific financial sector law, must provide clear mandates for regulators in their role and responsibility in regards to consumer protection.

The second aspect relates to the coordination between the four regulators. While there is coordination, we do think there is room for making it more effective, making it clearer, and that there is legal backing, more importantly, for this coordinating mechanism.

The third point that we think is critical at this point is really to think about access to inexpensive and efficient alternative dispute resolution. We're talking about retail consumers. They do not have the money to engage a team of lawyers to go to court to advocate their interests.

YANG Lu
Senior Judge and Chief Judge, Financial Judicial Division, Shanghai High People's Court

We have trialed a lot of financial disputes these years, and I would like to share some viewpoints. First and foremost, we believe that a sound legal system is the foundation and prerequisite of healthy development of the financial market.

A sound legal system requires not only solid legal institutions and a rigorous regulation system, but also a set of comprehensive transaction rules, and more importantly, a diverse dispute settlement mechanism. A professional, efficient and authoritative trial mechanism is also an indispensable component of settling financial disputes. For judiciary institutions, financial consumer protection is an eternal topic.

Why do we need to protect the legal rights of financial consumers? I believe that in financial transactions, financial institutions are usually in a dominant position, which means the legal rights of their consumers are usually vulnerable to infringement. We know that finance is a highly professionalized discipline. As the designers and providers of financial products and service, financial institutions have natural advantages over their consumers in terms of information disclosure, benefits distribution and discretionary power. In a number of financial cases, we often found financial institutions take advantage of the information asymmetry in transactions to exaggerate the profitability their financial products and downplay their risk.

Because of the dominant position they have in transactions, financial institutions should be obliged to assume more of the risk. As I mentioned, financial institutions are by nature advantageous over their consumers, so the judiciary system is inclined to favor consumers' rights to provide sort of a counterbalance.

It is also important that we do not take consumer protection to an extreme. If we overemphasize the protection of consumer rights, we may risk compromising the healthy development of the financial market. We should also endeavor to strike a balance between facilitating financial innovation and protecting consumer rights.

Consumers must be provided with inexpensive, independent, and speedy mechanisms to address complaints and disputes

Panel Session V

Prospects for Internet Finance

Moderator: WANG Wei \ Vice President and Editor-in-Chief, Hexun

HOU Weidong
Vice President, Bank of Communications
ZHU Xiaoming
President, China Europe International Business School
WANG Yanxiu
General Director, Supervision Cooperative Department for Banking
ZHOU Jinhuang
Deputy Director, Payment and Settlement Department,
The People’s Bank of China
LIAO Li
Executive Associate Dean and Professor of Finance,
PBC School of Finance, Tsinghua University
JI Xiaojie
President, China Financial Certification Authority

HOU Weidong

ZHU Xiaoming

WANG Yanxiu

HOU Weidong
Vice President, Bank of Communications

I'd like to talk about three topics. The first topic is the distinction between finance on the Internet and Internet finance. Until now, in order to satisfy their customers, banks have used Internet technology to put commercial bank products online. Finance on the Internet is when traditional commercial banks use the Internet as a new channel for their products, to provide more convenient and efficient service for their clients. What, then, is Internet finance? I think that in the midst of a new environment on the internet, financial structures will undergo major changes to provide financial services suited to the special characteristics of the Internet.

The second problem in responding to the development of the Internet is the impact on the banking industry. How should we face this impact? Although Internet finance companies have had some impact on banks, I think that in some sense they are an addition to traditional banking services; they fill in the blind spots of traditional banks. At the same time, the Internet encourages creativity; it encourages commercial banks to be innovative. We banks also have some advantages; we have diverse products and industry experience, and a risk management system that will be helpful to stabilizing the Internet finance market.

Finally, finance and non-financial online companies both compete with each other and cooperate with each other, and this is beneficial to society. We welcome Internet companies to enter the finance industry, and at the same time we will be actively preparing the financial industry to respond, and to promote the development of online finance. Second, from the perspective of commercial banks, we would also say that our future competition will be beneficial for a fair environment.

In some sense, Internet finance companies are an addition to traditional banking services; they fill in the blind spots of traditional banks

ZHU Xiaoming
President, China Europe International Business School

I feel very strongly that in the digital era, the most important things will be big data, cloud computing, platforms, and moving online, but the most important thing is big data. The PRISM program reflected people's worries about big data. People both love and hate big data and digitization. They bring convenience and new opportunities for development, so what do people hate? Sometimes people feel as though the Internet is swindling them.

How do financial structures and the banking industry talk about demand? Because of modern Internet technology in this era, costs have gone down, resources can be shared and any kind of demand can be met. This situation will bring about a demand-driven economy.

ZHOU Jinhuang

LIAO Li

JI Xiaojie

Take Alibaba as an example. They are not a financial company, but in some ways they have considered the financial industry more thoroughly than we have. And what is their reasoning? All success comes from demand, without demand you have no success.

Today, with the wind of digitization, even horses can fly, and which horse is it? It's Ma Yun (Jack Ma). Demand is money. The biggest challenge for banks is to make sure their development follows close on the heels of consumer demand. The diversity of demand should be satisfied. A demand-driven economy has arrived. I hope that today's conversation will be beneficial to banks and other companies alike. We should all work together to digitize finance.

WANG Yanxiu
General Director, Supervision Cooperative Department for Banking

Internet finance, and finance on the Internet, are two very important concepts, and they seem new to many of us, but they are not really new businesses. Today there are two big sectors: banks using the Internet as a platform to do financial work, and the real economy using the Internet as a platform to perform some of the banks' activities. Banks have already used the Internet to do business in a few different ways, including fundraising online and online sales. We have also seen that in this new situation, many companies have used the Internet to expand banks' business. We think this is just an addition to banks' traditional business.

As a regulator, I'll mention just a few clichés. First and foremost, in the process of regulating Internet finance, which includes banks and other companies conducting financial activities online, we go by the following principle.

First, protecting the rights and interests of the financial consumer, that's very important, because we can all see that the Internet is very speedy, so that means you can lose hundreds of thousands of dollars quickly too. Internet finance might always run into an unpredictable situation. We maintain a very cautious attitude, and protecting consumer safety has been our number one priority from start to finish.

Laws and regulations are very important, and we are working to put out rules and regulations for electronic banking, including industry standards and the requirements for related industries' laws and regulations.

The biggest challenge for banks is to make sure their development follows close on the heels of consumer demand

ZHOU Jinhuang
Deputy Director, Payment and Settlement Department, The People's Bank of China

The development of third-party payments, as everybody has seen, has been really magnificent, but actually it might be better described as a quiet revolution. There are already several hundred third-party structure companies in China, and they are already quietly doing this business. This is the result of the promotion of the technological revolution. My judgment is that these companies fill the demand of societal development, and provide a business that people need, or else they would not have succeeded in this quiet revolution.

Third party payment institutions, whether they are in the initial or mature stages of developing financial and business structures, are still relatively weak. They can handle high-frequency, small-amount payments and complement traditional banking services effectively.

Third party payment institutions, in fact, do the kind of business that banks were unwilling to do. They play the role of middlemen between banks and customers. Then they wanted more and started transforming into a bridge between the payer and the receiver of payment, so now they are banks' rival.

Generally speaking, third party payment institutions do have some risk, but you shouldn't be too nervous, people shouldn't make a mountain out of a molehill. The damage they could do is very controllable. Overall, our attitude to third-party payment institutions is that we encourage their innovation and development.

LIAO Li
Executive Associate Dean and Professor of Finance, PBC School of Finance, Tsinghua University

Over the past ten years, we have all seen online finance increase its functionality and improve its efficiency. In addition, crowdfunding is an entirely new financial model based on the Internet. I think it's still too early to define Internet finance; the more important thing is to pay attention to its development. One company that does crowdfunding relatively well is Kickstarter. They already have more than 100,000 programs fundraising on their website, and more than 40,000 have achieved their fundraising goals.

Today, the Western media calls this "democratized fundraising," but what is democratization? A normal, average person can participate in a program's early stages of fundraising, which might include borrowing and lending money, or it might include stock equity.

Last December, Obama signed a law regarding fundraising for small and medium enterprises. This law was reported at the time in China as well, but the reports mostly focused on the first two sections. Really, the most important section was the third section, which talked about crowdfunding. At the time, regulators were keenly aware that this sort of crowdfunding programs could be very risky. So this section emphasized which platforms, which investors and which financiers are permitted to use crowdfunding, and which are not.

Online finance has already infiltrated our lives. So when the west calls this the democratization of finance, they have a point. What inspires us is that the development of Internet finance has been faster than we could have imagined, it has infiltrated every corner of our lives, and if we don't watch it carefully it could create a huge amount of risk.

Cloud services have enabled many companies to put their data on remote computer servers, which brings more challenges to the protection of funds

JI Xiaojie
President, China Financial Certification Authority

The security of funds has come under severe challenges against the backdrop of Internet finance development.

An important feature of the Internet is big data, and information sharing is becoming more inclusive as big data develops. Cloud services have enabled many companies to put their data, some sensitive, on remote computer servers, which brings more challenges to the protection of funds. This has also raised a higher requirement for how companies manage financing.

Judging by recent cases, criminals have increasingly focused on data mining and data analysis. The development of Internet finance has made it easier for them to steal corporate and financial information with more precision. There is a risk with business innovation. We know that the flexible nature of Internet and finance can give rise to many innovations in terms of business models. But with them, there would be more concerns about regulatory gray areas.

Also, third party payment has developed rapidly in recent years. It has made our lives more convenient and more efficient. However, it has also given rise to more credit card frauds and money laundering cases. We must confront the risks of internet finance.

Panel Session VI

Construction & Development of a Multi-level Capital Market

Moderator: QI Bin \ Director General, Research Center, China Securities Regulatory Commission, Executive President, Beijing Institute of Securities and Futures

Phupinder Gill
Chief Executive Officer, CME Group
HU Ruyin
Director, Research Center, Shanghai Stock Exchange
SONG Liping
President, Shenzhen Stock Exchange
ZHANG Shenfeng
Chairman, China Financial Futures Exchange
PEI Chuanzhi
President, China Foreign Exchange Trade System
SHEN Wei
Vice President, Shanghai Clearing House

Phupinder Gill

HU Ruyin

SONG Liping

Phupinder Gill
Chief Executive Officer, CME Group

As a market infrastructure provider, I have been looking at the development of China's markets and the redevelopment of China's markets over the last twenty-five years, and it has been highly impressive. The most important point is that the capital market structure is in place and the multilevel structure is in place. We just need to fill in the blanks with respects to the new products like bond futures and other things that are there. You also have a primary market, a secondary market in which to come in and out, and a derivative market to hedge your risk while your positions are on your books.

Where the OTC markets are concerned whether you have one or three clearinghouses is immaterial. As long as you set yourself up with risk management practices that are state of the art, that's the key part. I have visited many, many exchanges around the world, I understand the system and risk management that many of these changes have, and I can honestly say when China redeveloped its futures system, it became the safest trading and clearing system in the world. It has flexibility issues, but flexibility is not what the government was going for. Safety and soundness was, and that's what you have in place. So ultimately the question becomes what is next if a multilevel capital structure exists? What do we need to do?

One, fill in the blanks, put in the products that you need from a risk management perspective. Two, ask yourself what is the next step? Every single year from what I have read, every single year 15 million people come from rural areas to urban areas. Similarly, the same thing happened in Russia. The 50's and 60's was an urbanization drive. The Russians did not take the next step. And it caused the issues that they currently have. China is different, very different. I would argue very strongly internationalization would be the next step.

HU Ruyin
Chief Economist, Shanghai Stock Exchange

The concept of multi-level capital market has rich implications. To begin with, enterprises themselves can be divided into different levels depending on their development phase, size or management capability. So do investors. There are common individual investors, institutional investors, and depending on their risk preference, equity investors and venture capital investors. The market itself has different layers. Investment tools, accordingly, vary from one to another. The trading mechanism is also multi-leveled.

Shanghai Stock Exchange is a multi-level market. We have emphasized the development of four markets. The first one is the blue-chip market. We have been working to strengthen information disclosure of blue-chip companies and improve interactions between investors and listed companies.

The second market is for exchange-traded bonds. This market is very small compared with bond trading in the interbank market. But it is equally important in the price-discovery mechanism for bonds. Without exchange-traded bonds, it is difficult to price those in off-exchange market. That means,

ZHANG Shenfeng

PEI Chuanzhi

SHEN Wei

to some extent, the bond market in exchanges has served as the benchmark for the entire bond market.

The third market involves primarily exchange-traded funds. We have done a lot work in ETFs based on stocks, bonds, gold, and hopefully in the future on foreign exchanges and commodities. We aim to build a global market.

The fourth market is for derivatives. This one is yet in the blueprint stage. We have done plenty of researches though in this respect and developed technologies. I hope we can launch pilot programs soon.

We must have a strong market for blue-chip stocks, because that's the precondition for us to have a reasonably structured stock market. The derivatives market is also important. We need to step up market reform to achieve the goals and reduce risks in the financial system.

SONG Liping
President, Shenzhen Stock Exchange

While economic transformation goes on, it is inevitable that some risks will become more apparent in the next 10 years. In fact, some of them have already surfaced. Look at the solar industry for an example. It is by consensus an emerging industry full of promises. But it is hit by an crisis across-the-board. Another example is shadow banking and the debt risk of local government financing platforms. Both indicate that risk is becoming more significant as we carry forward with economic transformation.

That is why risk management has become all the more important. All people in the financial industry should pay attention to that. The role of the capital market, in the process, is irreplaceable. The central bank's governor Zhou Xiaochuan has made that clear, saying at the opening ceremony that the most essential part of building Shanghai into a global financial center is to develop the capital market.

We should also think about how to deleverage in the transformation. Deleveraging means we need to increase the share of equity financing. That means we need to develop the growth enterprise board, the new Third Board, regional equity exchanges and private equity investments. The accounting standards are not only made for listed companies. Small companies need to comply with them as well. Bringing in PE/VC investors will help smaller companies move in that direction.

How should we control financial risks? We think that, in the capital market at least, this job falls on securities firms. Intermediaries must have risk control abilities. From what I know about the development of Shenzhen Stock Exchange, many securities firms are not yet ready for the transformation.

ZHANG Shenfeng
Chairman, China Financial Futures Exchange

Traditionally when we talk about building a multi-level capital market, we have in mind a market consisting of stock exchanges divided into the main board, the new Third Board and over-the-counter markets. This is what we have reached consensus on.

I think there ought to be a third layer of market, i.e. the risk management market. Our risk management market is a late starter and its current size is small and its functions are limited. As far as derivatives are concerned, the OTC markets seem to have made a bigger progress than exchange markets.

I want to take this opportunity to talk about stock index futures. Whenever the real economy and the financial market fluctuate widely the trading of stock index futures would seem unusual, and everyone pays attention to the abnormalities. But I can say responsibly that stock index futures have been more and more often proved as an effective tool against risks in spot trading. When we compare data for the three years before the futures were introduced with those for the three years after, we found that the number of days with wide stock price fluctuations has decreased after the futures were introduced.

Also, the price movement of stock index futures was highly correlated with that of spot transactions. That means, unlike some people's worry, the stock index futures did not precipitate declines in the spot market.

PEI Chuanzhi
President, China Foreign Exchange Trade System

Reform and opening up started more than more than 30 years ago. After all those years, the multi-level structure of our capital market is almost in place. Today you would have a hard time finding an area with major deficiencies, but the development of each level is extremely uneven.

The concept of capital market is very inclusive. It includes every situation where someone puts their savings into a long or medium-term investment. In addition to the credit, stocks and bonds markets, the capital market should also involve the cross-border movement of capital. Because interactions between domestic and foreign economic systems are increasingly intense, the development of our capital markets cannot be thought of as a purely domestic concept. After the reform and opening up, there was a great deal of foreign direct investment, and today we encourage the yuan to "go out." As for our mechanisms, our exchange market and over-the-counter market are advancing side by side. Insurances, trusts, financial leasing, securities, funds, all of these products have been developed.

Overall speaking, we have created all the layers we need, but their development has been extremely uneven. We should pay more attention to the bond market, and the credit market, because no place can develop its economy without credit. We must also emphasize the development of the weakest links, such as innovation, shadow banking and the structural rebalancing of the economy.

SHEN Wei
Vice President, Shanghai Clearing House

I'd like to talk about the development of a multi-layer capital market from a technical perspective. My point is that we need a central clearing and settlement system.

Whether you talk about financial markets or capital markets, either way they are split into the primary and secondary markets. I think going forward we should pay more attention to the problems of the secondary market. The secondary market has struggled with the question of how to provide more efficient services at a lower cost to investors.

I'd like to talk first about a small problem that potential investors, and especially institutional investors, often encounter. Before an investor can enter the market he or she must open an account, and put a little money in it. For example with stocks, or bonds, or foreign exchange, or gold, or commodities, or futures, or any other financial derivative, you have to open a new account, and you can't share accounts for different products. Money in different accounts must be painstakingly transferred, and the investor must always keep a close eye on the position of each account, in case it falls short of the requirement. It gets very troublesome, and the costs are quite high.

So is there a solution to this small, detailed but very important problem? I think the answer is positive. We should build a central clearing and settlement system for all financial markets. That way if an investor opened an account in one place, it could support all kinds of trade. Does this kind of system exist? I think it does. Our interbank market is developing one with the Shanghai Clearing House. With the new system, traders will only have to open one account. This will be a very efficient and welcome change for investors.

Overall speaking, we have created all the layers we need, but their development has been extremely uneven

Panel Session VII

Opening Up the Financial Sector

Moderator: QU Hongbin \ Managing Director, Co-Head of Asian Economics Research, HSBC

SHENG Songcheng
Director General, Department of Statistics & Analysis,
The People's Bank of China
FAN Wenzhong
Director-General, International Department,
China Banking Regulatory Commission
LIANG Tao
General Director, Development and Reform Department
China Insurance Regulatory Commission
CHEN Zhiwu
Professor of Finance, Yale School of Management
LU Lei
President, Guangdong University of Finance
Mark Machin
President, Canada Pension Plan Investment Board Asia, Inc.

SHENG Songcheng

FAN Wenzhong

LIANG Tao

SHENG Songcheng
Director General, Department of Statistics & Analysis, The People's Bank of China

First, China should open its capital account and loosen regulations on companies going out. Some argue that the pressure of capital outflows is much greater than that of inflows. Some said problems of our "going-out" strategy have already been solved. I think that these two views are neither realistic nor objective. Had the problems been solved, we would not still be urging for progress on opening the capital account. In fact, in the long term, we are primarily facing the pressure of foreign capital inflows, not outflows.

It was estimated that hot money inflows in January exceeded 70 billion yuan. They decreased to some 20 billion yuan in February, March and April. The United State may exit QE earlier than expected, which means more capital outflow pressure on emerging markets. But our observation tells us that we don't need to be worried. As far as direct investment is concerned, our capital account is highly open. But there are still severe restrictions on small-and medium-sized enterprises seeking development overseas.

Financial reform should be pursued in a coordinated manner. Some argue that the capital account cannot be opened until we have done reforming the interest rate and exchange rate systems. We believe that this does not apply to China. As I said, there is no fixed sequence in which we must organize our reforming activities. We should take on those that are ready first.

A more convertible capital account does not necessarily mean more risk. The current conditions have been almost ripe for further liberalizing the capital account. The domestic stock and bond markets have been relatively well developed. We can first open up less risky sub-categories of the capital account and then move on to more risky others.

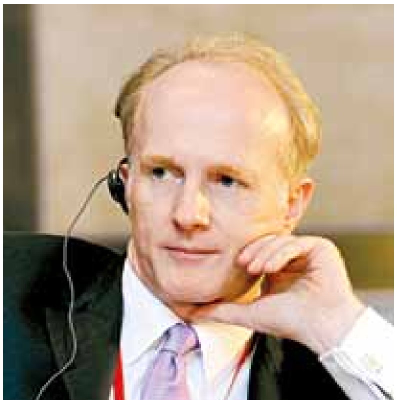
FAN Wenzhong
Director-General, International Department, China Banking Regulatory Commission

The opening-up policy is the primary impetus behind the economic growth of China. We will unswervingly stick to the principle of the opening and reform policies. During the long and arduous journey over the past 30 years, we have accomplished internal reform and external reform. For internal reform, our general idea is to carry out the reform of property rights and the construction of the financial system, thus turning idle resources into capitals for economic production through financial leverage. External reform helps China position itself and find comparative advantage in the global economic system. Relying on relatively low-cost labors, China has become the world's largest factory in the past three decades. In the next 30 years, we need to change our mentality and fuel the economic growth with technology and service innovation. I want to discuss my understanding of the "opening-up" policy from the perspective of the banking industry.

Over the past decade, the banking industry in China has achieved great progress in reform and opening-up. We used to concern that the entry of foreign banks into China's

CHEN Zhiwu

GAO Feng



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market will have a major impact on our banking system. Now, we are glad to see that the impact is very beneficial to our banking system. At first, we intend to import funds and technology from foreign banks, but when we look back, we find that the opening-up policy really benefits the domestic banking industry by introducing new ideas and international rules.

LIANG Tao
General Director, Development and Reform Department China Insurance Regulatory Commission

Insurance is a relatively small industry among all the financial industries in China but has achieved higher degree of opening-up. From policy level, the opening-up of the insurance industry had been a focus issue during the WTO accession negotiations. Under terms of its WTO entry, the transitional period before complete opening-up for the insurance industry is only three years, two years less than all other financial industries. By the deadline of Dec 11, 2004, China's insurance industry has become largely opened up to the international market. From a market perspective, insurance institutions from 16 countries and regions have established 54 foreign-invested companies in China. With a total of 165 insurance companies in China, foreign insurance companies account for a large portion of the Chinese insurance market. Major transnational insurance institutions have businesses in China with total assets of 3 trillion yuan and a total premium income of 54.118 billion yuan. If we take consideration of Chinese companies with foreign equity investments, foreign assets account for 25 percent market share of China's insurance industry.

In the future, we will persistently promote the opening-up of the industry in order to facilitate reform and development.

First, we strive to optimize the structure of the insurance market liberalization, support and guide various foreign capital investments in the Chinese insurance market. The new round of opening-up will focus on the introduction of health insurance and pension insurance and encouraging foreign insurance institutions to set up branches in China's middle and western regions.

We also need to improve the international competitiveness of our insurance industry and provide support for domestic companies' merger and acquisition efforts in the international market. Third, we need to uphold both the external and internal opening-up policies, deepen reforms in the insurance industry and energize the insurance market. We should strive to form a dynamic and productive market mechanism. To implement the internal opening-up policy, we released a set of policy advices last year on supporting the healthy development of private investment. CIRC will take the next step to encourage private capital into the insurance industry.

CHEN Zhiwu
Professor of Finance, Yale School of Management

I want to talk about the necessity of opening up the financial industry in China. In the past, when we speak of financial openness, a lot of people tend to assume that foreign financial companies are picking easy money off the ground in China, especially after China opens its financial market. As far as I am concerned, foreign institutions coming to China cannot find that many easy money opportunities. They will be more likely to encounter more risks in the next five to ten years. If we make a comparison between the economies of the United States, the European Union and China, the United States should be the least risky market while China should the most uncertain economy in the near future. Why the EU is even less risky than China? Well, the EU countries have been extremely transparent about their economic problems and risks. Each class in EU has fully realized the severity of the economic problems and thus is much determined to solve the problem. In contrast, China's economy still thrives on irrationality and overconfidence. It will take another one to two years for China to fully realize its problems.

In this sense, further financial openness in China will bring about more risk to its economy. When we look back, the financial crisis in 2008 has the least impact on the United States, but exerted far more impact on other countries. The lesson for China is that it has to further open its financial market in order to share risks with institutions and investors in foreign countries.

LU Lei
President, Guangdong University of Finance

I would like to continue on with points previously made. This topic is immensely grand – what kind of next steps will there be to further open up China's financial market? I think there are some points worth clarification.

First, have we put too much emphasis on regulations? We've noticed that there is always a discrepancy between the amount of funds outstanding for foreign exchange and direct foreign investment and trade surplus. This has to some extent raised doubts about the effectiveness of our capital account controls. If they not effective, then what should we do?

Second, in the end, who is the main player at the micro-level? Ten years ago, what was the proportion of foreign investment in financial institutions to our total assets? Now how much did it change? When we compare the two data, we would see clearly that our financial market has steadily opened up more.

Third, what will an open financial sector cause on a macro-level? If we look at history, we'll find an interesting phenomenon that the rise of every economy was often accompanied with hot money inflows and then outflows. Then the question we face becomes how we can continue to attract global investors' attention. If we fail, what would that mean for China's financial opening-up?

Fourth, many state-owned companies have benefited from a more open market. This is beneficial to the financial system, but private capital owners have not equally shared in the benefits. We should bring them in more often to the globalization process.

Mark Machin
President, Canada Pension Plan Investment Board Asia, Inc.

China's made great progress in opening up over the last 10 or 13 years, and there has been great progress and an openness to foreign capital, but when you look at the brokerage sector and the insurance industry and out of the hundred or so foreign securities firms or brokers in the market, how many of the foreign companies and how they're faring, they're very low ranked. So yes, progress has been made, but I think there's lot more than can be done in terms of opening up. That's not to say that's only the result of restrictions on foreign capital coming in; of course there's been tremendous competition from the Chinese insurance companies and from Chinese banks. They're very strong institutions. But there are major restrictions that inhibit foreign capital coming into this market.

I've always been a great fan of China. I had an argument recently where I told someone that China was much more open than India, particularly in the financial sector. I was wrong. India is significantly more open, particularly if you look at the banking sector and market share. The foreign banks in India have about 15 percent market share versus less than 2 percent in China, so even in India's stage of development, China's a long way behind in terms of the opening up, which I found quite disappointing, given the progress I thought China had made.

So now I'm not saying the door should be opened completely and there should be no regulation for any of these sectors, but I do think that the time has come where China can be more relaxed, particularly about control of companies. Now I do take the point on reciprocity on throwing the doors open completely to foreign jurisdictions where Chinese companies can't get similar access, I understand the politics of that. I just encourage the regulators not to be too held back by that reciprocity.

Panel Session VIII

New Vitality in Economic Development – Financial Support for Small & Micro Enterprises

Moderator: Gary LIU \ Executive Deputy Director, CEIBS Lujiazui Institute of International Finance

LI Renjie
President, Industrial Bank
Ken Wilcox
President, SPD Silicon Valley Bank
WEA Chi-Lin
Chairman, Waterland Financial Holding Co., Ltd.
SHEN Xingbao
Vice President, Shanghai Rural Commercial Bank Co., Ltd.
JIN Xueliang
Vice President, Zhejiang Tailong Commercial Bank Co., Ltd.
LU Dong
Deputy General Manager of Shanghai Branch,
China Export & Credit Insurance Corporation

LI Renjie

Ken Wilcox

WEA Chi-Lin

LI Renjie
President, Industrial Bank

On the topic of the difficulty and expense of securing loans for small businesses, I'd like to talk about three things. First, from the banks' perspective, they actually want to lend to these people. Retail banking and serving small and family businesses are going to be what supports banks in the future. From the perspective of the banks' long-term development, banks absolutely have to lend to small businesses.

Second, our small businesses are in the very early stages of their development, so do they need more credit loans or more capital? It's possible that they need capital even more than credit loans. Of course right now, we all see very happily that during this process, our local governments and financial services are all being very innovative. It's also possible that at this initial stage, what small businesses really need is support from private equity and venture capital, and then they'll have a solid basis for taking out loans.

Third, our banks obviously have a lot of room for improvement. From the banks' perspective, providing financial services to small and family businesses face two problems. The first is about identifying risk, and the other is about controlling risk. How can we solve these problems? Banks have some experiences and advantages when it comes to identifying risks. As far as Industrial Bank is concerned, we need an expert team that knows local conditions and has a close relationship with local clients. As for cost control, the conventional model used for lending to traditional businesses does not apply here. We must use the help of information systems.

The best way, I believe, for any economy, any society, to produce the greatest innovation at the lowest cost is a combination of capital and debt

Ken Wilcox
President, SPD Silicon Valley Bank

We look for companies in the technology space that have capital, but it's very expensive to use only capital, so we leverage that capital for them with debt. This ends up being the best way, I believe, for any economy, any society, to produce the greatest innovation at the lowest cost – a combination of capital and debt. I think I've become quite acquainted with the problems in financing SMEs, so I'd like to mention the three biggest that we face.

The first is that SMEs in technology are riskier. The way we handle that in other countries is that we charge slightly higher interest rates, and the other thing is that for the very early stage companies we take warrants. It works very well for us, and it works well for the companies as well because they get good bank financing to supplement their capital, but that's going to be hard here in China. Interest rates are regulated, and we're technically not allowed to take warrants, so I think

SHEN Xingbao

SHEN Xingbao

LU Dong

a good recommendation for China would be to liberalize interest rates and the use of warrants.

Number two, I think we have in the banking sector, between CBRC and SAFE, a lot of regulations here in China. We have on several occasions worked out a very fine deal, but at the last minute it falls apart because we bump into a regulation that stops us, which I think is very sad, because these companies not only need the debt to go with the equity, but they also could have a very profound effect on the Chinese economy.

And then finally, collateral. In China, the collateral system is well developed for real estate lending, but not for the kind of lending we do, so I think a revamp of the collateral system in China would be helpful.

WEA Chi-Lin
Chairman, Waterland Financial Holding Co., Ltd.

Small businesses are the source of innovation for our nation, and for our economic system. Today's big businesses might have developed from innovations in small businesses. They provide an employment system for the whole country, and they provide the most employment opportunities. But small businesses have some big problems: they don't have a good credit history or enough collateral, and they are not transparent enough, so lending money to them can be extremely risky.

I'd like to discuss some of Taiwan's methods for everybody to consider. The mainland actually uses many similar methods. For instance, when small businesses are just starting out, their biggest problem is usually fundraising. Often this problem arises because the company's credit is not good enough, so the Taiwan government set up a special fund to provide credit guarantee for small and medium-sized enterprises. When SMEs borrow from banks, this fund provides credit guarantee for 70 percent of the loan. It also guarantees for securities issued by small businesses.

There should also be a system for controlling and managing risk of lending to small businesses. The goals are to make the financial system more transparent and lower the costs of banks lending to small businesses. When I think about it, I often think of Hong Kong as an internationalized capital market, and Shanghai as a large-scale industrial capital market. So of course it is hard for small businesses to list on the markets there.

Small businesses have some big problemg: they don't have a good credit history or enough collateral, and they are not transparent enough

SHEN Xingbao
Vice President, Shanghai Rural Commercial Bank Co., Ltd.

We have been exploring how to provide small and family businesses with better financial services for quite a long time. Here I want to share some views based on our experience.

First of all, a convenient

geographic location is very important. Today, we have over 150 easy-access service points and branches specialized in microfinance. Most of them are in or near industrial parks and large residential communities.

Second, our service hours are flexible. They are designed to accommodate the needs of small businesses; most of our branches extend business hours until 9pm. We have an advertisement that says "when you get off work, we're still open."

Third, we offer a diverse array of products. We tailor our products to small businesses.

Fourth, we review loan requests and make decisions fast. All of our easy-access service points and specialized branches can independently handle requests for loans of up to 5 million yuan.

Fifth, our service teams are considerate of clients' needs. We have created 60 teams led by nearly 200 client managers specifically for serving small and family businesses. They are sent deep into communities to learn the needs of small business owners.

Our service has made some real progresses, and I realized this is a win-win deal for small-and medium-sized banks to serve small enterprises.

JIN Xueliang
Vice President, Zhejiang Tailong Commercial Bank

The first problem is information asymmetry. Small and family businesses do not have a sound financial system or standardized financial statements. Some of their data are incomplete and cannot accurately represent their business status. To solve this problem, we developed our own methods to analyze their financial records.

The second problem lies in loan guarantee. Small businesses have little that can be used as collateral for loans when they are just established. Collateralized loans at all of our banks are about 5 to 6 percent of the total. This year, the figure is lower than 5 percent. That means we need to use other forms of guarantee to reduce our risk exposure.

In addition, lending to small and family businesses costs more and is riskier. AS a commercial bank, this has indeed posed a big challenge to us. We've been using the risk pricing mechanism put forward by the banking regulator to price loans to small companies. Meanwhile, we've changed our corporate structure to adapt, making it flatter and giving lower-level institutions more authorities in making loans. This helps reduce our cost.

The economic development has brought about many new challenges to small businesses financing. The challenges cannot be overcome by banks alone. The whole society's service sector needs to be involved. Whether we are talking about differential regulatory policies, or a nationwide credit information system, or building a local financial eco-system, they all depend on the efforts of all people. As for commercial banks, since it has been made clear that they need greater information processing abilities to control risks, they should get started right away.

When evaluating risk, we should consider not only the company's status quo but also its potential. If a company has a good market, it is worth our support

LU Dong
Deputy General Manager of Shanghai Branch, China Export & Credit Insurance Corporation

It's fair to say that the government, financial institutions and the society have been paying much attention to the problems of small business financing . But why is that they still seem so protruding?

Briefly speaking, I think this is because the traditional lending model is mainly based on the evaluation of collateral and risk. This poses two problems for small and family businesses. The cost of investigating a large company borrower's credit worthiness is justified because it usually borrows in large quantities and pays better.Smaller businesses, by contrast, are not as transparent as the large ones and their internal control is often less comprehensive than the large ones, which means you cannot get the information you need even if you want to. For small company borrowers, if each and every one of their loan requests needs to be reviewed separately, the cost is too much for a bank.

So how can we help solve small companies' financing difficulties? Here are my thoughts.

First, we can look at a company's balance sheets and see if there is anything other other than tangible assets that can be used as an equivalent for collateral. Accounts receivables, for example, can be useful. Second, when evaluating risk, we should consider not only the company's status quo but also its growth potential. If a company has a good market, it is worth our support.

Panel Session IX

New Impetus for Expanding Domestic Demand -- Exploring the New Mode of Consumer Finance

Moderator: CHEN Liangjie \ Director, Shanghai Bureau, Xinhua New Agency

LI Jianhua
Director-General, Non-bank Financial Institutions Supervision Department,
China Banking Regulatory Commission
XU Luode
President, China UnionPay
Michal SKOCIL
Vice Chairman of the Board and General Manager, Home Credit Consumer
Finance Co., Ltd.
FAN Yongjin
Chairman, Shanghai AJ Corporation
GUO Tianyong
Professor, Central University of Finance and Economics


LI Jianhua


XU Luode


Michal SKOCIL

LI Jianhua
Director-General, Non-bank Financial Institutions Supervision Department, China Banking Regulatory Commission

I will just talk about the China Banking Regulatory Commission in regards to consumer finance and the non-bank financial institution supervision department, because it bears responsibility for supervising areas including trust products, financial leasing, consumer finance and auto finance.

From our perspective we face huge regulatory pressure and challenges. We are also proud, because we feel non-bank financial institutions are where many innovations will come from in the future and they represent many demands in the country.

We think that engaging in this type of supervision work is, in one respect, a great responsibility. In another respect, our mission is honorable and glorious. We think that our capability in these respects of being somewhat innovative is something to be immensely proud of.

I will talk simply about some issues pertaining to consumer finance.

The CBRC started monitoring consumer finance many years ago. In many foreign countries, auto finance and consumer finance are combined. But we understand them separately. Before we joined the WTO, we had in practice already done lots of work in auto finance.

There are four pilot consumer finance companies in China. They are located in Shanghai, Chengdu, Beijing and Tianjin. People might ask: why do we need a consumer finance company when banks already provided service for customers to consume on credit? This has to do with market segmentation, or in other words, catering to the needs of people with special demand for their financial services. For example, some people do not have credit cards because their credit information does not qualify. And we also have people whose incomes are low. These people need a better segmented market to serve their needs.

There are four pilot consumer finance companies in China. They are located in Shanghai, Chengdu, Beijing and Tianjin

XU Luode
President, China UnionPay

Upgrading the consumer economy is one of the eight measures the State Council passed in a meeting held on June 19. Premier Li Keqiang chaired the discussions, which are centered on how the financial sector can better support industrial restructuring. This underlines the central government's emphasis on consumption. There are three points worth mentioning.

The first one is that we have entered the fast lane with regard to upgrading the consumer economy. First, our per capita GDP has surpassed US$ 6,000, which means we have crossed the middle-income country threshold. This will lead to a number of changes in our consumption.

FAN Yongjin

GUO Tianyong

Your demand for daily necessities will change. You will start consuming branded products and luxury goods. You will want a bigger house, cars, and you will want to travel more. Last year, more than 80 million people traveled overseas.

Second, an upgraded consumer economy will have a significant impact on the structure of our industries. Why do we need to upgrade the industrial structure? Because this is what the consumers want. An upgraded consumer economy means the customers want better goods and better services.

My third point is that the finance and banking sector should vigorously support the change in consumption.

Technically, the concept of consumer finance was introduced to banks in 1999, when the central bank issued an opinion regarding how banks should make loans to support consumption. That was when we first came into contact with the concept. Then we had auto finance and mortgage loans.

Today, the combined amount of consumer finance, credit card overdrafts and loans made by small-loan companies has reached about 10 trillion yuan. This is not enough.

Michal SKOCIL

Vice Chairman of the Board and General Manager, Home Credit Consumer Finance Co., Ltd.

I don't think anyone here needs to be convinced about the importance of domestic consumption. We all remember 2008 and the impact it had on the Chinese economy, which was at that time very much dependent on exports.

Lots of things have happened and improved since then, and when we look at the development, we can see that the consumer finance is one of the important elements that can actually boost domestic consumption.

Consumer finance is prepared for the segment of the population which has less financial education, and the products must be simple

When you look at China today, 60 percent of people have average or below average income, and those people have very limited access to banking products today. The banks are not equipped, and it's very natural for them not be equipped to serve such customers. There are many lower hanging fruits for the banks to focus on, so they don't need to go to the niche market of consumer finance.

Consumer finance is prepared for the segment of the population which has less financial education, so the consumer finance products must be designed in a way that they are simple and offered at a place where the sale is happening.

It is very important to have very good protection in place for those customers. I admire the strategic thinking of the China Banking Regulatory Commission because in 2008 they launched consumer finance regulations. At that time, the mood in society was not supportive for consumer finance, but today, some years later, CBRC has lots of data and local knowledge, so they are able to define the proper framework for the future and transparent development of consumer finance. When we talk about this framework, I think about two most important things, which need to be fulfilled in such a regulation. The first is transparency and responsibility. It's absolutely critical that regulation protect customers.

The second important element to build successful consumer finance is to enable enough competition, because competition is an element that will bring very good control over the pricing. This is because the competition will even more accelerate the development of the industry and that will help the consumer finance make contribution to the domestic consumption in a significant way.

FAN Yongjin
Chairman, Shanghai AJ Corporation

I think there are four consensuses in the realm of consumer finance.

The first one is that it has a great potential of pulling the growth of China's economy. Based on our analysis, in developed countries, 6 or 7 out of every 10 percentage-point increase in their GDP came from consumption. This is a relatively healthy and more sustainable growth model.

Domestically, however, consumption makes up less than half of our GDP growth. The figure in Shanghai has approached 60 percent.

The second consensus is that there is a great room for consumer finance to promote the growth of consumption. Consumer credit in the country, when you take out mortgage loans and auto loans, accounts for only 2 percent of all loans made. The figure is 25 percent for the United States. The difference means that we still have plenty of room to catch up.

Also, consumer finance operations have concentrated in commercial banks. We have a pilot program for specialized consumer finance companies. They have had some influence. But it is not enough.

The third one is about the great growth potential of our domestic consumption needs. We have reached the point where many people have moved up the ladder of Maslow's hierarchy of needs. They are no longer preoccupied with basic needs and survival issues and are increasingly looking for ways to satisfy their higher levels of demand for relaxation and enjoyment.

The fourth consensus is that there is still much work to do regarding improving the environment for consumer finance. The central bank has, for example, just set up its own financial consumer protection bureau. We need to uphold consumers' rights more vigorously in this field.

GUO Tianyong
Professor, Central University of Finance and Economics

Developing consumer finance is of great significance to our economy. Specifically, the government has emphasized the development of financial leasing companies and specialized consumer finance companies.

We should know that the success of a consumer finance company depends on scale, because its unit operation cost is high

Why these two and not trust companies and finance companies? I think it is probably because they are more in line with the goal of pulling consumption and promoting the structural rebalancing of the economy.

Think about financial leasing companies. They cannot invest money in the property market. They have to lend equipment to enterprises.

As for the demand side, the competition in China's consumer finance market has been modest. We talked about wealth management yesterday. That is a fiercely competitive battle ground because banks, insurance companies and many other financial institutions are all in the business, and they all target wealthy people.

Consumer finance, in comparison, targets consumers at the lower part of the income spectrum. Wealthy people do not need to borrow from consumer finance companies.

There are four pilot consumer finance companies, but they have been in an awkward situation. Why? The one in Beijing, for example, has lent out less than 2 billion yuan. We should know that the success of a consumer finance company depends on scale, because its unit operation cost is high.

Currently, the four companies' businesses are limited to their own cities. This makes it hard for them to expand operations. In the future, I think we should consider permitting them to serve customers elsewhere. If this model is successful, we can copy it in other cities.

Panel Session X

New Aspects of Cross-Strait Financial Cooperation

Moderator: QIN Shuo \ Chief Editor, China Business News

Teng Lin Seng
Chairman, Monetary Authority of Macau
Charles Li
Chief Executive, Hong Kong Exchanges and Clearing Limited
Liu Teng-Cheng
Chairman, Taiwan Financial Holdings Co.; Chairman, Bank of Taiwan
YIM Fung
Chairman, Executive Director and CEO,
Guotai Junan International Holdings Limited
LI Wen
Chief Compliance Officer, China Universal Asset Management
LAI Changgeng
Head of Fixed Income China,
Head of Corporates Group, Asia (ex-Japan), BNP Paribas

Teng Lin Seng

Charles Li

Teng Lin Seng
Chairman, Monetary Authority of Macau

I will briefly go over the cooperation between the mainland, Hong Kong, Macau and Taiwan. I will first spend a few minutes introducing the agreements across the Taiwan Strait. The ECFA was signed in 2010 which opened up the financial industry and the service sector quite a bit. This year an agreement was just signed on bilateral service trade.

As for financial cooperation between the mainland and Hong Kong, great progress has been made including currency swap deals. I represent Macau, so I'll say a few more words about it. Since Macau returned to the motherland, its economy has been growing at 12.4 percent a year. Our banking system is being developed according to international standards.

Macau has cooperated with the mainland to facilitate financial cooperation in many fields. Yuan businesses were started in 2004. First it was just yuan retail banking for individuals. Yuan settlement was approved in 2009. The banking system of Macao is small, but the settlement business has grown fast. This year it increased by more than 80 percent. This is a good momentum.

With regard to regulations, the Monetary Authority of Macao has signed several agreements with the central bank, the CBRC and the CIRC. Financial institutions on both sides have cooperated a lot. Guangdong is our neighbor; with them we have also signed several agreements. Financial cooperation is a main theme in the agreements.

Charles Li
Chief Executive, Hong Kong Exchanges and Clearing Limited

There is a consensus that the yuan must internationalize. But no one knows for sure how. There is a constant reminder in everyone's mind of controlling risk. But we are in a globalized world. Whether we are a factory or an office of the world, our economy has been interlinked with the rest of the world. We cannot keep discussing internationalization on one hand and on the other hand balk at risk.

We've done a lot of work these years. The yuan has increasingly been used as a settlement currency. But with a surplus in the trade account, we sold more than we bought so the yuan we spend eventually flowed back. Take Hong Kong for example. We've done a lot of work on building it an offshore yuan center. We've made rules and built passages ways with the mainland. Now we've got 780 billion yuan. But much has flown back to the People's Bank of China, because there are not many investment options overseas.

Now we've embarked on a new era. We must accelerate the yuan's internationalization. We've come a long way on this path, but there is still much work to do. I think we can try setting up some big, bilateral exchanges.

Liu Teng-Cheng
Chairman, Taiwan Financial Holdings Co.; Chairman, Bank of Taiwan

Everyone understands that over the past few years, the cross-strait relations between Taiwan and the mainland have had their ups and downs. Recently in the past few

Liu Teng-Cheng

YIM Fung

years Taiwan and the mainland signed an agreement concerning settlement in local currencies. It allows the yuan to be used as a settlement currency in Taiwan and the New Taiwan Dollar to be used as a settlement currency on the mainland. This year, the Bank of Taiwan's domestic banking units started taking yuan deposits and making yuan remittance. It now has about 70 billion yuan.

So the stock of yuan in Taiwan could be around 100 billion yuan. This puts Taiwan on a par with Hong Kong in its early stages of yuan market development. We learned that one-tenth of Hong Kong's money stock is denominated in yuan. If Taiwan is to match this, given its current deposits of around 3 trillion NTD, the amount of yuan would be more than 600 billion and even up to 650 billion yuan. This is huge, something worth celebrating across the strait. Trading between Taiwan and the mainland exceeded US$ 160 billion last year. In 2010 it was only US$ 60 billion. That was a nearly 2.5-fold increase. I believe that by extending the use of the yuan in settlements, this will grow even larger. Taiwan has always wanted to play an important role in offshore yuan markets. We hope the mainland can quicken its pace. Taiwan just signed an agreement with the mainland on June 20. It includes an agenda on financial and trade co-operation. Mainland banks can buy Taiwanese banks' equities. This will speed up our exchanges.

YIM Fung

Chairman, Executive Director and CEO,
Guotai Junan International Holdings Limited

I've been working in Hong Kong for nearly 20 years. The internationalization of the yuan has brought us and other Chinese securities firms a great development opportunity. But there are still many problems. For example, it takes the regulators a long time to review and approve our new products. There are problems with Chinese enterprises issuing stocks in the Hong Kong stock exchange. Many investors have not been properly rewarded for their investment in H shares. Also, securities funds sold by mainland companies are different from those sold in Taiwan and Hong Kong. That means they cannot be traded with each other. If we can make this change somehow, I think this will be of great help to our development. With the deepening cooperation between the mainland and Hong Kong, the range of services Chinese securities firms can operate in Hong Kong has greatly diversified.

As for the yuan internationalization, I can understand the regulators' concern of hot money inflows, but some of their approaches are not effective

As for the yuan internationalization, I can understand the regulators' concern of hot money inflows, but some of their approaches are not effective. I think the problems lie with the system. It shows that the regulators are not confident with their grip on the issue.

LI Wen

LAI Changgeng

LI Wen
Chief Compliance Officer, China Universal Asset Management

Over the past three years, the internationalization of the yuan has played a very important role, and has borne a heavy responsibility. In January 2012, the first RMB Qualified Foreign Institutional Investors fund was launched. At the time, only 21 institutions had the qualification to do so.

Today there are three RQFII funds traded in Hong Kong. With the yuan going strong, the demand in Hong Kong for yuan assets were strong. Now yuan deposits in Hong Kong have amounted to 800 billion yuan, but there are few investment options for them.

Dealing with foreign exchange regulations is an important part of my job. We've already made lots of plans based on the current system. We cannot backtrack just because of difficulties and twists and turns. If we think this is the right thing to do, we should push on. The fluctuations over the past two to three weeks are worth some reflection, At the micro-level level, however, I don't think we've got much to change.

LAI Changgeng
Head of Fixed Income China, Head of Corporates Group, Asia (ex-Japan), BNP Paribas

On the topic of the internationalization of the yuan in Mainland China, Hong Kong, Macau and Taiwan, I should first explain that I'm originally from Taiwan, but I moved seven years ago to Hong Kong, and then last year to the mainland, so I have some understanding of these four places. Over the past two years, the biggest change has been that Taiwan has entered the RMB market. Now Taiwan has been changed a lot. And what have the influences been on the mainland? The most significant one is that Chinese companies are now permitted to issue yuan-denominated bonds in Taiwan. In Taiwan, yuan deposits have grown at a rapid pace.

The ultimate purpose of the internationalization of the yuan is for countries to use the yuan as a reserve currency, the way they use the U.S. dollar now

In addition, Taiwan is in a unique situation, because the New Taiwan Dollar (NTD) is itself a currency, and the difference between the RMB and NTD is not big. In fact the exchange rate between the yuan and the NTD has been very stable.

From Taiwan's perspective, they are joining together with a new economic system, and this economic system is growing extremely quickly with high interest rates. This is indeed a very favorable time for Taiwanese people to invest in the mainland.

The ultimate purpose of the internationalization of the yuan is for countries to use the yuan as a reserve currency, the way they use the U.S. dollar now. Hong Kong, Macau, Taiwan have an important role to play in this campaign.

Night Chat by the Huangpu I

Developed Economies' Quantitative Easing Policies

Moderator: YANG Yanqing\ Deputy Editor-in-Chief, China Business News

JI Zhihong
Director-General, Research Bureau, The People's Bank of China

Kenji YUMOTO
Vice Chairman, Japan Research Institute, Limited

Paul GRUENWALD
Managing Director & Asia Chief Economist, Standard & Poor's

HUANG Haizhou
Managing Director and Head of Sales and Trading Department,

Helen QIAO
Chief Economist of Greater China and Managing Director,Morgan Stanley

Louis Kuijs
Chief China Economist, Royal Bank of Scotland in Hong Kong

JI Zhihong
Director-General, Research Bureau, The People's Bank of China

Chinese currency policy was comparatively successful in handling the shock QE inflicted on China's economy and monetary policy. Of course, the process will be long, and we face numerous challenges, but as far as China's autonomous implementation of its monetary policy is concerned, QE introduces some pressure, or one might say, space to make a choice.

While QE was being implemented, China accumulated a lot of experience through the use of many different tools for making currency policy. In the future, as QE is tapered off, we will be well prepared to respond: any relatively large economy, with a flexible exchange rate, a developed capital market, and a deep financial market, will feel a smaller negative impact and have an easier recovery. From this perspective, the most important thing for China is to speed up the adjustment of its economic composition, and to promote increased economic balance.

At the same time, with the lessons we learned after the crisis, we know we must strengthen our careful management of macro-controls and speed up our interest rate, exchange rate and capital market reforms. All of these factors will greatly improve our ability to resist any shock.

Kenji YUMOTO
Vice Chairman, Japan Research Institute, Limited

How is the Abe government's proposed QE policy different from traditional QE? How are qualitative and quantitative easing (QQE) different from QE? Our main goal is inflation. The majority of economic scholars believe we will have a difficult time achieving our goal of 2 percent inflation, but there are also many scholars who think our rate of inflation will be even higher.

ZHANG Jianhua

PENG Wensheng

Chetan AHYA

The Bank of Japan's QQE hopes it can change the market's predictions, and thus change the composition of asset portfolios. The Bank of Japan's goal is to lower the interest rates on debt. So what are the Bank of Japan's intentions? Obviously this isn't an official statement, but I think they may want to devalue the yen, because that could help Japan's economy, especially exports, it could help us break free from our deflation situation. They also hope to stimulate consumption, in particular among the wealthy. The first quarter's data has already come out, and our GDP's rate of growth is more than 4 percent annually, and that is due in large part to our government's ability to stimulate domestic consumption.

We have almost succeeded in reaching our inflation goal, but that's only half the battle. Our rate of inflation had reached 1.8 percent, but then in May we realized it had decreased to 1.2 percent. We consider this a half-success. The really regrettable thing is that the new head of the Bank of Japan could not make sure that the stock market would continue to improve, because the devaluation of the yen had not progressed that far. The Bank of Japan's methods on that were a bit controversial.

As for last week's events, with the crackdown on shadow banking, I think the central bank stabilized the market with its flexible attitude. As for the future, I'm a little bit worried, but I think people participating in the market are extremely worried, because the signals are very unclear.

Paul GRUENWALD
Managing Director & Asia Chief Economist, Standard & Poor's

The signal of the tapering of QE played an important role in the credit and liquidity crunches in China last week, but I think that the tapering has been a kind of contributing factor, not the main factor. Let's think of two channels.

One, foreign outflows did happen from China and some of that did come from the interbank market, so it did take some liquidity out of the market. The second revolves around risk behavior, if we're in a risk off behavior banks and firms want to hoard liquidity, and we saw some of the big banks in the market hoarding liquidity. I'm not sure those were the main drivers but I think both of those contributed.

One thing on definitions. Deleveraging was mentioned and I'm not sure China is deleveraging. I think China wants to slow the rate of debt creation. Deleveraging means paying down debt. The US had too much debt and the US was actually deleveraging. I think we're trying to slow the rate of credit creation and debt creation. The PBOC letting the rates rise in the interbank market and forcing some of the more aggressive lenders to slow down some of the credit creation was the right strategy, but we're talking about slowing down the rate of debt rather than paying down the debt per se.

HUANG Haizhou
Managing Director and Head of Sales and Trading Department, China International Capital Corp. Ltd.

In the past two to three weeks, the markets have fluctuated a great deal, and the Federal Reserve may be backing off from QE. Chairman Bernanke's resignation is a big deal, and unless something big changes, something totally unexpected, he will definitely resign, that is the market's consensus.

After Bernanke's resignation, he will have one or maybe one and a half historical legacies. The first is that after the whole world experienced a very big economic crisis, thanks to the leading role of the Federal Reserve, the central banks used QE and a host of other measures to prevent a return to previous conditions. Managing the market's expectations that the Federal Reserve will taper off QE is his second half-legacy.

The most important thing is not whether Bernanke will taper off of QE while he is in office or not; rather, it is that the market will anticipate it. From now until the next Chair of the Federal Reserve takes office, and even until the new Chair has been in office for a year, the market will be very confusing. The confusion is not only due to wondering what the Federal Reserve will do next, but also what the Federal Reserve wants the nation to think they will do next.

It is the central bank's job to maintain the stability of the financial system. So if the risk of liquidity shortages has become significant enough to jeopardize the system, the bank must take actions. If the liquidity shortage is limited to individual financial institutions, then a bailout is not necessary.

China is facing a historic opportunity to deepen its reform and opening-up, which are closely linked to each other and mutually reinforcing. We should not stop efforts on either front.

Evgeny GAVRILENKOV

ZHANG Jianhua

QU Hongbin

Helen QIAO
Chief Economist of Greater China and Managing Director, Morgan Stanley

As for the impact of QE on China, most analysts hold the mainstream view that, because China maintains strict controls on capital flows, there is not much hot money flowing into the country.

But things have changed a lot from when the theorem was first introduced. Nowadays, it's just a matter of time to move capital, human resource and cargo across national borders. So we can't simply assume that China's strict capital control can fend off hot money inflows.

In addition, China's neighboring countries have in the past few years willingly or involuntary pegged their polies to that of America. Many have more or less adopted looser monetary policies under the influence of foreign exchanges. This has an indirect impact on China. It is also how money supplies would change in an era of globalization: liquidity will naturally flow from high mountains to low-lying lands in the world market. So it is impossible to say that all countries but China has been affected. This year, we are facing more challenges as liquidity is flowing outside the real economy. Having financial institutions deleverage now will coincide with massive outflows of foreign capital as the U.S. Federal Reserve draws closer to a QE exit.

Louis Kuijs
Chief China Economist, Royal Bank of Scotland in Hong Kong

The biggest economy in the world faced a huge amount of spare capacity and because of that it needed to

WU Enyuan

have very expansionary monetary policy including unprecedented and unorthodox quantitative easing, and this has created two issues for many economies.

One was that many economies tend to benchmark their monetary policy on US monetary policy. They have done that for a long time and they continue to do so, even though many of the Asian economies did much better. They did not face that slump in the US. They had much less spare capacity, which created the phenomenon of having monetary policy that is not appropriate for this booming economy. We had too low interest rates.

A second phenomenon that was linked to QE3 is this tide of capital flows into many countries. Some of it was welcome, not all of it was welcome, a lot of it was perceived as a headache, and it came at the wrong time, because it came at a time when these economies were booming.

I think it is very sensible that China's government, over the longer term, is planning all these very important monetary and financial reform, which include domestic financial liberalization, making the exchange rate more flexible, and opening up capital accounts. I very much agree that this is not black and white.

Paola SUBACCHI
Research Director, International Ecoics, Chatham House

QE is a complicated framework, a big box that could contain different measures. QE was implemented immediately after the global financial crisis. The Federal Reserve, followed by the British central bank, adopted an unconventional monetary policy when interest rate hit zero. Reactions of the market were quite positive at the time because the policy reduced some sovereignty debt and boosted the equity markets. That's why we saw stock markets rebound and investors regain confidence in 2009. The British central bank continued its QE policy in order to overcome deflation and curb the cash crunch by injecting liquidity into the market.

The second round of QE in 2010 has an immense counter-cyclical effect on the emerging market. The third round was less effective. In the meantime, we've seen the European central bank coming on board with a different kind of QE, which was a momentary measure to rescue the Euro. After that, we have the Japanese QQE, another variant of this monetary policy.

The way we see international cooperation is not so much in term of spillovers on emerging market economies, but spillover on innocent bystanders, countries which have open capital movements, and a flexible exchange rate system. China is quite insulated from this because of its exchange rate regime and capital controls.

Night Chat by the Huangpu I I

New Challenges & New Impetus for Economic Growth in Emerging Economies

Moderator: SUN Lijian\ Vice Dean, School of Economics, Fudan University; Director, Financial Research Center, Fudan University

XU Mingqi
Deputy Director and Professor of International Economics, Institute of World Economics, Shanghai Academy of Social Sciences

John DACEY
Group Chief Strategy Officer and Member of the Group Executive Committee, Swiss Re

Harry WU
Director of Economic Research, The conference Board, China Center

Evgeny GAVRILENKOV
Chief Economist and Managing Director, Sberbank CIB

Stephen GREEN
Head of Research, Greater China, Standard Chartered Bank

XU Mingqi
Deputy Director and Professor of International Economics, Institute of World Economics, Shanghai Academy of Social Sciences

Most problems of developing countries come from their economic structure and their internal problems such as social inequality, unbalanced income distribution and pollution. To solve these problems, we have to carry on with reforms to restructure the economy.

The emerging economies are vulnerable to policy adjustment in developed countries. There has been much talk about the US exiting from QE causing huge capital flows from developing countries to developed ones, posing challenges to developing countries' economic growth.

But we are not as exposed to the risk. The process of exiting from QE will be long, and the market has overacted to previous news. We have seen roller-coaster fluctuations recently in stock prices. Some economists say it was because American assets are becoming more lucrative with US exiting from QE. However, when we take a closer look, we will find that stock markets in developed countries actually fluctuate in tandem with those in developing countries. If the funds flow from developing countries into developed countries as predicted by those scholars, China's stock markets should fall while stock markets in developed countries should rally. Obviously, this is not the case. Large financial institutions use these kinds of theories as gimmicks to cause large fluctuations in the market. As they profit from market fluctuations, the real economy will be negatively affected, slowing down economic

ZHU Xinkun

Ken WILCOX

recovery.

The rapid development of SMEs generates momentum for economic growth. The number of private enterprises decreased in 2011 for the first time since the reform and opening-up. That means previous stimulating policies were in favor of large state-owned enterprises, which developed and squeezed out smaller private companies. Moreover, international demand for Chinese goods decreased, causing the closure of a large number of exporters.

So the next stage of reform should tip the balance in favor of private enterprises and create an accommodating environment for their growth. Some local governments have realized the need and relaxed controls over the establishment of private companies. But necessary complementary measures have been slow to catch up. We should also improve our technologies through a combination of independent research and learning from others' achievements.

John DACEY
Group Chief Strategy Officer and Member of the Group Executive Committee, Swiss Re

I think that the first important thing to understand is while some investment bankers have decided BRIC is a nice acronym – Brazil, Russia, India, China – the reality of these four economies is dramatically different. There are a couple of themes that I'll come to by the end that cut across them, but I think importantly what you're seeing market by market are challenges that have come with the success of the countries to date. So within China, I'd say that there are two fundamental challenges on the macroeconomic environment. One is demographic. I care about this enormously as part of the insurance sector. There's never been a moment in history where a country as important to the world economy as China has the inverse demographic pyramid that China has today. Managing through the next twenty years, when the number of employed people is going to fall compared to the number of retired people, is something which will be a giant issue for the economy. I think it's manageable, but the resources of the government and private sector need to be organized to deal with this.

So I think as you think through these BRICs, you cannot group them because it's easy to group them as an acronym. You need to understand that each one of these countries has their own challenges and opportunities. Across them, I'd say one of the important issues is the development of a social net, which supports the poorest segments of the society. I think that the traditional family structures, which have done that in the past, are going to struggle. Whether that social safety net is largely government-managed, or private sector-managed, is going to be one of the most important decisions these countries are going to have to face, and here I can imagine some combination of the government encouraging long-term saving products, and both the banking sector and the insurance sector providing long-term savings solutions, as going to have be part of the answer. The other issue I see coming across these markets is an issue about environmental concerns. In all four of these markets, you're starting to see an important social dynamic where that people care about the physical environment that they're living in and their children are growing up in, and this is going to have to be one of the biggest challenges for all four BRICS.

Harry WU
Director of Economic Research, The conference Board, China Center

We have experienced 30 years of rapid growth, which I believe has reached its limit. In any country's early growth phase, there is this period of rapid catching up. Due to the disparity between you and the most advanced technology, as well as the fact that these technologies are

Duane KUANG

WANG Ren

already mature, therefore has led to investment and fixed management, as well as necessarily good mechanisms, which has led to a comparatively rapid growth.

The next question is when can you switch to a more intensive pattern of development? This is an incredibly important issue that we are confronting. With regards to productivity and the fundamental sources of growth, it is a very complex calculation.

Let us now turn to a topic of special interest – current financial policy. I hope that we can force capital throughout the real economy. I think this is immensely important, but this only a starting point. Once you force capital throughout the real economy, then what do you do? Productivity is a crucial point; the ultimate point is efficiency and technological progress.

I believe this is an especially important issue. Two days ago, I was at a discussion forum, which was held by the EU Chamber of Commerce and centered on the problems China faces in its development. Everyone there was talking about how severe China's population problems have become. We conducted calculations and found that China, relative to similar income stages in other countries, has an especially high savings rate. Why is this the case? This involves a number of problems; many savings are not personal savings. They are business and government savings.

Evgeny GAVRILENKOV
Chief Economist and Managing Director, Sberbank CIB

Thank you for this opportunity to speak here. Let me remind you that last year, global GDP exceeded 71 trillion dollars. Twelve major developed countries produced more than 52 percent of global GDP. I think this year, the debt-to-GDP ratio will increase in most countries, maybe apart from Canada and Germany, where the financial situation looks a bit better than elsewhere.

But what does it mean? It means that the current financial stability as well as we know, as currently supported by activity of the Federal Reserve or European central bank, the Bank of England, or Bank of Japan – so injections of cheap liquidity, all those various QEs, this is what guarantees short term stability.

We saw recently what happened with US bond deals. Once Bernanke mentioned something might change, no action had taken place yet, but the markets moved. We're seeing what happened in China recently, in the past weeks, when it was very difficult for the Chinese government to issue bonds and interest rates went up, so all those recent developments show how unstable the situation is. China's growth was largely driven by reckless spending in the past two to three decades, -- the investment-to-GDP ratio almost doubled over the past decades – that always points to diminishing returns of those investments, and the efficiency of those investments is falling.

If you look at China's GDP, it's 8.23 trillion dollars, which is about 52 percent of the US'. In three to four years, by size, it will be not exactly the same but already comparable with the US economy. There are huge financial problems with shadow banking; nobody knows what the exact size of bad loans is, and that's going to be a problem.

It will be natural for China to deepen its financial markets and lift capital controls. I don't know how it will be orchestrated, but that is where the Chinese future is. If China now will be offering more attractive financial instruments, I wouldn't be surprised to see that, over time, the direction of the flow of capital changes. China in particular may become the recipient of global financial resources.

Stephen GREEN
Head of Research, Greater China, Standard Chartered Bank

Standard Chartered Bank will release a report right away on the debt situation in Asia. In the past three to four years as a scholar of the Chinese economy, I have been researching and explaining the debt problems of both China and regional governments. We felt as though it was best not to look only at China for explanations, so we also spent large amounts of time examining the debt problems of other countries in Asia to determine what China's problems fundamentally were.

ZHU Xinkun

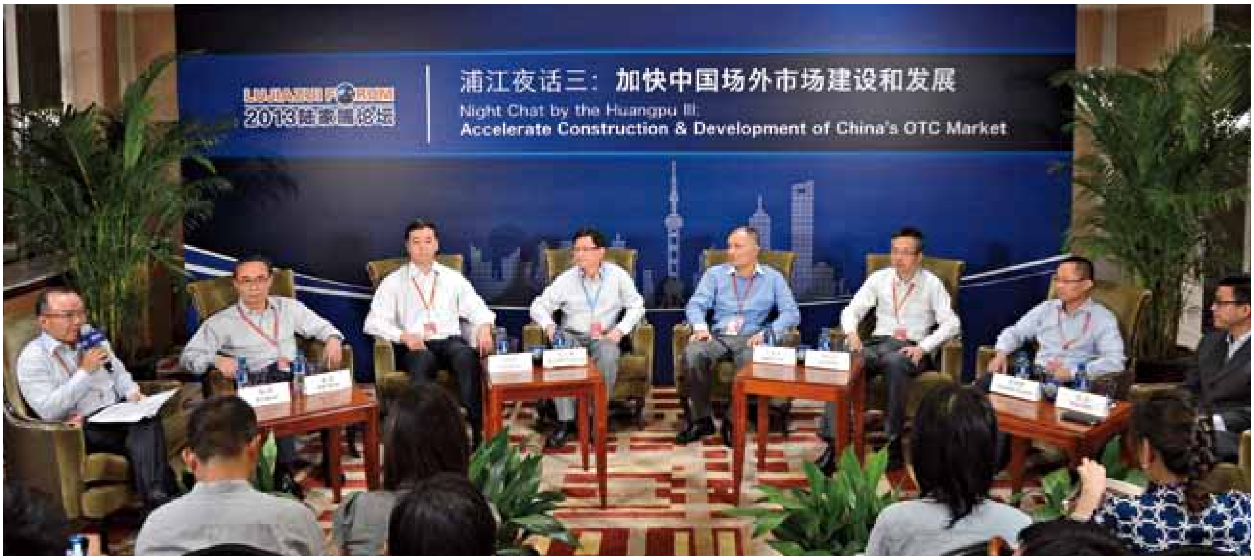
We compared China's debt-to-GDP ratio to other countries, for example, Japan, whose debt-to-GDP ratio, when including personal, business, and government debt, was at 400 percent, the highest in the world. We calculated that China's debt-to-GDP ratio, including personal, business, and government debt, was around 220 percent. Since the end of last year until now, it's possible that it could have increased, but we have no idea what it could have reached. But in other countries, like Thailand, it's at 170 percent, India is at 140 percent. In all other Asian countries other than Japan, the debt-to-GDP ratio is lower than China's.

Over time, the direction of the flow of capital may change direction and China in particular may become the recipient of global financial resources

From where does China's debt come? We discovered that from 2000 to 2008, China's debt situation did not fundamentally change. At the end of 2008, after 4 trillion yuan in investments was made, the percentage started to rise. In 2010 and 2011, it was more or less steady at 170 percent; it had risen 20%. At the end of 2012, it started to rise again, from 170 percent to its current 220 percent, and it continues to rise.

With regards to government debt problems, we feel that they are not large scale; 80 percent of the problems should be bearable. There are two problems. First is that this debt, especially at the regional levels of government, is highly unclear. The government doesn't know, banks don't know, the Ministry of Finance doesn't know. The second is how do you settle it? We know that governments have lots of debt; we also know that they have lots of assets and land. How do you turn these assets into cash? This is a major problem.

In this report, we were shocked about China's businesses' debt. We had previously thought it was not a large problem. Afterwards, we discovered that the problem was not one of scale, but one of the ability to settle debts. The crucial question for China is how, in the next five years, it will arrange a beautiful deleveraging process.



Night Chat by the Huangpu III

Accelerate Construction & Development of China's OTC Market

Moderator: XU Quan\ Deputy Director General, Shanghai Financial Services Office

XIE Geng
CEO, National Equities Exchange and Quotations

XIE Geng
CEO, National Equities Exchange and Quotations

ZHANG Yunfeng
Vice President and General Manager, Shanghai Equity Exchange

WANG Yisi
President, Chongqing Share Transfer Center; Vice President, Southwest Securities Co., Ltd.

LI Xunlei
Deputy CEO and Chief Economist, Haitong Securities

Paul WU
Vice President, Beijing Polo Group; Deputy Chairman and President, POLOBIO

HUANG Xiaojie
CEO and Founding Partner, KunwuJiuding Capital Co., Ltd.

XIE Geng
CEO, National Equities Exchange and Quotations

For the last thirty-odd years since the reform and opening-up began, we have maintained an average growth rate of 10 percent. This year's growth rate has slowed down. Many of us are discussing whether this trend might be a good thing, a type of transformation; it might be a crossroad that we have to face. Should we maintain our high growth rate through traditional development methods, or should we accept a lower growth rate to finish our economic transformation? This is a very important choice.

One important piece of the puzzle is our creative, entrepreneurial SMEs. We must cultivate our industrial sector's core ability to compete, by emphasizing indigenous intellectual property rights.

Our economic system must be able to tolerate risk. Today, Asian countries rely mostly on indirect financing. This financial system's risk tolerance is quite limited. This also explains why, in terms of creativity, there is a gap between China and the West. We need to develop the direct financing system. Currently only the Shanghai and Shenzhen stock exchanges are in the system. After 23 years of development, there are 2,491 companies listed in the bourses. This is normal, because the stock exchange market is open to the public and has a relatively high requirement for risk control. Companies must meet higher qualification standards in order to list on a stock exchange. That is also why we need the capital market to have different layers.

There is no need trying to determine at this moment how many layers we want in the market.

XIE Geng

ZHONG Guanghua

Developing a multi-layer capital market is a continuously evolving matter. Even developed countries' capital markets are still under development.

XIE Geng
CEO, National Equities Exchange and Quotations

Stock exchanges and the over-the-counter (OTC) market are part of the same organic whole. We as builders of the exchange market have watched happily as over the past few years, with the strong support of relevant supervisory officials, and thanks to a series of new laws and regulations, our national OTC market and regional equity exchanges have developed rapidly.

The growth of the OTC market, particularly the expansion of direct financing for SMEs, has done a great service to the development of the real economy, and has been a big step forward for investors who want to make higher risk investments, which is quite significant. Even more importantly, the development of OTC market is a big step forward for the growth of a multi-layer capital market.

The OTC market is often portrayed in opposition to the market in stock exchanges. We think that these two markets should be viewed as components of a pyramid. The OTC market should be at the bottom, because only it can have the size and strength needed for supporting the stock exchange market, which should come on top of it. The two layers of markets should be interlinked. In practical terms, it means there should be a mechanism that allows companies listed on one of the markets to transfer to the other. At present, there is yet no such a mechanism.

ZHANG Yunfeng
Vice President and General Manager, Shanghai Equity Exchange

The real economy's development has helped people from all walks of life to understand OTC markets. But when we look at the whole picture, one big problem is revealed. This problem has three parts.

First, no matter how we made the rules, the OTC markets we have now lack diversity. They provide the same services to the same group of clients. We have a great number of markets similar to each other. This is a waste of resources.

Second, the geographic limitation imposed on regional OTC markets has done some companies a disservice. When a local government wields its administrative power and forces a company to list on a regional OTC market within its jurisdiction, the victim is not only the company itself. The economy is hurt as well.

The third point boils down to the inefficiency in our market. The fundamental service of a capital market is to facilitate the allocation and redistribution of resources, in other words, securities trading and financing. When this function is not realized, the market is meaningless.

So how do we solve these problems? We can look to foreign countries, which have a great deal of experience. According to countries where capital markets are relatively developed, solving these problems is actually quite simple. The answer is fair competition. That is the solution to all of our problems.

WANG Yisi

President, Chongqing Share Transfer Center;
Vice President, Southwest Securities Co., Ltd.

Services a centralized market can provide are only the tip of an iceberg. As long as we stick to the old habit of unified administrative actions, it is difficult not to predict that we will be as far away from the goal of a multi-level capital market in ten years as we were a decade ago.

In my opinion, the essence of a market being multi-level is embodied in four aspects. Firstly, companies listed on the market are different. Secondly, investors can be divided into several layers, each

ZHANG Yunfeng

Yeeli Hua ZHENG

layer corresponding to investments at a different risk level. From this perspective, it is worth considering lifting the geographic restriction on investors.

Thirdly, transaction methods on the market should vary according to the type of securities being traded. For many small enterprises, the first and foremost problem in a stock issuance is about pricing and liquidity. A centralized bidding mechanism based on market makers can suit their needs. But it is against the regulation of regional equity exchanges. Last but not least, the regulation of a multi-layer market should not be a one-size-fit-all solution.

LI Xunlei

Deputy CEO and Chief Economist, Haitong Securities

There are several points I think deserve consideration.

First, does innovation come from the top level or from the bottom level? I think everybody would say in principle that it comes from the bottom level.

Second, how should we judge innovation? Should we grant it some amount of exemption from punishment? Shanghai government, for example, recently passed a regulation that says an innovating firm can be exempt from liabilities from damages caused by its innovation, provided that the firm itself can stand up to scrutiny. I think this is a very good progress in terms of promoting innovation.

Securities firms should obey regulations to prevent risk. Nevertheless, I think many innovations securities firms have undertaken will not pose systemic risk to the society because they came up within the boundaries of existing regulatory framework. Also, securities firms have an internal risk control system that should be able to prevent us from losing control of investments.

Finally, in what areas can we be innovative? Many OTC markets have withered because there is not enough demand. What the market has a demand for should be encouraged.

As for the current liquidity shortage, we should all conduct self-examination to see if that is a problem of too aggressive innovation. This is an issue worth putting some thought into. Many products available on the market now are unrealistically based on the government credit. That is very dangerous.

Paul WU

Vice President, Beijing Polo Group; Deputy Chairman and President, POLOBIO

I want to talk about my understanding of multi-level capital market from the perspective of an entrepreneur. My company relies on academies including the Chinese Academy of Social Sciences and the Academy of Agricultural Sciences for technology support. Our operations focus on probiotics technologies, developing microbial bacteria beneficial to human health.

Our company has witnessed most of the major events in the global financial market. We went public on Toronto Stock Exchange in 2008 and got caught in the financial crisis before long. Then came the crisis of Chinese concept stocks. In 2012, we delisted through a buy-back. We chose Shanghai Equity Exchange at last for a re-listing.

Many companies like us have a genuine demand for capital. From that perspective, there is no doubt that it is imperative to establish a multi-level capital market. The question is how to make it efficient and well-organized.

Must OTC market and floor trading market be unified as one? I don't think so. The NADAQ has a self-contained capital market and companies do not necessarily graduate into a higher-level capital market like the New York Stock Exchange. If it were not for the restriction on the number of shareholders, we might not even consider listing on another venue.

The financing need of many high-tech enterprises, especially when they are in early stages of development, can only be met by VC/PE investments, because they don't have many tangible assets that can be used as collateral for bank loans. Merger and acquisition is also important. We hope greater regulatory improvements can be made quickly in this respect.

XIE Geng

ZHONG Guanghua

QIAN Xueyu

HUANG Xiaojie

CEO and Founding Partner, KunwuJiuding Capital Co., Ltd.

I'm optimistic about the development of the OTC market. As an entrepreneur, I started doing business with just 12 yuan, and the scale of my business is now 20 billion yuan. Compared to other capital markets, the OTC market represents an emerging power, and I would love to embrace new things.

The first is that the new regulation seems more tolerant than the old one judging by how some details were phrased differently. The second is that there are very clear rules for investors and intermediary institutions to follow. Thirdly, the trading cost is low for both sides of a transaction. The final point is efficiency. If it takes two or three years for a company to raise capital, it might as well not to try financing at all. The company with a US$ 700 billion market capitalization, the largest in history, is not listed in the New York Stock Exchange or the Shanghai or the Shenzhen stock exchange. It is listed in an OTC market.

China's OTC market should insist on going in the direction of marketization despite obstacles. In the future, it will definitely be valuable and help nurture globally renowned Chinese brands.

Night Chat by the Huangpu IV

Development & Supervision of Shadow Banking

Moderator: YUAN Man\ Finance Head Editor, CAIJING Magazine

YAN Hong
Deputy Director, China Academy of Financial Research,Professor of Shanghai Advanced Institute of Finance, Shanghai Jiao Tong University

Henry CAI
Executive Chairman of Corporate Finance, Asia Pacific;Member of Asia Pacific Executive Committee, Deutsche Bank

ZHAO Minghao
Vice Chairman and General Manager, Huatai Insurance Group Co., Ltd.

ZHU Haibin
Chief Economist for China, J.P. Morgan

LU Zhengwei
Chief Economist, Industrial Bank Co., Ltd.

LIU Ligang
Greater China Chief Economist, ANZ Banking Group

JIANG Yongxiang
Managing Partner and Chairman, Bangming Capital

YAN Hong

Deputy Director, China Academy of Financial Research,Professor of Shanghai Advanced Institute of Finance,Shanghai Jiao Tong University

We have been talking about shadow banking for years. The topic has attracted a lot more attention recently, partly because its scale has reached a certain psychological threshold. Some estimates put the number at around 30 trillion yuan. So people are concerned about the threat it poses to the real economy and the overall financial system.

The shadow banking system has to some extent filled in the gaps in our traditional banking system. Many businesses it provides, such as small loan services, are what traditional banks should provide but have failed to. On the other hand, we don't have many choices when it comes to investment channels. That is why various wealth management products have been popular. It is also what propelled the development of shadow banking.

In its essence, shadow banking is not to be feared as a monster. In fact, it has played a positive role in our immature economic system by helping small-and medium-sized enterprise raise capital. The drawback is its lack of transparency. There is not enough regulation for the shadow banking system. Investors' rights are not adequately protected either.

The fundamental solution to problems caused by shadow banking is closely related to the reform of the entire financial system. There are a few things we can do. One is to speed up interest rate reform. Another is to diversify investment tools available in the market so people don't have to rely on wealth management products. We also need to overhaul banks' performance evaluation system. Wrong incentives are a main reason why banks have failed to do their job.

We should have the current financial system thoroughly reviewed for risk and bring shadowy operations under supervision. Information disclosure should be strengthened so we can have a better understanding of risks and price them into our investment decisions.

JIA Kang

QIAN Wenhui

When liquidity is tightened, low efficient companies will be weeded out and efficient ones will be able to live on

Henry CAI

Executive Chairman of Corporate Finance, Asia Pacific;Member of Asia Pacific Executive Committee, Deutsche Bank

There are reasons why shadow banking exists. They might have something to do with the fact that our capital market has been dysfunctional. Eighty percent of securities traded in our stock exchanges are stocks. The figure for the New York Stock Exchange for the first six months of this year was 18 percent. Bonds are significantly underdeveloped because of over-regulation.

Also, the bank loan market has been distorted by government interventions. There are two things that need to be done if we are ever going to bring shadow banking in line with the greater financial system: one is to unswervingly stick to the path of market reform, and the other is to strike a balance between the market and government regulation.

When liquidity is tightened, low efficient companies will be weeded out and efficient ones will be able to live on. But we also need to keep in mind that it takes a loose monetary environment to nurture new industries. The banking industry is confronted with an unprecedented challenge. The market capitalization of banks in the country is only half of what it used to be 12 months ago. It is a cliché to say they need reform. In no other country can you find the banks account for half of all listed companies' profits.

The banks are facing challenges on multiple fronts. Its share of revenue from businesses other than taking deposits and making loans remains low. I don't think the banks themselves are to blame. Other challenges include the development of new transaction methods and new IT systems. We still have a long way to go before we can claim to have completed market reform.

Nelson GU

Frank FX GONG

ZHAO Minghao
Vice Chairman and General Manager, Huatai Insurance Group Co., Ltd.

The shadow banking system has once again come under the spotlight and attracted much public attention. We had been bent on investing in wealth management products and trusts. The risk of losing money seemed far away at the moment but seems real now. We have talked much about the positive side of shadow banking. But as an innovation, it is inevitably flawed and may bring undesirable impact to the existing financial system.

While we keep a close eye on risk, we might as well take an alternative perspective to think about what on earth caused the problem and how they can be solved. A deeper thinking about the crisis will help us appreciate more strongly the necessity and imperativeness of deepening reform to the country's financial system.

The current dual-track system of interest rates is a main reason why shadow banking exists. Whether it is a bank wealth management plan or a trust product, the amount of market forces at work is at odds with the level of economic and social development. The State Council has treated financial institutional reform as a priority. An important part of its agenda is reforming the systems of interest and exchange rates.

In my opinion, our financial system has come to the point where it must be changed. The process of reforming the dual-track system will be very difficult and require extreme caution. But that does not mean it can be put off. From that perspective, I think the only way to solve the root causes of shadow banking problems and complete the financial reform is to start from the very top of policy making and establish a set of management rules that truly rely on the market.

Whether it is the problem of excess liquidity, or financial institutions' high leverages, or the mismatch of asset maturities, the market is fully capable of adjusting itself with a smaller impact on the society.

ZHU Haibin
Chief Economist for China, J.P. Morgan

Why is the size of shadow banking? The official statistics says it is small. We on the other hand think it equates to 5 percent of the country's GDP. We commonly define shadow banking as lending outside the banking system, including wealth management schemes. Calculated when this definition applies, the size of shadow banking in China is about 36 trillion yuan, or 70 percent of the GDP.

This figure has surprised many people after our research report was published. Here I need to do some clarification. It is not as dauntingly high as it appears. If we compare it with the average of the G20 countries, which is 110 percent, it seems the sector even has room for growth.

The real concern is, however, the shadow banking system has expanded too fast in China during the last few years. It failed to serve the purpose we wanted it to, which is to supplement the shortages in the current banking system. In other words, the current credit system is less efficient than we want it to be, because of regulatory restrictions. So we hope that there is another banking system outside the current one to complement it. Judging by the current situation, the shadow banking system has somewhat served the function. But it has brought more risk.

Shadow banking in both China and other countries came into being because of room for regulatory arbitrage, which is not necessarily a bad word. We were hoping innovation can find a way to supplement the existing system.

It is hard to figure out exactly what the central government means by saying it wants to active the existing stock of money. My understanding is that the central bank may act in two steps. First, squeeze out the frothy part of liquidity in the financial system, which is related to shadow banking. Second, figure out a way to channel credit to the real economy including agriculture and small and family businesses. In the end, liberalizing the interest system is the ultimate answer to various risks posed by the shadow banking system.

JIA Kang

QIAN Wenhui

LU Zhengwei

Chief Economist, Industrial Bank Co., Ltd.

I will raise seven issues for discussion in hope they can give rise to more valuable thoughts.

To begin with, if shadow banking exists because the interest rate system is not fully based on market, as many experts suggest, then how do we explain the fact that the world's largest shadow banking system is in the U.S.?

Secondly, is it true that shadow banking refers to only private operations, and if it is sanctioned by the government, it is no longer shadow banking? The Chinese Academy of Social Sciences said China's shadow banking system grew explosively after 2009. What happened in 2009? We were in the middle of a government stimulus plan. The shortfall in capital between what was needed and what the government could provide was plugged by the shadow banking system. From then on, the government started monitoring total social financing, which covers the shadow banking sector. From that perspective, it feels like shadow banking has helped the government solve problems.

The third issue is about regulation. As we know, the chairman of U.S. Federal Reserve has identified several financial products as components of shadow banking. Does that mean they are now under the Fed's adequate supervision and regulation?

Fourthly, when we talk about shadow banking, we tend to think of it in a bad way and feel it ought to be stopped. But financial regulators in foreign countries still think they need to develop asset securitization, asset-backed notes and money market funds, even though they are now treated as shadow banking. It is therefore important for us to realize that when we talk about the risk of shadow banking, we don't mean to get rid of the whole thing altogether.

Fifthly, in many discussions, shadow banking has been talked of as if it has nothing to do with banks. But in foreign countries, hedge funds and securities lending programs conducted by banks are all called shadow banking. Chinese media sometimes call bank wealth management products as shadow banking as well.

Sixthly, we need to have a clear view about what we want with more regulation. We have been calling for more regulation over the shadow banking system. But over time, as Ben Bernanke pointed out, financial activities tend to shift away from tightly regulated areas to those with looser regulation. The trend is inevitable.

Last but not least, shadow banking has its positive side. It has lowered transaction cost, served customers well and diversified clients' financing channels. Metaphorically speaking, it is a naughty boy who does good deeds. That is why we must take advantage of its benefit while keeping a close eye on the risk it poses to the financial system.

LIU Ligang
Greater China Chief Economist, ANZ Banking Group

The amount of bank assets in China has exceeded the GDP by about 250 percent. But the share of contribution from stocks and bonds to GDP has remained low compared with many other countries. The underdevelopment of our capital market is to some extent because of our regulations. For example, not every company can issue bonds. Bond issuance is regulated by three organizations. The central bank oversees the interbank market. China Securities Regulatory Commission oversees the bond issuance of listed companies, and the National Development and Reform Commission regulates enterprise bonds.

Banks, on the other hand, are also subject to heavy regulations. They have an incentive to innovate and circumvent restrictions, and offer clients high-yielding wealth management products so they do not take out their deposits and go to other banks.

Interest rate reform alone will not suffice the need for a deep structural reform to the financial market. We should also take some complementary measure to support the reform. One example is to strengthen competition in the banking industry. We can consider allowing private investors to set up banks and compete with state-owned large ones. The competition will bring down the overall capital interest rate in the economy. More importantly, private banks are more likely to cater to the financing needs of SMEs.

We should also develop the bond market and encourage big companies with more transparent information disclosure to raise capital through bonds rather than bank loans. That will force more banks to seek out new clients and serve small companies better.

Nelson GU

JIANG Yongxiang
Managing Partner and Chairman, Bangming Capital

I would like to talk about shadow banking from the perspective of equity investors. It was formed driven by market. Given proper regulation, it would have a positive effect on the financial system and benefit the economy.

I think the current liquidity situation is significantly out of balance. Too much capital has been poured into financial derivatives, but the real economy is in dire need of money. Last year, there were 56.5 million small-and medium-sized enterprises in China, accounting for more than 98 percent of all enterprises. Their contributions accounted for 85 percent of new jobs, 75 percent of new products and 65 percent of patents filed last year. They made up 60 percent of last year's GDP and were responsible for half of the country's tax revenue. Among them are some high-tech enterprises that will play the leading role in our economic transformation. But they are underfunded the most. It is imperative that we figure out how to channel money from the shadow banking system to the real economy.

Too much capital has been poured into financial derivatives, but the real economy is in dire need of money

I have been focused on investing in high-tech small- and medium-sized enterprises with great growth potential. I'm confident to say that the principal part of your investment is safe if you invest in this type of companies. But of course, you need to have good judgment. On the other hand, the amount of capital a SME needs is usually not large. Ten or two million yuan will suffice. And if the company fails to develop as expected, the investor can often opt to sell the shares it acquired back to the company. So the principal is safe. And the return can be expected because they are in line with the country's development strategy.

If we can divert even a small part of money in shadow banking to the real economy, from bond to equity investment, the economy and the financial system will soon be able to rise to a new level. This will not only solve the problems of shadow banking but also help SMEs over the difficulty of financing.

Nght Chat by the Huangpu V

Development of Specialized Financial Institutions

Moderator: GUO Tianyong\ Professor, Central University of Finance and Economics

FAN Yonghong
Chairman, China Asset Management (Hong Kong) Ltd.

MA Jian
Head, Private Banking Department, Industrial and Commercial Bank of China

DONG Weijian
Executive Vice President, Shanghai RMB Trading Unit Headquarters, Bank of China

Hiromasa Yamazaki
Head of Asia Strategy & Wealth Management Executive Director, Nomura Holdings Inc.;
Executive Vice President, Nomura Securities Co., Ltd.

REN Jun
General Manager, Private Banking, Shanghai Pudong Development Bank

YIN Zhe
Noah (China) Holdings Limited, Founding Partner, Executive Director

CHEN Xiaosheng
Chief Strategy Officer, Shenyin & Wanguo Securities

FAN Yonghong
Chairman, China Asset Management (Hong Kong) Ltd.

The wealth management industry has huge potential in China. The next five years will mark a golden age for the industry. Interest rate liberalization in China is bound to boost the wealth management industry in China.

I think this is a moment of historical opportunity for the wealth management industry as a whole. Banking, trust, securities companies and Internet finance companies all tap into this burgeoning market.

The mutual fund industry is only one aspect of the wealth management. In the past, there is no concept of "wealth management." We managed our wealth basically through depositing money in a bank or by buying bonds. After that, various kinds of funds emerged. The funds industry developed very fast. It reached a scale of three trillion yuan. One of the core characteristics of this industry is that it has high transparency.

If some banks continue developing, it will take a toll on the stock market's bidding system. That way, the stock market cannot be established, the money market cannot be established, so we got a temporary liquidity panic. It hurts the money market, and ordinary investors.

We should strengthen public supervision. Second, develop private wealth management systems. Such systems have reached high degrees of marketization. Whether they comply with larger development strategies, whether they have good relations with the customer, whether they have high capabilities of investment, and whether they effectively integrate resources – these are all important.

Nicholas LARDY

XU Zhen

Fred HU

MA Jian
Head, Private Banking Department, Industrial and Commercial Bank of China

As the global financial crisis escalates, international and domestic regulators are tightening supervision over financial institutions. Commercial banks cannot continue with their current development models. The trend of interest rate liberalization, assets securitization and yuan internationalization has irreversibly transformed the business environment for banking institutions. Against this larger backdrop, we need to adapt to the evolving market and the changing customer demand to achieve sustainable development.

The role of private banking in China has shifted from a privilege for aristocrats and billionaires to a type accessible financial service for the massive local and global customers. Moreover, in terms of market demand, China's affluent population will achieve a compound growth rate of 20 percent in the next three to five years, according to some research institutions. At this speed of growth, customers for private banking in China will reach 2 million in the near future.

In my opinion, private banking provides customer services on a more personal basis as opposed to mass-market retail banking, but this small group of customers has higher requirement for services. First, we should expand business area from asset management to an international and integrated wealth management service. We should incorporate our RMB offshore business and international businesses into private banking and help Chinese enterprises to venture into the international market.

DONG Weijian
Executive Vice President, Shanghai RMB Trading Unit
Headquarters, Bank of China

Non-bank wealth management institutions have advantages in terms of their clear positioning, professional specialization and strong investment ability.

Firstly, they have a clear positioning. Most wealth management institutions are based on what their parent companies are good at. Their businesses have clear-cut boundaries from the moment they were established. Secondly, they are concentrated on wealth management. They are financially independent from their parent companies and can calibrate their corporate policies to attract the best talent.

Thirdly, they have strong wealth management capabilities. Securities firms and insurance companies are subject to fewer investment restrictions so compared with commercial banks, they are better at innovation. So wealth management institutions can pool social capital and make the most of their investment capacity.

The advantages of traditional banks are a wide client base and abundant capital. We can form a mutually complementary relationship with wealth management institutions. There is a big challenge for the regulators. Some institutions are long been outside the view of the regulators. It is imperative that we bring them into regulation as soon as possible.

Hiromasa Yamazaki
Head of Asia Strategy & Wealth Management Executive Director, Nomura Holdings Inc.; Executive Vice President, Nomura Securities

Helen QIAO

Nicholas LARDY

We first have to think about what the market needs, not what we want to do in the market. The second one is real globalization. Even at that time, Japanese banks and brokerage houses didn't understand the meaning of globalization, even though we knew by concept globalization is inevitable. Third, corporate governance. This is also very easily forgotten when the market gets so hot. From these lessons, Nomura actually tried to sophisticate ourselves with a big concentration to coming back to basics. We concentrated on three things.

First is research quality. Second is best execution, third is best pricing capability. If we think and analyze about institutional business with risk business, we can easily understand the margin getting lower and lower, and capital regulatory requirements getting tighter and more expensive. I'm now in charge from this fiscal year on, of Asia strategy building for the whole Nomura group and also in charge for wealth management business in Asia. This is not just a coincidence. Nomura thinks these two responsibilities are not divided.

REN Jun General Manager, Private Banking,
Shanghai Pudong Development Bank

Compared to foreign private banking, China's private banking is still in its early stages. Many of China's banks still sell products, and this may not be the business that our high-end customers want.

Our private banking services target clients with at least 6 million yuan worth of assets, as required by China Banking Regulatory Commission. We pay attention to not only the wealth of our clients and their families but also the demand of their businesses.

My experience tells me that our clients usually put 30 to 50 percent of their wealth in our private banking services. Often they have their own plans for assets allocation. They expect to receive added value from private banking. Private banking should adapt accordingly by changing their business model which focused on only product sales.

At present, private banking has a very good development opportunity. There is an abundant supply of capital and people have a lot of money.

Also, the country is in the process of structurally rebalancing the economy, if we can put the money of the wealthy to rational use on the private banking platform, we can pull the country through this transitional zone. This is where the value of private banking lies.

The traditional advantages of banks in the number of customers and a wide network have been increasingly challenged. Their biggest disadvantage is still in asset management. We hope the regulators can work jointly with private banking institutions and find a way to broaden the scope of bank asset management schemes. We also hope that the business model of trusts can be introduced to private banking.

XU Zhen

Fred HU

YIN Zhe
Noah (China) Holdings Limited, Founding Partner, Executive Director

China has made great economic progress since the reform and opening-up, and the country's traditional banking system could no longer service its newly affluent population. This has altered our financial landscape. The primary beneficiary of this change has been the wealth management system, which has come a long way and is now at a turning point in the sense that reform is being pushed forward to liberalize interest rates and further open up the financial industry. This presents an unprecedented growth opportunity for wealth management in the country. Improvements can be made on multiple fronts, including regulations.

The future of wealth management is not limited to the narrow traditional sense. The business is in fact more of a channel or a conduit through which wealth management products are sold to clients. In a broader sense, securities firms and fund management companies can also provide asset management services. Investors now have a much wider scope of wealth management products to choose from.

We have also seen the growth of financial institutions that provide integrated services. Along with the development of trusts the wealth management industry is looking for ways to broaden their role in management including management capabilities in asset management and portfolio asset management. These are the opportunities and challenges regarding the capabilities of wealth management.

CHEN Xiaosheng
Chief Strategy Officer, Shenyin & Wanguo Securities

I would like to talk about the transformation of financial institutions in particular. Banks are good at wealth management. It took only a few years for personal banking to grow into a business of 1.7 trillion yuan. It took the securities sector two decades to reach 2 trillion yuan. Today the size of the trusts sector is estimated to be more than 9 trillion yuan. Some forecast it will reach 12 trillion yuan this year. In this era of broad assets management, how should different financial institutions position themselves and find a development path that suits their characteristics? This is a question everyone in the industry has been thinking about.

Insurance companies have accumulated much experience in managing capital. Securities investment funds have been experienced at controlling risk. Securities firm had been stagnant for 10 years, until last year when the regulator encouraged them to innovate.

The two most important functions of securities firms in the financial market are creating products and providing liquidity. Can we activate the trading of trusts products, of banks' wealth management plans and of various privately offered funds? What the central government said about making better use of the existing stock of money should be realized in a market-driven manner instead of being implemented administratively.

Night Chat by the Huangpu VI

Expansion of Private Capital into the Financial Sector

Moderator: LING Huawei\ Associate Managing Editor, Century Weekly
Editorial Board Member, Caixin Media

YANG Guoping
President, Shanghai Association of Micro-Credit CEO, Dazhong Transportation (Group) Co., Ltd.

Fred HU
Chairman, Primavera Capital Group

WANG Junhao
Vice Chairman and CEO, JuneYao Group

WANG Qing
President and Partner, Shanghai Chongyang Investment Management Co., Ltd.

LI Yinghui
General Manager, Shanghai Purang Financial Services Co., Ltd.

GONG Yi
General Manager, Ningbo Shanshan Venture Capital Co., Ltd.

LV Houjun
CEO, GP Capital Co., Ltd.

FEI Fangyu
Vice Dean, China Academy of Financial Research, Shanghai Jiaotong University

YANG Guoping

President, Shanghai Association of Micro-Credit CEO, Dazhong Transportation (Group) Co., Ltd.

There are 109 microfinance institutions in Shanghai at present. Over the past four years, microfinance companies in Shanghai have extended 80 billion yuan of loans to borrowers, most of which were rejected by commercial banks. Banks declined their loan applications on grounds that they were too small and risky. If there were no microfinance company providing services, those enterprises would have had to turn to illegal private lenders to get those 80 billion loans.

Despite their great contributions, microfinance companies do not have the benefits they deserve. When it comes to taxation, for example, the business tax rate is 3 percent for financial institutions and 5 percent for microfinance companies. Financial enterprises can receive allowance for agriculture-related loans they make, but microfinance companies do not enjoy this privilege.

Fred HU

Chairman, Primavera Capital Group

The participation of private investors in China's financial industry has been very limited because the entry threshold for them is too high. Even when they do enter the market, like some microfinance companies did, they face an extremely hostile environment. The playground is titled against them.

So what is a financial system? The core function of the financial system is to efficiently allocate deposits into high-return investments. That's exactly what microfinance companies intend to accomplish. The involvement of state-owned enterprises in this process by no means guarantees optimal capital allocation. In fact, a number of empirical researches have shown that financial systems that have the highest percentages of state ownership are the least efficient.

Of course, many people would argue that we could sacrifice efficiency for stability. At least, the financial market is controlled by the state. Well, this is not case; these researches also showed that the percentage of state ownership is positively correlated with the probability of a financial crisis.

Financial stability can never be achieved if small and medium-sized enterprises cannot take out a loan from state-owned commercial banks. The financial industry is the same as other commercial sectors. Property rights and fair competition are the two indispensable factors for its success.

FAN Yongjin

SHI Meiliang

YU Xiaodong

WANG Junhao

Vice Chairman and CEO, JuneYao Group

The benefits of private investors entering the financial sector have been talked about a lot. China Minsheng Bank is doing a good job now, but it has not yet really lived up to its potential in terms of serving small-and medium-sized enterprises. The reason I think is because of its fragmented share ownership structure.

In fact, individual shareholders' stake in every bank is often limited to single-digit percentage points. That means no one has enough share to make the final say. If the next step of financial reform can remove this restriction, it will be great. My idea is that the more shares the biggest share has, the better

WANG Qing
President and Partner,
Shanghai Chongyang Investment Management Co., Ltd.

Private capital entering the financial industry is very important, but the topic is rarely seen in international forums, because the Chinese financial industry is generally controlled by the state, in other words, monopolized by the state. When we talk about the entrance of private capital into the financial industry, since we represent private capital, of course we welcome this change. At the same time, we also anticipate the opportunities that this change will bring for us.

At present, many financial institutions, including banks, insurance companies and securities fund management firms, owe part of their profits and achievements to their monopolistic status. When we talk about opening up the market, I don't think the policy makers were thinking about inviting private investors to share in the monopolistic gains. It should be an opening-up of the entire industry. The participation of private investors will completely change the industry. Under a new set of rules and in a new environment, it is up to a company's competitiveness rather than the monopoly power it has to achieve commercial success. This is what private investors, especially those mulling entering traditionally state-dominated fields, should think about before hopping in.

As late entrants, we need to have owner core competiveness and advantages to have a foothold in the new market. We need to do our homework carefully and control and manage risk well. Only through these efforts can we compete with state-owned companies.


LI Yinghui


TAN Weixian


YU Xiaodong

LI Yinghui
General Manager, Shanghai Purang Financial Services Co., Ltd.

The financial industry is a high-risk place. When we talk about the financial industry, we usually mean banks, trusts and bonds. But I think that finance should be considered in two different sectors: first, financial markets, and second, the financial services industry. Today, now that personal capital has entered the financial industry, what is the current situation for each of these sectors?

As far as the entrance of private capital is concerned, starting in 1998, private capital had already begun to enter the world of financial trading. The proportion of private capital in financial bank trading is already quite large, whether it's as a controlling share or just holding a lot of shares. Now that private capital can enter the financial industry, I hope that they will have the right to express their opinions, and that they can earn bonuses in the industry.

Our financial services sector is very small, but our financial trade markets are extremely large. Since we have too few financial service companies, today when banks receive approval from oversight committees, just five companies manage the process. We can see from this that having private capital in the financial trade sector, is really a breakthrough, but having private capital in the financial service sector really isn't a breakthrough.

Second, I think that today's financial industry is not short of traders; rather, it's short of managers. I think private capital should enter the financial service sector first, and then the trading world, because in trading the risks are very high, and if the bosses of private industry are doing everything they can to make money it won't be easy to ensure they are being safe.

GONG Yi
General Manager, Ningbo Shanshan Venture Capital Co., Ltd.

I want to discuss two principles that guide us as private investor in the financial industry. They could serve as reference for policymakers and those who are also interested in the field.

Firstly, prevent moral hazards stemming from two aspects. They can come either from shareholders, especially big shareholders in financial institutions; or the way the system is designed regarding the management of a financial institution in circumstances where, for example, outside professionals are hired to run the firm.

The second principle is that we always serve the real economy. On June 19, at a State Council meeting, Premier Li Keqiang encouraged private investments in the financial industry. The top-level guiding principles have been laid out. All we need is fleshing them out.

LV Houjun
CEO, GP Capital Co., Ltd.

Why would private investors want to enter the financial industry? The first reason is to diversify their investment channels. There are many SMEs in China and plenty of capital in the hands of private investors. But it is difficult for SMEs to raise funds and for private investors to invest. The second reason concerns investment returns. Based on the data of publicly traded companies, the return on investment rate in the financial sector is higher than those in other fields.

Thirdly, it is relatively safer to invest in the financial industry than

YU Xiaodong

LI Yinghui

elsewhere, because domestic financial regulation is relatively strong. We have been hit by several financial storms since the mid-90s. Many financial institutions collapsed. Those that are operating now are relatively well managed and have better risk control.

Last but not least, equity investments usually have good liquidity, partly because financial management is relatively transparent. Private investors can use their equity investment in financial institutions as collateral for debt. Also, it is easier to sell equities in a financial institution than those of enterprises in other industries.

FEI Fangyu
Vice Dean, China Academy of Financial Research, Shanghai Jiaotong University

Expanding the role of private investors in the financial industry can really turn over a new page for our financial reform.

To what extent this can be realized? I think there are three determinant factors. The first ne is the economic structure and its growth rate. Why? Rebalancing the economic structure needs us to greatly expand the service sector. This needs money, and private investors have money.

The second one concerns the structure of our financial system. We have state-owned banks and state-owned financial institutions. They have formed a cycle amongst themselves. The other cycle is for the private sector. In the past, before the private sector of the economy started taking off, there was no need to talk about making use of private capita. Now we must solve the financing problem of SMEs and also develop more options for private investors to invest. Thirdly, we need to stick to the path of market economy. Prices should be determined through fair competitions.

Reform policies should be implemented with supportive measures. The State Council has said so. However, you might find that the banking regulator's rules are different. One regulator has opened up a way, but another says you need to jump through more hoops. That is why this reform must be carried out in a comprehensive way.

Night Chat by the Huangpu VII

Economic Development & Regional Financial Risk Prevention -- the Role of Local Government

Moderator: WANG Shuo\ Managing Editor, Caixin Media

WANG Hong
Director General, Beijing Municipal Bureau of Financial Work

RUAN Lu
Director, Financial Affairs Office of Chongqing

JIN Xingmin
Deputy Secretary–General, Shanghai Municipal People’s Government

LIU Wentong
Director, Financial Affairs Office, Guangdong Provincial Government

LU Hongjun
President and Professor, Shanghai Institute of International Finance

PAN Yingli
Professor, Antai College of Economics & Management,Director, Research Center for Global Finance, Shanghai Jiao Tong University

WANG Hong
Director General, Beijing Municipal Bureau of Financial Work

Generally speaking, the main responsibilities of local governments include economic adjustment, market regulation, social management and public service. Just as Premier Li Keqiang recently reiterated, local governments should strive to build a healthy environment for social and economic development and provide high-quality public goods and services and safeguard social justice. Therefore, we should beef up local government's efforts to promote regional economic development and to prevent social risk.

We are extensively engaged in the regulation of local government financing platforms. The banking regulator's Beijing office guides our operations in inspecting every local financing platform and evaluating their financial conditions. I think this is led by the banking regulator because a large share of those financing platform's fund-raising came from bank loans and that jeopardizes the stability of the banking system. The municipality of Beijing also has similar problems. But overall, the city's financing structure is relatively diversified and many local enterprises, as well as local financing platforms, are well-managed and can issue bonds.

Direct fund-raising including bonds currently accounts for 68 percent of the total fund-raising in Beijing. We are still inspecting local government financing vehicles following regulatory requirements. Also, we are trying to broaden their financing channels to protect the banking system. Some financing platforms have been transformed into common commercial companies. Others have been improved so they pose less risk to the financial system.

ZHANG Changhong

Douglas TAYLOR

RUAN Lu
Director, Financial Affairs Office of Chongqing

Nowadays, local governments have been playing the role of supervisors in preventing potential financial risks. From the perspective of marketization and financial reform, I believe the local governments should assume responsibilities in the following two aspects.

They should provide assistance to the central government's regulatory efforts. For example, local governments should collaborate with the central government to manage the risk of public firms delisting from a stock exchange. In addition, there is much private capital involved in operations in the name of financial innovation. Some of them are illegal and super risky. That's why the government needs to step in with administrative measures if necessary to solve the risk.

Local governments should also take initiative in some areas. Many financial institutions have been set up these years in response to the regulator's reforming policies. They include small-loan companies, guarantee firms and private equity investors. In these fields, local government needs to implement preemptive and proactive regulation. Our regulation efforts indeed had a positive impact on local economic development.

The average non-performing bank loan ratio is 0.39 percent in Chongqing. The figure is 0.2 percent for small-loan lenders and 0.5 percent for guarantee companies. That means local financial stability has been relatively well protected. The local government fully understands the risk and has always put risk management among its top priorities.

Since local governments have been de facto financial regulators, I suggest we establish a nationwide regulatory network that connects the central government regulators with local ones. We can research how to allocate legal and administrative authorities between the central and local regulators. That could help improve local governments' work.

JIN Xingmin
Deputy Secretary-General, Shanghai Municipal People's Government

Financial risk prevention today is a great campaign led by the central government and supported by local governments. It aims enhance companies' self-discipline and strengthen their internal risk management. As far as the mechanism in Shanghai is concerned, I think we should stick to two principles.

The first one is adherence to the central government's collective regulatory authority. We do exactly what the central government tells us to do. The second principle is maintaining a prudent approach when dealing with financial innovations, which means keeping risk in check. In practice, that means four specific measures.

Firstly, strictly implement the central government's decisions and cooperate with the local offices of the central bank, China Banking Regulatory Commission, China Securities Regulatory Commission and China Insurance Regulatory Commission.

Secondly, create a good credit environment because credit is crucial to financial activities. Thirdly, regulate quasi-financial institutions, including small-loan companies, guarantee companies, private equity and venture capital investments. Currently, 106 small-loan companies have registered in Shanghai, 97 of which are in business with a total of 85 billion yuan in outstanding loans. The average of their nonperforming loan ratio is 0.3 percent, within the controllable range.

Last but not least, we have been tracking and analyzing potential risks in some emerging industries, such as peer-to-peer lending and third-party payment. This helps us effectively control risk.

LU Feng

QI Shi

LIU Wentong
Director, Financial Affairs Office, Guangdong Provincial Government

When the economy is booming, there is little chance that a region may have systemic risk, but that does not mean non-systemic risks do not exist. When economic growth hits the brake, these risks are more likely to happen, and small-and medium-sized companies would suffer most.

Currently, our economy is facing downward pressure, and everyone is more concerned about dealing with financial risks. I can share Guangzhou's experience. The city is divided into two parts, one encompassing the economically developed Pearl River Delta, and the other consisting of less developed regions. So, it's crucial to develop the financial sector in Guangdong to enhance people's standards of living.

The Qianhai area in Guangdong province is one of the several pilot zones charged with the task of pioneering financial innovation. We know that our current account has been opened up, but our capital account is not fully opened yet. The convertibility of yuan and its cross-border flows has been a main theme that will continue to feature prominently in our reform discussions in many years to come.

Take Qianhai for example. Shenzhen is adjacent to Hong Kong, one of the international financial centers. The current stock of RMB in Hong Kong is about 700 billion yuan. It is worth exploring how this amount of money can flow between the city and the mainland, and how Hong Kong-based institutions can access the domestic market. We are trying to find a way to reach the goal of yuan convertibility and to facilitate free trade and foreign investment.

LU Hongjun
President and Professor, Shanghai Institute of International Finance

The central and local governments should first have a clear division of labor to prevent financial risks. Regulators at the central level should be responsible for prevent systematic financial risks, while local regulators should be responsible for regional financial risks.

We also need to change people's perception of the financial industry in China. A recent article I read argued that smartest guys used to pursue a career in culture and arts and now they all go to the financial sector. I find this trend worthwhile to reflect upon. People are used to talking "dividends". Demographic dividend is an economic phenomenon. It essentially embodies the philosophy of harvesting. Finance, on the other hand, is more of sowing seeds and planting them. It is not entirely a harvesting act. From this to the dramatic change in attitudes towards liquidity, it seems our views of money are not mature enough yet.

Moreover, we need to reform the incentive mechanism of local government officials. The current one is problematic when it comes to resource allocations, especially land. This has fostered corruption.

In addition, we should put an end to local governments' intervention to the financial market. The core function of rural banks, for example, is to support the financing of small and medium-sized enterprises. However, local government sometimes forces the rural banks to provide loans for large government programs and criticize banks which fail to meet their requirements. This has severely disrupted the order of the financial industry.

ZHANG Changhong

Douglas TAYLOR

PAN Yingli

Professor, Antai College of Economics & Management,

Director, Research Center for Global Finance,

Shanghai Jiao Tong University

I'll talk about three issues. First, I'll talk about regional economic development methods and their hidden hazards. In the past, since Deng Xiaoping's Southern Tour speeches, our regional governments have really started to take action and promoted economic development. So much so, in fact, that even one's self has become an important economic agent.

There are some regional hazards and one macroscopic hazard. The first hazard is that regional governments are currently ignorantly and blindly making investments. For instance, there is a provincial capital in the Midwest that wants to build 20 subway lines in the next five to ten years. This is a blindly ignorant investment that could produce immense risks.

Another regional hazard is that in the course of our development, we cannot resolve problems of unemployment. It is a societal contradiction that farmers whose land is taken away from them cannot solve the problem of unemployment. Moreover, urban economic development is inherently unsustainable. The centers of many areas are becoming ghost towns, and real estate is becoming increasingly impossible to sell.

The macroscopic hazard is this: I feel as though our present development forces are avoiding an individual's rationality, which brings about collective irrationality. We closely resemble businesses – we rush to make venture capital investments, like we did with solar energy – and then at the end of it we all go bankrupt.

The second issue is: in the course of both regional and central financial development, in the end is the supervision good, or is the development good? In the end, what kind of relationship do they have?

The third issue – I have a plan that is very simple. Allow regional governments to go to Hong Kong to issue yuan-denominated government bonds. Hong Kong's political system and its mature international capital markets can effectively restraint local governments' spending spree.

At the same time, governments should advance political democratic reform and strengthen budget transparency, as well as make policies more science-oriented and more democratic.

Night Chat by the Huangpu VIII

Development Outlook for Crude Oil, Gold & Commodities Market

Moderator: BIAN Zhuodan\ Chief Editor, Economy & National Weekly, Xinhua News Agency

YANG Maijun
Chairman of the Board, Shanghai Futures Exchange

SUN Zhaoxue
President, China National Gold Group Corporation

SONG Yuqin
Vice President, Shanghai Gold Exchange

CHEN Zhiwu
Professor of Finance, Yale School of Management

WANG Zhen
Executive Dean and Professor of Finance, Academy of ChineseEnergy Strategy,
China University of Petroleum (Beijing)

Andrew WANG
General Manager, Precious Metal Department, Standard Bank

YANG Maijun
Chairman of the Board, Shanghai Futures Exchange

The interdependence between the virtual and the real economies has never been so strong. Globalization, assets securitization, and the trading networks that support their transactions have changed the landscape of our global economy.

The outlooks for bulk commodities, gold and crude oil are becoming more complex with more uncertainties. Our opinions diverge. Take gold for example. Will its financial attribute as an inflation-fighting tool ever be as glorified as they were in the past? The prices of crude oil and gold, in fact, depend on a lot of factor, including the economic recovery in America and European countries. Specifically, they may depend on whether the United States exits QE.

Faced with such uncertainties, it is imperative for us to rebalance our economic structure, change our growth model and allow market forces to allocate resources in a broader scope and with deeper force.

SUN Zhaoxue
President, China National Gold Group Corporation

The most heated topic these days is about gold. Gold is a currency war. Why? When the U.S. dollar became a global currency, it was because of the issuing country's credibility. In 1979, the U.S. dollar was detached from gold, it depreciated because of an oversupply. The introduction of Euro challenged the U.S dollar. So the masterminds of America's currency war set up "traps" for the Euro zone. American banks underwrite Euro countries' bonds. American rating agencies manipulated

HE Jianxiong

TENG Lin Seng

HE Jianxiong

the Euro zone and said their economies had problems. The Euro zone was brought down at last, which left gold as the sole rivalry of the U.S. dollar. Then Bernanke said the QE was coming to an end and the U.S. economy was recovering. This string of evidence indicates that the collapse of gold price was pre mediated. That is why I say this is completely a currency war.

SONG Yuqin
Vice President, Shanghai Gold Exchange

China has been the world's largest gold producer for six straight years. Our gold consumption is currently ranked the second globally. By last week, more than 3.9 million accounts have been opened with Shanghai Gold Exchange. Chinese investors do not have much of a choice when it comes to investment channels. But the stock market has been disappointing of late. That makes gold an appealing investment option.

This week the first Chinese version of gold-backed exchange-traded fund was launched. This product is suitable for the investment of social security funds, corporate annuities and insurance capital because it is tailor-made for them. Investing in the ETF is essentially investing in the real economy, because the gold market has been focused on serving the real economy.

CHEN Zhiwu
Professor of Finance, Yale School of Management

I do not agree with conspiracy theorys regarding Buffett's gold holding or Bernanke's speeches. Conspiracy is by far the most popular theory, but it is also the most dangerous perspective on this matter.

The first one is that gold as a value preservation tool has become less significant. Gold is not a productive metal. And as China and India societies modernize and enter the stage of contract society, when contract-based securities trading under the rule of law can better retain and increase investors' asset value, they will gradually relinquish their obsession with gold.

The second one is about oil. I'm not an expert on this but I feel confident saying that the price of oil will continue rising in the future, despite the exploitation of shale gas. From the medium-to-long perspective, the price of oil has more growth potential than gas.

The more our diplomacy revolves around perceived threats to our energy securities, the more likely those threats are becoming real.

WANG Zhen

Executive Dean and Professor of Finance, Academy of ChineseEnergy Strategy, China University of Petroleum (Beijing)

The oil market is relatively mature. The market for natural gas, however, is still at its early development stage. What we can learn from the United States is how to make rules for ten or twenty years to come. With rapid advances in gas liquidation techniques, the international trade of natural gas is expanding fast. Unlike oil, natural gas has long been a regional commodity. It takes a long time to develop a mature pricing mechanism.

Everyone cares most about price. But it is hard to keep track of day-to-day changes in the market even for us. We look at the marginal cost of new production capacity. This is one of the fundamental factors which decide oil prices. We have seen recently that much of the increase in new production capacities came from non-conventional sources, such as shale oil. Currently shale oil production in the United States costs at least US$ 60. So does oil sand. Deep-sea oil extraction is even more expensive. In comparison, the conventional methods are much less expensive. In the immediate short term, oil prices may fall. But in the long run, I think they will be at high levels.

HUANG Hongyuan

JIN Yu

TENG Lin Seng

Andrew WANG

General Manager, Precious Metal Department, Standard Bank

It used to be that central banks are subject to an agreement that limits their sales of gold to a certain amount. But the agreement is no longer binding now. So everyone was guessing what Cyprus would do with their gold reserve.

Gold price also has to do with the U.S. Federal Reserve's plan on liquidity. I personally think bond purchasing is not sustainable in the long run. So it is not a matter of whether the Fed wants to stop purchasing or not. The dramatic fall in price hurt many investors' confidence. India, on the other hand, has repeatedly increased the import duty on gold. Also, Chinese investors tend to cautious.

These factors combined contributed to the weakness in gold market. But thing may change. If central bankers get together and say, for example, we cannot keep on printing new money and we need to revisit the currency attribute of gold. This will help gold price recover. Or if any big economy, such as Germany, the United States, and China, hit a severe economic crisis, gold price will also recover.

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