



*The Initiative for Policy Dialogue  
At Columbia University*



*Research Center for Property Exchange  
At Peking University*

## **Meeting of the China Task Force: Regulation after the crisis**

Sponsored by The Initiative for Policy Dialogue  
Research for China Property Exchange, Peking University  
School of Public Policy and Management, Tsinghua University  
Columbia Global Centers Beijing, Columbia University  
China Center for Economic Research, Peking University  
China Development Research Foundation  
Institute for Global Law and Policy, Harvard Law School  
Committee on Global Thought, Columbia University  
Brooks World Poverty Center, University of Manchester

**October 29-30, 2009**  
Beijing, China  
Peking University

### **Overview Program**

#### **October 28, 2009**

- 17:45-19:15 **Public Session on the UN Commission of Reform of the Global Financial and Economic System** – China Center for Economic Research, Peking University  
19:45 **Dinner, at Quanjude Peking Duck House**  
Sponsored by Columbia Global Center in Beijing

#### **October 29, 2009**

- 9:00-17:15 **Task Force meeting**  
Room 307 Multi-function Hall at School of Economics, Peking University  
19:00 **Dinner** (*Time not confirmed*)  
Hosted by School of Public Policy and Management, Tsinghua University

#### **October 30, 2009**

- 8:30- 9:30 **Breakfast discussion on the Commission on the Measurement of Economic Performance and Social Progress** - Da Xue Tang Conference Room 4, Floor B1, the Lake View Hotel  
9:30-17:45 **Task Force meeting** (same location as previous day)

## Detailed Program

### October 28, 2009

17:45-19:15 **Public Session on the UN Commission of Reform of the Global Financial and Economic System**

China Center for Economic Research, Peking University  
*Yu Yongding, Joseph E. Stiglitz*

19:45 **Dinner at Quanjude Peking Duck House**

### October 29, 2009

Room 307 Multi-function Hall at School of Economics, Peking University

9.00 – 9:30 **Introduction**

Discussion of the agenda, previous meetings of the task force, overview of issues

*Joseph E. Stiglitz*

9.30 – 11.00 **Conceptual Framework: Going beyond the Chicago Law and Economics Framework**

- (a) Are markets necessarily stable and efficient?
- (b) If not, what role do laws and regulations have to play in designing a “market economy with Chinese characteristics”
- (c) What is the role of law and economics in promoting equity and fairness in society?
- (d) How can law be used not only to restrain bad behavior, but to restructure the economy in ways consistent with societal goals (equity, efficiency, stability, growth and development, environment, etc)
- (e) How can national laws and regulations be brought into harmony with global rules and regulations?
- (f) How can we make the global economic system work better, promoting efficiency, stability, and fairness
- (g) How do the answers to these questions affect our views of prevailing doctrines in law and economics?

*Joseph E. Stiglitz, David Kennedy, JunFu, Heping Cao, James Mirrlees*

11.00 – 11.15 **Coffee Break**

11.15 – 12.30 **The Global and Chinese Economy at the Crossroads: Short-term measures and long-term reforms**

*Erik Berglof, Joseph E. Stiglitz, James Mirrlees, Chirstine Wong*

- (a) How do we see the global economy at the current time, and China's economy within this global context?
- (b) When will it become appropriate to start implementing "exit strategies," and what difficulties might these confront?
- (c) Have the U.S., Europe, and China implemented regulatory reforms and changes in economic structures that have reduced the likelihood of a problem in the future...or increased it?
- (d) It has been proposed that China restructure its economy to reduce dependence on exports and increase domestic consumption – is this indeed wise, and if so, how might it be accomplished? Would it be better to increase domestic investment in poverty reduction and climate change mitigation? Why has China been so slow in moving away from export dependence?

12:30-1:30 **Lunch**

1:30-17:15 **National Regulation in the aftermath of the Crisis**

*Lu Xiabobo, Dennis Davis, Kerry Rittich*

Regulatory frameworks are often thought of as restraining bad behavior—the kind of excessive risk taking that marked Western financial markets in the years prior to the crisis—especially when such action imposes high costs on others (externalities), as it clearly has. But good regulation can also play an important positive role, in helping direct resources to where they are most socially productive. What kind of regulatory system does china need as it strives to create its market economy “with Chinese characteristics?”

There is a consensus that inadequate regulation and regulatory structures not only contributed to the crisis, but (especially when combined with repeated bailouts) contributed to the creation of an over-bloated financial sector, leading to the misallocation of scarce human and physical resources. Though financial regulation has been at the center of the problem, the crisis has brought to the fore inadequacies in bankruptcy law, corporate governance, and competition policy. Questions have even been raised about the role of property and contract law. Not only did the American regulatory system fail to prevent the crisis, the legal system may have impeded efforts to address it. Resolving the crisis has been hampered by fear of litigation, as the crisis has exposed a myriad of conflicts of interest that will not be easily resolved.

As America, and much of the rest of the world, has tried to address the crisis, they have not asked what kind of a financial system (and economy) we want to emerge from the crisis. The financial system and economy which are emerging as a byproduct of efforts to address the crisis may be less capable of fulfilling the functions which it is supposed to fulfill, and no less prone to excessive risk taking.

Key discussions have centered around leverage, transparency, incentives, too-big-to-fail (or to-big-to-be resolved or too intertwined to be resolved) institutions, credit default swaps, and “narrow banking.” While some progress has been made in each of these areas, has it been enough? The devil is in the detail, and with so many details left to regulators, subject to capture, how can we be sure that the problems have been adequately addressed? What regulations make the most sense for China, in its current stage of development?

That raises the issues of regulatory structure and discretion. In some countries, there are proposals to give more powers to the institutions that failed to prevent the crisis, and which are closely allied with one part of the financial system. While no model of regulatory structure performed in a stellar fashion, some did better than others. What lessons can be drawn, especially that might be relevant for China. Do issues of regulatory capture take on particular aspects in China?

The crisis has resulted in a rethinking of financial and capital market liberalization, which played such an important role in creating the crisis and its rapid spread around the world. China was protected because it had not gone as far down this path as other countries. How should China proceed at this point?

Critics of more regulation have contended that such regulation would inhibit innovation. Much of the innovation in finance was directed at regulatory, tax, and accounting circumvention and arbitrage, with little evidence that it contributed significantly to robust growth. How can regulations and regulatory institutions be designed to promote better and more innovative financial markets—innovative in better meeting the needs of society?

While financial regulations have been at the center of attention, deficiencies in other areas of regulation have been exposed. What are some of the key reforms in these regulations and regulatory structures?

18:00-19:30 **Dinner** (dinner time may change)

### **October 30, 2009**

8.00-9.30 **Breakfast discussion: the Commission on the Measurement of Economic Performance and Social Progress**

*Joseph E. Stiglitz*

9.30-11.00 **Transnational regulation in the aftermath of the Crisis**

*Surakiart Sathirathai*

In the context of globalization, regulations (or the failure of regulation) in one country can affect the well being of others. At the same time, it is clear that the circumstances and objectives of different countries differ. Thus, each country must have responsibility for its own regulatory structure, and for protecting its citizens and economy against failures in others; and at the same time, no single regulatory structure is appropriate for all countries.

What should national governments (China in particular) do to protect itself?

China is likely to have an increasingly important voice in discussions over the global regulatory framework. What kind of global regulatory framework should the world be striving for? For what kinds of positions should China be advocating?

11.00 – 11.15 *Coffee Break*

11:15-12:45 **Intellectual Property Rights**

*Jerry Reichman, Brian Wright and Lei Zhen*

Intellectual property provides an important arena in which to test out some of the notions of global and national “harmonization.” The intellectual property framework that underlies TRIPS is widely viewed as reflecting special corporate interests, and not even being in the interests of the advancement of science and technology in the advanced industrial countries. More broadly, it is clear that an intellectual property regime which is appropriate for one country may not be appropriate for others. Moreover, in many countries, there is not a full understanding of the restrictions which are imposed by intellectual property rights, even by advanced Western governments.

As China strives to become an innovative market economy, its system of innovation will be central, and an important component of that system is the intellectual property regime. What lessons are there for China in the design of its intellectual property regime? What constraints are imposed by international agreements? How can China best manage those constraints? What reforms in the global intellectual property regime and system of global governance should China be working for.

12:45- 1:45 **Lunch**

1:45-3:15 **Global imbalances: Implications for China’s macro and structural policies**

*Yao Yang, Ping Chen Xiao Geng, Xiaobo Zhang*

There is a global consensus that global imbalances threaten global stability—even if they were not responsible for this crisis. At the G-20 meeting, discussions focused on U.S. persistent spending beyond its income (at the national and governmental level), with other countries producing more than they consumed. China had already committed itself to moving away from dependence on exports, but progress has been slow.

What policies can China implement to promote such a transformation? What role is there for exchange rate policy? Financial policy? Regulatory policies?

From a global perspective, would it be better to “recycle” China’s savings to help fight climate change and poverty, rather than encourage more consumption? How can this be done?

**3:15- 3:30 Coffee break**

**3:30-5:15 Global Policies to Rectify Global Imbalances: Towards a New Global Reserve System**

*Yu Yongding, Liqing Zhang, Guo Shuqin*

The dollar based reserve system is increasingly viewed as inappropriate for a world of globalization. The dollar is no longer seen by many as a good store of value. With its large holdings of reserves, China is at risk of experiencing large capital losses, should the dollar devalue, and the growing American deficits and the ballooning of the Fed’s balance sheet provide further causes of concern. But is there an alternative? How can one achieve that alternative? What will the transition look like? What should China do to push these alternatives? How can China maintain its robust growth under the existing arrangements? Under the alternative arrangements? What is best for China? For the stability and strength of the global economy?

**5:15-5:45 Next steps/concluding remarks**