

**CHINA AT THE CROSSROADS:  
FX AND CAPITAL MARKETS POLICIES FOR THE COMING DECADE**  
Columbia Business School  
*February 2–3, 2006*

More than 100 researchers, practitioners and Columbia Business School alumni participated in the February 2–3 conference, *China at the Crossroads: FX and Capital Markets Policies for the Coming Decade* organized by the Chazen Institute and Columbia University’s Center for International Business Education and Research (CIBER). Topics included openness in the banking sector, the effects of stock market listings and foreign exchange policy.

“The capital markets and foreign exchange reforms that are happening in China are the center of not just China’s future economically but, I think we can say, the world economy’s future,” said Charles Calomiris, the Henry Kaufman Professor of Financial Institutions and academic director of the Chazen Institute and CIBER, in his opening remarks.

Although China has achieved extraordinary growth, researchers have found that its financial markets remain remarkably inefficient. Without improvements, the country may experience diminishing returns, continued weakness in its stock market and increasing hidden losses from loans held by its state-controlled banks.

Brief summaries of the conference’s six panels and concluding roundtable discussion are followed below by links to expanded coverage of each topic.

*China’s Financial Markets: an Overview* was chaired by Charles Calomiris, the Henry Kaufman Professor of Financial Institutions and academic director of the Jerome A. Chazen Institute of International Business at Columbia Business School. The panelists included

- *Presenter: Lee Branstetter, the Daniel W. Stanton Associate Professor of Business at Columbia Business School*

- *Discussant: Xiaobo Lu, associate professor of political science at, Barnard College and director of the Weatherhead East Asian Institute at Columbia University*

*Summary*

Researching China's financial markets can be challenging as the task involves a moving target. Tremendous change continues to take place. Despite the inherent difficulties, three main themes emerge:

- First, China's pronounced credit and investment cycles have significantly impacted economic growth and reform.
- Second, the state still plays the central role in the intermediation of capital and the Chinese economy.
- Third, reforms of both financial markets and of state-owned enterprises have been very closely intertwined. This is likely to be the case moving forward as well, which could impose some constraints on the pace of financial reform.

*Read more on the first panel [here](#).*

***Financial Openness and the Chinese Growth Experience*** was chaired by Professor Larry Golsten, the S. Sloan Colt Professor of Banking and International Finance at, Columbia Business School. The panelists included

- *Presenter: Geert Bekaert, the Leon G. Cooperman Professor of Finance and Economics at Columbia Business School*
- *Discussants: Mary Darby, Chazen Senior Research Fellow at the Chazen Institute of Columbia Business School, and Professor Charles Calomiris of Columbia Business School*

*Summary*

What factors lead to fast growth in a country? What determines low volatility of growth around the world? The links uncovered between financial openness and growth when studying a large sample of countries can provide a useful framework in which to view the Chinese experience. The result, however, is somewhat indefinite.

While we understand the determinants of growth and volatility around the world, China doesn't quite fit into the world model. Hence it's hard to say (based on world experience) what has caused Chinese growth to be so miraculous. Fortunately, we can learn *general* lessons from world experience that *do* apply to China—and in doing so, generate ideas for reform which could lead to an even more impressive growth path.

*Read more on the second panel [here](#).*

***The Effects of Stock Market Listing on Firms' Growth, Governance and Corporate Finance*** was chaired by Andrew Ang, the Roger F. Murray Professor of Finance at Columbia Business School. The panelists included

- *Presenter: Professor Charles Calomiris of Columbia Business School, who stood in for scheduled presenter Fred Hu, managing director and co-head of China investment banking at Goldman Sachs (Asia) L.L.C.*
- *Discussant: Ailsa Röell, professor of international and public affairs at the School of International and Public Affairs of Columbia University*

*Summary*

With limited—and sometimes controversial—data available to judge the effects of stock market listing on Chinese firms, corporate governance and corporate finance, the future of corporate governance mechanisms for the country's economy is still under debate. Under a favorable future scenario for governance, traditional mechanisms such as stock market listing would lead to a maturity in effective monitoring of Chinese firms' growth. An equally likely scenario for the future is unfavorable—that traditional mechanisms like listing do not lead to pervasive disclosure or clear rules for listed firms.

*Read more on the third panel [here](#).*

***The Chinese Banking Sector: Problems and Solutions*** was chaired by Hugh Patrick, the Robert D. Calkins Professor Emeritus of International Business and director of the Center on Japanese Economy and Business at Columbia Business School. The panelists included

- *Presenter: Loren Brandt, professor of economics at the University of Toronto*
- *Discussant: Michael DeStefano, managing director—financial institutions at Standard & Poor's Rating Group*

*Summary*

Although data on the Chinese banking sector has been scarce, recent work by Professors Loren Brandt and Xiadong Zhu of the University of Toronto has gathered previously unseen data on the sector. Noting the small sample size, the data indicate that financial reforms are having a positive impact on small and midsize Chinese firms who gain access to credit. While the breadth and depth of this impact remains not fully measurable without more research at the regional, enterprise or branch level in the banking system, new data bring about new questions.

*Read more on the fourth panel [here](#).*

***Regulating International Capital Flows: The Case of China*** was chaired by David Beim, Professor of Professional Practice in the Finance and Economics Division at Columbia Business School. The panelists included

- *Presenter: Shang-Jin Wei, assistant director and chief of the Trade and Investment Division in the Research Department at the International Monetary Fund*
- *Discussant: Daniel Rosen, principal at the China Strategic Advisory Organization and adjunct professor at the School of International Public Affairs of Columbia University*

*Summary*

As China's economic clout assumes greater importance, the renminbi, long pegged to the U.S. dollar, is headed to greater integration with the world's currencies. The Chinese government's course of action has been the focus of intense scrutiny by central banks and various actors in the world's capital markets. Beijing has also been forced to deal with the effects of currency speculation and the resulting influx of foreign direct investment flowing to the mainland.

Against the backdrop of ever-growing attention from international investors, China's experiment with financial liberalization has continued, expanding and adapting its regulatory system to become the world's largest destination for foreign direct investment (FDI). Economists and investors alike are examining what has attracted this influx of foreign capital and the economic effects of such so-called hot money.

*Read more on the fifth panel [here](#).*

***China's Foreign Exchange and International Capital Flows Policies: Past and Future*** was chaired by *Wei Jiang, Associate Professor of Finance and Economics at Columbia Business School. The panelists included:*

- *Presenter: Barry Eichengreen, George C. Pardee and Helen N. Pardee Professor of Economics and Political Science at the University of California, Berkeley*
- *Discussant: Julian Yu, Assistant Professor, Finance and Economics, Columbia Business School*

*Summary*

China's approach to adjusting its foreign exchange regime has favored a gradualist course. In its efforts to achieve a stable transition, it is worth examining the historical parallels with post-war Japan and applying those lessons as the renminbi joins the ranks of major world currencies.

*Read more on the sixth panel [here](#).*

***The final roundtable discussion, China's Foreign Exchange Policy: What Will We Do? And What Should We Do?*** was chaired by *Professor Charles Calomiris of Columbia Business School. Participants included*

- *Peter Garber, global strategist at Deutsche Bank*
- *Robert Hodrick, the Nomura Professor of International Finance at Columbia Business School*
- *John Makin, principal at Caxton Associates*
- *David Malpass, chief economist at Bear, Stearns & Co.*
- *Frederic Mishkin, the Alfred Lerner Professor of Banking and Financial Institutions at Columbia Business School*
- *Eswar Prasad, division chief of the Financial Studies Division in the Research Department at the International Monetary Fund*

### *Summary*

China will continue its export-led growth policy for the foreseeable future. Experts anticipate the renminbi will appreciate gradually over the next year as China's need for a deliberate currency undervaluation unwinds. Differences of opinion remain, however, over whether this appreciation will signal the end of the so-called Bretton Woods II regime and the start of a consumer demand-led growth policy. The underpricing of global traded goods resulting from China's exchange rate regime has held down inflationary pressures in the United States. However, China's demand for U.S. Treasuries has suppressed interest rates and fueled both consumption and asset prices. Equilibrium may only eventually be restored by a rise in interest rates and drop in asset prices, leading to a slowdown in U.S. growth and dollar devaluation. An effective financial system—including property rights, enforceable contracts and bankruptcy laws—will be key to China's success.

*Read more on the roundtable discussion [here](#).*

*Four Columbia Business School MBAs contributed to this conference report:*

*Andrew Archer MBA '06*

*Aparna Swarts Mukherjee MBA '06*

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*Columbia Business School's Chazen Institute also hosts the Sir Gordon Wu Distinguished Speaker Forum, which brings business leaders and policymakers to New York to share their perspectives on China. On May 10, 2006, Victor Fung, group chairman of Li & Fung, will discuss outsourcing and supply chain management in China.*