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Featuring:

Christopher Cox, Chairman, Securities and Exchange Commission

THE HONORABLE CHRISTOPHER COX: — Thank you, Peter [Scaturro, CEO OF U.S. Trust], for that kind introduction. And thank you, all of you, for inviting me to speak at this joint program of the National Endowment for Democracy and the Foreign Policy Association. As you now all know, thanks to Peter's very charitable introduction, in addition to being the Chairman of the Securities and Exchange Commission, I am a member of the Board of Directors of the NED. And it is in that capacity that I'm speaking tonight. The views I will express are my own, and not those of the Securities and Exchange Commission.

So, speaking as a Board member, let me take a moment to brag on the NED, as well as on the FPA. I am especially pleased to be here to help celebrate and honor the exceptional public service of Emmanuel Kampouris, who is receiving the Democracy Medal this evening. It has been my privilege to serve on the NED Board with him, and to benefit from his wisdom, his experience, and his friendship. He is richly deserving of this recognition for his outstanding contributions to the NED, to America, and to the cause of democracy and free enterprise throughout the world.

Like all great things, both the FPA and the NED each began with a dream. Although our nation's founding fathers didn't themselves envision these organizations, they embraced their purposes, and they would approve of how you're fulfilling them. You are doing in the 21st century what Thomas Jefferson urged Thomas Paine to do in the 18th: "Go on doing with your pen what in other times was done with the sword."

Dante Fascell must have had that in mind when he set to work making the NED a reality. "The pen is mightier than the sword," he once said. "Ideas do climb walls. And they go under walls and over walls and through walls." Mr. Gorbachev would

agree.

The FPA's and the NED's purposes complement and complete each other in ways the founders would surely appreciate. The FPA's purpose is to explain the world to Americans, to inspire us to engage with it, and to resist the siren song of isolationism. And it does that with great resolve, great honor, and great success. The NED completes the mission, by enjoining us to act to make the world a better place.

The NED, simply put, is an American treasure. But it is also a global treasure. Each of us knows it is an incomplete joy to experience liberty while others do not. And so we don't jealously hoard the blessings of freedom. We eagerly help the champions of liberty in other lands, and doggedly persist with the governments that restrain them.

The NED's very existence reflects a uniquely American combination of the grand vision, matched with a practical, get-it-done attitude. It is born of the same boundless optimism and generosity of spirit that came together in two men I had the great privilege to know and work with: Dante Fascell and Ronald Reagan. They both had a passion for liberty — and not just for Americans, but for the people of all nations. They both understood that freedom and democracy are our nation's greatest natural resources, and our most valuable export.

But as everyone in this room appreciates, it is not enough simply to encourage people's dreams. Millions of people across the globe don't pursue a dream of liberty because they have no access even to the information that could inspire such a dream.

Wouldn't it be nice if merely by our economic engagement with undemocratic nations, the world would beat a path to democracy's door? Perhaps with that convenient illusion in mind, it has been often stated with syllogistic certainty that economic liberalization will inexorably lead to political liberalization, and eventually to democracy. Despite the fact that determinism is a characteristically Marxist notion, this syllogism is frequently accepted by the most dogged opponents of totalitarianism.

But an examination of the record makes it clear that if we're to successfully promote democracy, we will need far more than just trade. It has been more than a quarter century since Deng Xiaoping opened up China's economy, and more than 15 years since the collapse of Soviet Communism. In the intervening period, China has experienced sustained economic growth without any visible movement to democracy. And Russia's economy — having survived total collapse in the late 1990s — is now growing on the strength of high oil and gas prices at the same time that its democracy is disappearing.

Exactly 10 years ago, in a personal meeting with President Jiang Zemin in the Forbidden City, I asked him when his government would move beyond its vaunted village elections to the genuine election of a mayor or city council in a substantial

municipality. His answer was, "at least 20 years." But because the interpreter took quite a while to render Ziang's reply, even though it was short and terse, I've always thought that something might have been lost in translation. Perhaps what Ziang really said was, "not in my lifetime."

If he had in fact hazarded that prediction, the events of the succeeding decade have set him on a course to be proven right. Not only has there been no meaningful progress toward democracy, but the trends since we met are running in the opposite direction. Indeed, in recent days, Premier Wen Jia-bao has announced to the world that China will not be a democracy for at least 100 years.

Meanwhile, in Russia, President Putin has eliminated elections for the nation's Governors, and converted the legislative Duma into a compliant body through elections that, according to the Organization for Security and Cooperation in Europe, "failed to meet many OSCE and Council of Europe commitments for democratic elections."

If empirical results count for anything, this stubborn real-world data should by now have demolished the theory that economic growth, and exposure to Western market forces, will necessarily yield pro-democratic change. Certainly in these two cases, they manifestly have not.

As a result, the question is no longer "will economic liberalization lead to political liberalization," but rather, "is rapid economic growth in these nations even compatible with democracy?" I do not invert the conventional wisdom merely for emphasis or effect. Thanks to the impact of relentless propaganda that is broadcast and printed in state-controlled media, it is a commonplace in countries that lack media freedom that democracy — and its trappings such as a free press — actually pose a threat to economic growth.

In both Russia and China, for example, public opinion polls reflect deep distrust of Western-style democracy. Many Russians associate the economic collapse in the 1990s, and the persistent social instability that was left in its wake, with the perceived chaos of democracy. The state controlled media in China hammer on this theme as well.

And the government propagandists are not without ammunition in making their case. For example, according to a recent study from the American Enterprise Institute that spans the time beginning with the collapse of the Soviet Empire until the present, countries that are economically free but politically repressed have experienced consistently stronger economic growth. You heard me right: From 1991 to 2005, the average GDP growth in such countries has outpaced growth in countries that are both economically and politically free, by over 3.6 percent.

So tonight, we might ask ourselves an unaccustomed question. Might it be possible that America's experience, and that of other developed industrial democracies, is anomalous? Might it be the case that, far from being the necessary and healthy companion of economic growth, democracy actually interferes with it?

Rest assured that whether or not you're willing to ask the question, millions of people in other countries ask it each day. And the fact that this is the way so many millions of people think poses a problem for groups such as the NED that are devoted to democracy promotion. Because when Americans talk about democracy, ordinary Russians and ordinary Chinese don't hear the voice of a caring fellow citizen of the world who wants only the best for them and their nation. They hear the voice of a competitor seeking to contain their nation and to inhibit its greatness.

But just because democracy promotion is made more difficult when authoritarian systems can produce economic growth doesn't mean that economic engagement with those countries is the wrong course. It does mean, however, that merely investing in authoritarian countries and then waiting for democracy somehow to materialize is not nearly enough. The United States must do more.

As partners with other nations seeking to establish capital markets within their own borders, we can help governments to discover that freedom in all of its manifestations — in particular the freedom to say, write, publish, broadcast, and think the truth as one understands it, without fear of persecution — is essential to a healthy capital market. And we can help them to appreciate the role that free and efficient capital markets play in job creation, resource allocation, and national economic growth, all of which are in their self interest.

Neither China's nor Russia's capital market is mature, or capable of producing anything like the level of investment that their economies currently require — let alone what they'll require in the future. The same is true of almost every country in the world whose political system is less free than its economy. For the domestic capital markets in these countries to succeed, they will, sooner or later, have to focus on the basic ingredients of a free market.

And the first among these essential ingredients is that buyers and sellers of securities need information in order to trade. The better the information, the more efficient the market. Public disclosure of all material information is absolutely essential to an efficient market. It's what separates investing from roulette. If a nation's government restricts the flow of information about publicly owned companies, it will relegate its domestic capital market to mere speculation.

This is a particularly acute point when the companies whose securities are being traded are owned or controlled by the government. If all that investors can buy is a minority share in a government-controlled enterprise, and if critical information about the controlling shareholder and ultimate parent is restricted by that very government, a key component of a genuine market will be missing. Not only that, but a key component of investor protection will be missing as well.

That is why China's and Russia's restrictions on the media, and similar censorship in other nations seeking to develop their capital markets, are of direct concern to

investors. Controls on news and information — including information about the very government that controls the companies in which investors are being asked to put their money — obstruct the transparency that investors and efficient markets demand.

Another essential ingredient of a genuinely free market is marketplace actors who make decisions based on economic motives of profit and loss. This assures that the market will perform its most critical function — allocating resources efficiently across the economy. But governments are not, strictly speaking, marketplace actors. They act for reasons of national interest, which — while important — can be very different from profit and loss considerations.

As a result, by vindicating political and strategic concerns instead of purely economic motives, government-owned companies can distort the proper functioning of markets. Shareholders will naturally wonder whether the actions of a state-controlled company are taken because of an economic rationale, or because of political calculations. Conversely, if a company is majority-owned by private shareholders, and not by the government, then the normal workings of shareholder democracy will ensure that the business is run in their economic interest. This is a powerful check against corporate management becoming complacent — or much worse, corrupt.

Private shareholders insisting on their economic rights is the best way to establish corporate accountability and efficiency. When shareholders seek to promote reforms, and to improve efficiency and corporate accountability, their efforts must be respected, not thwarted. That has to be true whether or not those owners have minority interests, or controlling stakes.

The third ingredient — tough, independent regulation — is what we do at the Securities and Exchange Commission. And it's absolutely essential to maintenance of investor confidence.

Here again, the issue of state-owned versus private companies is of central importance. For regulation to be truly effective, it must be arm's length. It must be independent. If the regulator and the regulated are one and the same, there is an inherent conflict of interest. Tough, independent regulation — in the United States, and in any country — is the bedrock of investor protection, and the sine qua non of an efficient capital market.

A prevalence of state-owned companies in a capital market worsens the problems that arise when regulation is not independent, because it bears directly on the quality of information about issuers that investors can receive. Private companies, unlike national governments, can be forced by regulators to disclose key information to shareholders. This is not necessarily true of state-owned companies. As a result, investors in state-controlled companies are reasonably concerned that they may lack the necessary material information to make informed decisions.

In the cases of China and Russia, where large state-controlled or state-affiliated companies are selling only minority stakes to public investors, progress in transforming these firms into genuinely private enterprises will be key to determining whether independent regulation, and adequate investment information, will ever be sufficient for efficient capital markets to exist.

Beyond all of this, sturdy legal remedies to enforce investors' rights are the final key ingredient.

The reason this is so important is that it goes to the core of investor confidence, which in turn is the essential underpinning of a healthy capital market. The availability of clear and readily enforceable legal redress against fraud by the issuer or by other market participants insures that the rights of every individual are respected. Every shareholder has to know that his or her economic interests will be protected — both by corporate management, and by the legal system.

This is without a doubt the most important role for government in ensuring free and efficient markets. A share in a company is a property right, and it must be enforceable in law. So not only a tough, independent regulator but also honest, independent courts are absolutely essential to investor confidence. In both capacities — that of regulator, and of judge — the government must be fair, independent, and neutral. It must not be player and referee at once.

The Securities and Exchange Commission is committed to assisting our counterpart regulators in other nations to build strong, fair, free, and open markets in any way that we can. For several years, we've trained both Russian and Chinese securities regulators, here in America and in their home countries, in subjects ranging from anti-money laundering to the detection of insider trading to the prevention of market manipulation. And there is much more to do. As Russian and Chinese companies prepare to issue securities to American investors and to investors in markets around the world, we will redouble our efforts to promote shareholder rights, access to material information, and strong, independent regulation.

Always, as we work with regulators from other countries in helping them understand the mechanics of securities regulation, the implicit overarching lesson is this: Freedom can't be compartmentalized. Without freedom of information, freedom of speech and thought, and the rule of law to defend them, there cannot be truly efficient and free markets.

The blessings of freedom are available to all who seek them, and they include not only the spiritual and intangible, but very real economic blessings as well. To those of you here this evening who are associated with the FPA and the NED, and to all of you who support the work of these organizations, thank you for what you do in promoting freedom, democracy, and understanding among nations. Like Ronald Reagan and Dante Fascell, you are men and women of vision. And of dreams.

You probably remember that when President Reagan bade farewell to public life, he shared with the nation his vision for its future. That vision is just as applicable

to the work of the FPA and the NED today as it is to our country. His words 15 years ago seem especially fitting as we approach St. Patrick's Day, because they sound very much like an Irish blessing:

"My dream," he said, "is that you will travel the road ahead with liberty's lamp guiding your steps, and opportunity's arm steadying your way."

Through your work, you're helping to create a world in which millions of others can find the strength, the knowledge, and the resources to discover their own dreams of freedom and democracy, for themselves and for their children.

May the road rise up to meet you in your work, and may the winds of democracy be always at your back.

Thank you, and good night.