



Chinese economy

No ordinary Zhou

SHANGHAI

China's formative central banker is about to retire, but his influence will live on

WHEN Zhou Xiaochuan took the helm of China's central bank 15 years ago, the world was very different. China had just joined the World Trade Organisation and its economy was still smaller than Britain's. Foreign investors paid little heed to the new governor of the People's Bank of China. He seemed safe to ignore: another black-haired, bespectacled official whose talk was littered with socialist bromides.

Mr Zhou is widely expected to retire in the coming weeks. He leaves with China far stronger and his own role much more prominent. No one person can take credit for the flourishing economy. But Mr Zhou, who is 70, deserves more than most. He helped forge the monetary environment for China's growth. He also went a long way to dragging the financial system out of the mire of central planning, even if reforms fell short of his own wishes.

His achievements are surprising. China makes no pretence of having an independent central bank. The People's Bank is under the State Council, or cabinet. But with political acumen and a command of economics, Mr Zhou carved out power for himself. As the years silvered his hair, his decision to leave it undyed, rare among high-ranking cadres, marked him out as different, even a bit daring.

It did not hurt that, as the son of Zhou Jiannan, a senior Communist official, he enjoyed the privileged status of "princeling". From his early career in the 1980s, he advocated a more market-based economy. He helped design the "bad banks" that freed Chinese banks of their failed loans and paved the way for a boom. As stock-

market regulator, he was nicknamed "The Flayer" for trying to root out corruption. Mr Zhou was not a radical but, by China's standards, a staunch economic liberal.

When party leaders chose Mr Zhou as central-bank governor in 2002, they made him the point-man for financial reform. Over time he also became the face of Chinese economic policy in global markets, much liked for his jovial manner and straight talk. At the last big shuffle of government personnel five years ago, he was old enough to retire. A former aide says that Mr Zhou hoped to return to his other love, music. Sent to work on a farm during the Cultural Revolution, he kept a contraband collection of classical-music records; in the 1990s, when he was a banker, he wrote a book about musicals on the side. But when Xi Jinping became China's leader in 2012, he asked Mr Zhou to stay on. The Flayer had come to be seen as a wise elder, an indispensable guide for the financial system through a dangerous period.

His first big move as central banker, back in 2005, was to unpeg the yuan from the dollar. China's currency remains tightly managed, but it has not stood still. It rose by a third against the dollar in the decade after unpegging. Mr Zhou also steered China towards a system in which banks set interest rates themselves, rather than merely follow government diktats. Frustrated by the torpor of China's other regulators, he oversaw the creation of a vibrant exchange for "medium-term notes", a bond market in all but name. Rather than big-bang reforms, with all their attendant dangers, these were small changes that added up to

something bigger.

Yet Mr Zhou craved more. He wanted to open China's financial system to the world, believing that only with true competition would it be possible to curb wasteful investment. As a vehicle for this he lighted on internationalising the yuan. Politically, it was an easy sell—leaders liked the idea of having a powerful currency. Economically, it proved complex, requiring China to open its sheltered financial system to more risks. When cash flooded out of the country in 2016, the central bank retreated, ratcheting up capital controls.

Criticism has come from opposite sides. Some economists, mostly in China, feel that Mr Zhou pushed too hard for market forces, especially in his drive to internationalise the yuan. One former adviser, a more conservative economist, calls him "relentless". The other criticism, more often heard abroad, is that Mr Zhou did too little to cure China's financial ills. Debt levels soared on his watch, a threat to stability that the government is trying to reduce.

Neither criticism is entirely fair. The project to make the yuan global was never just about the currency. Mr Zhou knew that opening the capital account would reveal financial shortcomings in China and press the government to crack on with reform. To some extent this is now happening, with officials more focused on risks. As for the debt explosion, Mr Zhou could do little to restrain it. Given that the government was committed to ambitious growth targets, the central bank had to provide supportive monetary policy. But it has not let things get out of hand: inflation has remained generally low and stable.

Legacy systems

Mr Zhou is well aware that reputations change. He started his term as central-bank governor when Alan Greenspan was seen as the Federal Reserve's "maestro", not yet as a villain of the 2008 global financial crisis. Over the past half-year Mr Zhou issued several warnings that debts were too high and that, without stricter regulation, China could face serious trouble. To some it looked as if he was trying to protect his legacy, since, if financial turmoil erupts, he cannot be accused of failing to foresee it.

The front-runners to replace him are Guo Shuqing, China's most senior banking regulator, and Jiang Chaoliang, party chief of Hubei, a central province. Whoever gets the job will have less personal clout than Mr Zhou. And with decision-making more centralised under President Xi, the central bank itself may play a diminished role. Yet in one respect its next governor will start from a much stronger position. China's financial reforms are far from finished, but the system as a whole is much more advanced than 15 years ago. As an architect, Mr Zhou never saw his vision fully realised, but he designed solid foundations. ■