

China's Stability at Stake as the Next Generation of Money Men Rises

Bloomberg News

August 15, 2017, 5:00 AM GMT+8

Corrected August 16, 2017, 10:54 AM GMT+8

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- Zhou's associates promoted to posts in PBOC, SAFE, CSRC, IMF
 - This often happens when a senior leader departs: analyst
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Zhou Xiaochuan *Photographer: Andrew Harrer/Bloomberg*

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As the retirement of People's Bank of China Governor Zhou Xiaochuan nears, his legacy of financial reform may yet live on through the advancing careers of people he's helped guide to prominence.

The latest examples of that phenomenon are five officials, associated with Zhou and seen as like-minded reformers, who were promoted since 2015 to key posts at the central bank, market regulators and even the International Monetary Fund. They include Zhang Xin, deputy head of the State Administration of Foreign Exchange and Li Bo, director general of the PBOC's monetary policy department.



Zhang Xin, left, and Li Bo. Source: ImagineChina

Their ascent should offer some reassurance amidst the uncertainty surrounding who'll succeed the Group of 20's longest-serving central bank governor. With proteges in key roles, Zhou can expect them to carry on his push for financial liberalization and a freer yuan, while avoiding the pitfalls of a debt pile that's swelled massively under his watch.

"These appointments at least partially reflect Zhou's intention to ensure his legacy of liberal reform be maintained after he steps down," said Feng Hui, co-author of 'The Rise of the People's Bank of China.' "All the appointments help bring international visions to mid-level management."

Greenspan Era

Since taking the central bank's reins in December 2002 -- back when Alan Greenspan was leading the Federal Reserve -- Zhou has steered the nation through global crises, overhauled monetary policy tools, ended a direct peg to the dollar, abolished a cap on deposit rates and overseen the elevation of the yuan to reserve-currency status.

While it's widely expected he will retire in the not too distant future, there are no guarantees as China's political appointments are often unpredictable. Zhou bucked expectations <https://www.bloomberg.com/news/articles/2013-03-11/pboc-governor-zhou-to-be-vice-chairman-of-china-advisory-body> he would leave back when he was 65. Instead he was promoted, taking on the title

of vice chairman of the Chinese People's Political Consultative Conference, where the retirement age typically is 70. Zhou turns 70 in January.

While the five men's careers have intertwined with Zhou, there's no way to know what hand the PBOC governor played in their recent promotions.

Xuan Changneng, the third member of the five, was promoted to assistant to the chairman at the China Securities Regulatory Commission in August last year. Like Zhang Xin, he returned from overseas to join Zhou when he led the securities watchdog in 2000.



Xuan Changneng, left, Zhang Tao, center, and Lu Lei. Photographer: Daniel J. Goshong/Bloomberg, left; Source: ImagineChina, center and right.

Xuan "responded to the call of the then-CSRC chairman Zhou," according to an [article <http://aga.ustc.edu.cn/people/newsView?id=923>](http://aga.ustc.edu.cn/people/newsView?id=923) on the alumni association's website of the University of Science and Technology of China, where Xuan studied as an undergraduate.

Zhang Tao, who began working with Zhou at the central bank in 2004, was promoted to serve as China's voice at the International Monetary Fund in August last year. Lu Lei, who rubbed shoulders with Zhou when they both worked at the central bank in the mid-1990s, in June 2017 became a deputy head at SAFE, which manages China's \$3 trillion foreign exchange hoard.

Retirement Age

In 2015, Li Bo was appointed <http://economy.caijing.com.cn/20150511/3879887.shtml> director general of the central bank's monetary policy department, which advises on rates settings and manages day-to-day liquidity operations. He had joined Zhou at the PBOC in 2004, and subsequently helped draft laws on anti-money laundering and foreign exchange management.

"Zhou's approaching the retirement age limit and the appointment of many of his proteges into key posts is also a strong indication he won't stay around," said Zhu Ning, deputy director of the National Institute of Financial Research at Tsinghua University in Beijing. "This is often what happens when a senior leader departs."

Li Bo, Zhang Xin and Lu Lei are rising stars within the central bank with widely acclaimed expertise and experience that will help maintain the momentum of exchange rate, yuan liberalization and broader financial deregulation, said Feng, a senior research fellow at the Griffith Asia Institute in Queensland, Australia.

The PBOC and the CSRC didn't respond immediately to Bloomberg's faxes seeking comment on the officials. The IMF said Zhang isn't in a position to comment. Bloomberg hadn't received any comment from SAFE at the time of publication.

As the central bank shifts toward a monetary policy framework that isn't tied to a pegged exchange rate, and as the economy becomes larger and more complex, the experts Zhou has fostered will become crucial for the PBOC to do its job effectively, said Eswar Prasad, a former chief of the International Monetary Fund's China division.

Zhou may view it as an important part of his legacy to strengthen the personnel ranks at the PBOC and to prepare the institution well if it gains greater operational independence, said Prasad, now a professor at Cornell University in Ithaca, New York.

Technocratic Limits

In China's top-down system there's a limit to what technocrats can achieve. The central bank operates under the State Council, which sets policies including interest rates, leaving it with less autonomy than U.S. and European counterparts. To help cement Zhou's legacy after he departs, they'll need the aid of another reformist governor.

China Banking Regulatory Commission Chairman Guo Shuqing is Zhou's most likely successor because he combines top-level financial industry experience and political heft, said Feng. Guo was previously governor of Shandong province and chairman of both the securities regulator and China Construction Bank. One of Zhou's deputies, Yi Gang, and Jiang Chaoliang, the party secretary of Hubei, are among other contenders.

Reformist Drive

Some of Zhou's liberalization goals have recently taken a back seat in the name of stability. Foreign exchange controls were tightened to stem an exodus of capital, and authorities have kept a tight rein on the yuan.

"It is still unclear to me whether President Xi Jinping has the intention to push for further reforms," Feng said. The general mood is for stability rather than development, suggesting the brakes are on further liberalization, he said.

Below are some of the academic and career details of Zhou's proteges:

- Zhang Xin has a PhD from Columbia University and previously worked <http://finance.sina.com.cn/roll/2017-07-05/doc-ifyhweua4005974.shtml> for Merrill Lynch and the World Bank. He helped develop financial regulations for Shanghai's Free-Trade Zone from its PBOC branch from 2009

- Lu Lei joined the PBoC in 1995 and stayed until 2003, winning the prestigious Sun Yefang Economic Science Award for a paper on financial corruption. After a stint at China Merchants Bank Co. and a decade in academia in Guangdong, he returned to the central bank in 2014 as director of its research bureau, and was then promoted to director of the financial stability bureau last year before joining SAFE
- Xuan Changneng worked for JPMorgan after gaining a PhD in finance at the University of Texas at Austin in 1997. He joined China Construction Bank in 2004, where he was involved in efforts to bring in strategic investors, and subsequently worked for private equity firm JC Flowers & Co
- Zhang Tao has an MA and PhD in international economics from the University of California, Santa Cruz, and previously worked for the World Bank and Asian Development Bank. Before being promoted to a deputy governor at the central bank, he held posts including vice director of the research bureau, director of financial surveys and statistics, director of the international department and director of legal affairs
- Li Bo received a PhD in economics at Stanford University and a JD in law from Harvard and after worked at law firm Davis Polk & Wardwell, according to Caijing magazine. He joined the central bank's legal affairs department as deputy head in 2004 and was promoted to head in 2009

— *With assistance by Kevin Hamlin, Yinan Zhao, and Dingmin Zhang*

(Corrects to amend promotion date of Lu Lei above Retirement Age subhead.)