

China Names New Finance Minister to Replace Veteran Lou Jiwei

Bloomberg News

November 6, 2016 — 8:46 PM EST *Updated on* November 7, 2016 — 12:04 AM EST

-
- Xiao Jie, ex-aide to Premier Li Keqiang, succeeds to post
 - Lou was a former protege of reformist premier Zhu Rongji
-

China has replaced veteran reformer Lou Jiwei with a new finance minister who'll be tasked with juggling fiscal stimulus and efforts to rein in excess leverage in the world's second-largest economy.

Xiao Jie, previously a senior aide to Premier Li Keqiang, will replace 65-year-old Lou, who has held the job for a little more than three years, according to an official Xinhua News Agency report. There was no news on what post, if any, Lou will go on to take.

Lou oversaw a restructuring of local-government finances that helped reduce the cost of a record amount of debt run up by provinces and cities that binged on spending after the global financial crisis. The Finance Ministry's top job now goes to a former head of the tax administration who

must grapple with challenges including forging a relationship with a new U.S. Treasury Secretary in a global environment with rising protectionist sentiment.

"The biggest challenge remains to broaden the local governments' narrow revenue base," said Raymond Yeung, chief greater China economist at Australia & New Zealand Banking Group Ltd. in Hong Kong. "Reliance on land sales has been a major culprit behind many issues such as the property frenzy. So far, no finance minister seems to have tackled this issue well."

PBOC Governor

With China's monetary policy shifting to a neutral stance, the Finance Ministry has been taking on more of the onus to keep the economy humming, through funding projects and expanding the fiscal deficit.

There was no immediate sign of a change in status for central bank Governor Zhou Xiaochuan, who has been in office since December 2002 in a tenure that's coincided with multiple finance ministers.

The news from the Standing Committee of the National People's Congress, the nation's top legislature, came in a one-line statement. The announcement follows a plenum of top Communist Party officials last month, where President Xi Jinping was declared as the "core" leader of China, a designation that underscored his strengthening authority.

The NPC standing committee also approved two other appointments Monday. Chen Wenqing was named as the new state security minister and Huang Shuxian as the civil affairs minister.

Ministry Career

Xiao holds a doctoral degree in economics. A Ministry of Finance veteran, he has spent more than two decades there since 1982, rising from an employee of its long-term planning division to become a vice minister in 2001. He then had stints as deputy governor of Hunan province, chief of the nation's tax authority, and then as a top secretary at the State Council, China's broad equivalent of a cabinet.

"One thing that differentiates Lou and Xiao is that Xiao has proposed

property taxes before 2013," said Iris Pang, senior economist for Greater China at Natixis SA in Hong Kong. "This makes me believe that property taxes could be the top priority of his policy agenda, which could be implemented under the current environment of a bubbly property market."

Lou, a protégé of reformist former premier Zhu Rongji, in the 1990s helped craft the fiscal framework that underlay two decades of 10 percent average growth. As a vice minister from 1998 to 2007, he played a role in economic restructuring that led to China joining the World Trade Organization in 2001. He later served as the chairman of China Investment Corp., a sovereign wealth fund set up in 2007, where he oversaw purchases including a stake in Morgan Stanley.

"Lou's loss is a big deal," said Barry Naughton, a professor of Chinese economy at the University of California in San Diego. "Lou Jiwei is one of the smartest policy minds in China and one of the most committed reformers. "

Lou became finance minister in 2013 and oversaw efforts to rein in lending and give local governments an officially-sanctioned channel for raising money after provinces and cities took on trillions of yuan of debt through opaque financing vehicles after the global financial crisis.

"Lou managed to push through some important fiscal reforms, including reining in local government borrowing, but leaves behind a large and important unfinished reform agenda," said Eswar Prasad, a former chief of the International Monetary Fund's China division and now a professor at Cornell University in Ithaca, New York. "Lou's successor, Xiao Jie, does have substantial experience in fiscal policy, but it remains to be seen whether he has the acumen and clout necessary to push forward those reforms."

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