

ASIA PACIFIC

U.S.-Trained Official May Shape China's Response to Trump on Trade

By CHRIS BUCKLEY and KEITH BRADSHER JAN. 18, 2017

BEIJING — Over the last year, Liu He, a soft-spoken, American-educated technocrat, has consolidated his status as President Xi Jinping's top economic adviser, amassing influence that some believe rivals that of the prime minister.

But as his star has climbed, Mr. Liu has struggled to overcome resistance to a program of measured economic liberalization and more open markets that he argues is critical to China's long-term economic health — and that is generally favored by Washington.

Now, as President-elect Donald J. Trump prepares to enter the White House renewing warnings of China's economic menace, it will be even more difficult for Mr. Liu to achieve his agenda, which could be overwhelmed by fears of fallout from a trade war.

There is little in his public record to suggest precisely how he would advise Mr. Xi to handle Mr. Trump's threats to raise tariffs on Chinese products.

But in a study he oversaw that was published as a book more than three years ago, he argued that China “cannot shoulder excessive responsibility” for reducing its trade deficits with other economies.

“Populist policies adopted by the governments of developed countries are

often the instigators of crisis,” he wrote.

In the pre-Trump era, Mr. Liu was seen as the kind of Chinese official whom Americans could work with. He advocated China's adjusting its saving and spending to help the United States recover from the 2008 financial crisis.

When President Obama's treasury secretary, Jacob J. Lew, needed to cut through the fog of Chinese economic policy last winter, he called Mr. Liu.

“Liu He was always kind of a must-stop for Treasury because he had a macro view of the Chinese economy and the global economy,” said David P. Loevinger, the senior coordinator for China affairs at the Treasury in President Obama's first term.

Mr. Liu was regarded as an insider with a direct line to the top.

Now he is widely expected to become the director of the National Development and Reform Commission, a powerful agency where he is currently a deputy director. That promotion would increase his visibility as well as his prospects of becoming a deputy prime minister in 2018, when a new government is formed for Mr. Xi's second term.

Mr. Liu cannot dictate policy unilaterally, but his proximity to Mr. Xi gives him more sway than his bureaucratic-sounding titles would suggest.

“There's no doubt in my mind that Liu He is extraordinarily powerful,” said Christopher K. Johnson, a senior China analyst at the Center for Strategic and International Studies in Washington. “He has shifted from a stance earlier on when he was very careful not to demonstrate the level of influence he had.”

Beside pressing for a dose of economic liberalization and more room for markets, he has advocated trimming bloated state-owned industry and sought to curtail China's ever-rising debt.

But even as he has gained influence, his ability to push through changes in these areas has been limited. Mr. Xi still calls the shots, and his pledge to revamp

the economy jostles alongside his fiercely conservative agenda to restore party control and protect state companies. Mr. Xi's promises of shaking up industry and reducing debt clash with vows to keep growth ticking.

Mr. Liu "is committed to reform, I have no doubt," said Eswar Prasad, a Cornell University economist who used to be the China section chief at the International Monetary Fund. "Despite his commitment to the reforms, he doesn't have the power to make it happen," at least not without the backing of powerful allies.

The election of Mr. Trump and his selection of a trade team that seems ready to restrict China's exports to the United States have only complicated the task ahead for Mr. Liu. The risk of layoffs in export industries, and even just the uncertainty about what lies ahead, will make it even harder to push through changes and may strengthen the hand of bureaucrats who want banks to keep lending heavily to keep businesses humming, regardless of losses.

Chinese trade experts with government ties have already hinted that if the Trump administration imposes barriers to Chinese goods, they are ready to retaliate through steps like switching aircraft contracts from Boeing to Airbus, diverting food import contracts to rival countries like Brazil and possibly making it more difficult for Apple to sell iPhones in China.

While Mr. Liu and other market-oriented economists may see an argument in principle for lowering some of China's steep trade barriers, doing so amid the nationalistic backlash that could be provoked by American trade restrictions would be political poison.

But Mr. Liu is a savvy player. His response to his agenda's being sidelined in 2015 offers an intriguing window into his political style and the art of waging policy battles at the top levels of the Xi administration.

A set of economic challenges that year — the stock market tumble in June, a currency devaluation two months later and a significant and unexpected slowing of economic growth — dampened the appetite for economic liberalization. Policy

tensions opened up over the right balance between shoring up growth and imposing overhauls.

Mr. Liu began a canny lobbying effort aimed squarely at Mr. Xi.

In an apparent bid to win favor, Mr. Liu submitted a long memo in late 2015 praising Mr. Xi's record in office and arguing that he had a historic mission to transform China, including by making bold economic changes, according to four people who have been told about the document by senior officials. All spoke on the condition of anonymity.

While the memo was not made public, Mr. Xi endorsed it by ordering it circulated among the party's upper echelons.

Last May, an article by an anonymous official appeared in People's Daily, the Communist Party's main newspaper, warning of the risks of an overleveraged economy. The official, cited only as an "authoritative person," accused laggard officials of undercutting reforms by trying to spend their way out of economic malaise, implicitly exempting Mr. Xi from any blame.

If rising debt is not restrained, "it will trigger a systemic financial crisis and lead to negative growth and even the evaporation of ordinary people's savings," the article said. "That would be fatal."

Officials, economists and even reports in the Chinese news media have said the article came from Mr. Liu's office, and the article echoes phrases and ideas Mr. Liu has used.

Still, the results of his campaign have been limited. Beijing disclosed on Thursday that bank loans and other credit rose again last month by more than Western economists had expected, a trend that has continued largely unabated in the eight months since the anonymous article appeared.

In nearly any room of senior Chinese officials, Mr. Liu stands out. While most other bureaucrats in their 50s and 60s dye their hair black, Mr. Liu, 64, has gray

hair.

He also stands out for his American education, a rare qualification among senior Chinese officials. He received a master's degree in public administration from the John F. Kennedy School of Government at Harvard University, and before that he studied business at Seton Hall University in New Jersey.

Returning to Beijing, he rose quickly from writing studies of industrial policy as a government researcher to leading the party group that steers economic policy. In 2013, he became a deputy director of the National Development and Reform Commission, which steers industrial policy.

“He was seen as influential under the previous presidency, and his influence has increased further under Xi Jinping,” Charles Collyns, a former assistant Treasury secretary, said. “He had a well-informed, shrewd, balanced assessment of China's structure and priorities. He didn't come across as a firebrand.”

While his response to American trade restrictions is unknown, there is little doubt that a trade war with the United States would amplify the voices of economic nationalism.

As Global Times, a nationalistic Chinese newspaper controlled by the Communist Party, put it in an editorial this month: “There are flowers in front of the China Commerce Ministry gate, but sticks as well, hidden behind the door. Both are waiting for the Americans.”

Follow Chris Buckley @ChuDailiang and Keith Bradsher @KeithBradsher on Twitter.

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