《周小川退休 易纲担任央行行长》

周一，周小川退休了，几十年来一直担任央行行长小川副手的易纲被任命为中国人民银行行长。

Yi Gang was named governor of the People’s Bank of China (PBOC) on Monday, after a decade as deputy to Zhou Xiaochuan, ensuring continuity to a landmark era of market-oriented reforms as China enters its new era.

With more than 15 years under his belt as chief of China’s central bank, Zhou inherited an economy with huge potential for growth as well as risk.

His tenure saw China’s economy become the world’s second largest, with Zhou successfully implementing a series of landmark reforms.

Zhou Xiaochuan (R) shares a smile with his successor, Yi Gang during a press conference on March 13, 2018. /VCG Photo?

Until his retirement, Zhou was the longest serving central bank chief of all the G20 economies.

For the economists who have predicted China’s economic collapse since the turn of the century, Zhou has been a prime source of frustration, after building a sturdy financial system resistant to shocks like the 2008 global financial crisis.

Inheriting an economy unrecognizable from today

In 2002 China’s economy was the world’s sixth largest, with a GDP of around 1.2 trillion US dollars. Back then, few in the West would have predicted the world we see today in 2018 – China’s economy is now worth 82.7 trillion yuan (12.9 trillion US dollars). Its leaders are now widely seen as the voice of reason by liberal economists in favor of free trade and open markets.

An engineering student by trade, Zhou spent his youth working in China’s northeast – a region dominated by heavy industries and state-owned enterprises (SOEs).

Zhou then entered finance in the 1990s, with high-level positions in the Ministry of Commerce, the State Administration of Foreign Exchange and China Construction Bank.

The People's Bank of China headquarters in Beijing. /VCG Photo

That decade saw him nicknamed “Zhou Bapi” – Zhou the flayer, reflecting his tough stance on corruption in finance and his dedication to market-oriented reforms.

Zhou’s unique experience of working with heavy industry and opening up the financial sector let him well know the country’s economic strengths and weaknesses. By 2002, his reform-minded approach was enough to see him named governor of the central bank.

2008: Overcoming the global financial crisis

The 2008 financial downturn was the worst since the Wall Street crash of 1929. Financial institutions, economic models and entire governments crumbled in the wake of the crisis, with developing economies suffering the most.

Chinese economic growth in 2008 was its lowest in seven years, as demand for China’s exports slumped dramatically. It was a moment that forced Zhou and other policy makers to take a long look at the country’s economic model.

A stimulus package worth 586 billion US dollars was pumped into the economy in the form of infrastructure spending and investment. The PBOC moved to cut interest rates and encourage borrowing, ushering in a huge credit boom which fuelled growth, expansion and consumption.

However, it also spurred unprecedented growth in credit, encouraging a debt bubble which by 2016 exceeded 260 percent in terms of debt to GDP.

Zhou Xiaochuan has forged strong ties between China and financial institutions like the IMF, headed by Christine Lagarde. /VCG Photo

A fluent English speaker and well-regarded on the international stage, Zhou reached out to major institutions for backing to his reforms, telling the IMF in 2008 China would make “policy adjustments… in a more forward-looking and timely manner.”

In a post on the PBOC’s website in 2009, Zhou made global headlines with a bold claim that the international financial system needed to move away from the US dollar, proposing “an international reserve currency… disconnected from individual nations.”

Era of deregulation

The infrastructure and spending boom in the wake of the financial crisis saw the emergence of the biggest middle class population the world has ever seen.

Deregulation of interest rates and an embrace of the Fintech sector by the PBOC have played key roles in the transformation of China’s economic model.

Under Zhou, market forces have been allowed to play a much more prominent role in the financial sector. The removal in 2015 of the cap on deposit interest rates was a move that encouraged much wider competition in the banking sector.

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After unpegging China’s currency from the US dollar in 2005, the Renminbi yuan was accepted into the IMF’s basket of currencies with special drawing rights (SDRs) in 2016, a landmark move that came after a series of tough reforms spearheaded by Zhou.

Moves to let market forces dictate the yuan still prove controversial, with Zhou’s successor left with a mandate to continue China’s prudent monetary policy while also slowly implementing reform.

Be bolder: What challenges does Yi Gang face?

The last year of Zhou’s tenure as chief of the central bank saw US President Donald Trump label China a “strategic competitor,” a sign that an era of friendly international financial cooperation could be about to end.

The veteran head of the PBOC warned China against the prospect of a “Minsky Moment” in November, and has previously pointed to China’s expanding debt as a potential risk to the economy.

Yi will be left looking to draw greater foreign investment to the country's financial sector through further reform and opening up, while recent policies clamping down on "shadow banking" will need to continue as China looks to combat risk and reign in bad debt and non-performing loans.

In one of his final meetings with the press on March 8, Zhou said that the central bank could "be bolder" in terms of opening up to foreign competition in finance, while adding it had been "an honor…to push forward China's financial reform and opening up" during his tenure.