



Changes under China's New Leadership: Part I

Nicholas R. Lardy says that several top leadership appointments in China indicate improved prospects for economic reform.

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Steven Weisman: A new leadership team has been installed in China, just as President Obama heads into his second term. Nicholas Lardy, senior fellow at the Peterson Institute for International Economics, is here with me, Steve Weisman, to talk in two parts: first, about what to expect from the new leadership in China; and second, the United States agenda in Obama's second term.

Nick, first, there's been a lot of talk of new economic reforms in China. What does the talk mean in terms of action?

Nicholas Lardy: We won't know until we see the action what it really means. But I think one can portray a fairly optimistic picture in terms of the new economic team. The most important factor, of course, was the re-appointment of Zhou Xiaochuan to be the head of China's central bank. He's a very talented pro-reform person who has already served ten years in that position, and has extensive background in the financial sector, led the charge on a lot of very important economic reforms, including liberalizing interest rates, having a more market-determined exchange rate. And it happened last fall when he was not reelected to the central committee that he was going to retire as would be expected [to do so] because of his age. But they have made a very important exception to leave him in place.

Another very important development is that the head of one of the biggest banks, Xiao Gang, has taken over as the securities regulator. He's also a very pro-reform. Interestingly, he's replacing another strong reformer, Guo Shuqing, who is rumored to become the first party secretary in Shandong, which is a little to the south of Beijing, one of China's largest provinces both in terms of population and GDP.

I think this bodes very well for the future because it's likely or it's certainly possible that Guo, after serving a term in this very important provincial post, will five years from now become one of the Standing Committee members in the Politburo. This is the path to leadership. People don't rise from specialized bureaucracies to become members of the Politburo Standing Committee. But leaders of important provinces frequently do rise. And that's how we saw the current president, Xi Jinping, rise to power, and the current premier, Li Keqiang.

That, I think, sends a very important signal that we could have a very strong pro-reform person joining the Standing Committee of the Politburo in five years. And we've got very strong people at the next level down as I mentioned in the central bank and in the Securities Regulatory Commission.

So I think in the economic front also Li Keqiang, he's the premier, taking into account his very strong background in economics, his record as a reformer in South China when he was there, his deep understanding of the market economy, I think at least creates the presumption that there may be more reform on the economic front in this regime than we saw under the [President] Hu Jintao-[Premier] Wen Jiabao leadership that has just left office after ten years.

Steven Weisman: What are the first signs that you might be looking at to indicate that reforms are under way?

Nicholas Lardy: Some of these are fairly technical. For example, are they going to continue the interest rate liberalization? It's been an on again, off again reform process. We saw some very small steps taken in June of last year after a hiatus of almost five years, even longer. So that would be another area.

The central bank has strictly controlled interest rates for decades. But they have gradually been widening the bands that are allowed around the so-called benchmark rates that they set both for loans and deposits. And one sign of moving ahead would be continued liberalization, widening of those bands within which the rates can move. Certainly that would be one important area to watch.

Steven Weisman: There's been a lot of public rhetoric committed to reform. What you seemed to be saying is that the appointments below the leadership in the second and third tier are making it more hopeful.

Nicholas Lardy: Well even Li Keqiang, remember, the first thing he did after assuming office was to make the southern trip, which is very reminiscent of the trip that [former paramount leader] Deng Xiaoping made, which set off a renewed, very strong period of economic reform in the mid 1990s. He deliberately went to many of the same places. He used language that was very reminiscent of what Deng had used. He seemed to be sending out a very strong signal that economic reform was high on the agenda. And he's continued to talk about that even as recently as this week.

Steven Weisman: There have been some stories recently about the pollution in Beijing and that that's been embarrassing to the leadership.

Nicholas Lardy: It has been. But of course, the current leadership isn't responsible for it. They will have to make more vigorous efforts to bring it under control. It will be a long-term problem. They are not going to be able to turn this around overnight. But I think that certainly there's more and more popular pressure for dealing with pollution and problems in food safety and the pigs in the river and now the thousands of ducks that have shown up in another river down in southwest China.

Steven Weisman: By the way, some people said that the pigs and the ducks were a good sign because it showed a new concern about tainted food. What's your interpretation?

Nicholas Lardy: I don't think it's a good sign. I think it's a sign that at the root there are still many, many problems, that diseased animals are dumped into rivers rather than disposed of in a more hygienic manner that doesn't threaten the water and the food supply chain.

Steven Weisman: Do you have a sense of the popular pressure on this government?

Nicholas Lardy: I think this regime of the new leadership does feel a popular pressure. The social media are all over these issues. And that's changed the politics of dealing with these problems. So I would put it more that expectations are being raised, that the population has higher expectations on what this leadership is going to be able to deliver, particularly because they have talked about it so much on corruption, which the new leadership has made a great deal about, pollution, food safety, the environment, more generally the quality of life. And that's what they're promising to do better on than their predecessors.

Steven Weisman: Nick thanks very much. In Part II, I want to ask you about the United States agenda toward China.

