DJIA **23533.20** -1.77% ▼ S&P 500 **2588.26** -2.10% ▼ U.S. 10 Yr **0/32 Yield** 2.817% ▼ Euro **1.2355** 0.42% ▲

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MARKETS

Yi Gang Picked to Take Helm of People's Bank of China

American-trained economist has pushed for pro-market overhauls

Yi Gang, deputy governor of the People's Bank of China, has been picked to take the helm of the central bank. **PHOTO:** LI XIN/ZUMA PRESS

By Lingling Wei

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BEIJING—President Xi Jinping has picked an American-trained economist known for pushing pro-market overhauls to run the central bank, adding to an economic team strong on proponents of liberalization.

Yi Gang, a long-serving vice governor at the central bank, is being slated to take over from his mentor Zhou Xiaochuan, who has run the People's Bank of China for a decade and a half. Mr. Yi's nomination was approved Monday morning by the nearly 3,000 delegates to the National People's Congress, the rubber-stamp legislature.

The changing of the guard at the central bank is part of a broad reshuffle of government positions following on from a new Communist Party leadership installed last fall. Mr. Xi has allies.

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Liu He, the president's top economic adviser and an advocate for making greater use of market forces in the state-directed economy, was promoted Monday to vice premier. Part of Mr. Liu's remit will include oversight of the central bank and other financial regulators, effectively becoming the nation's economic czar.

Chief among the team's priorities is untangling the financial risks that have piled up from debt binges, trying to reinvigorate a lumbering financial sector dominated by big state banks, opening up financial markets and preventing trade friction with the U.S. from buffeting the economy.

"Liu and Yi have a shared understanding of the need for financial market reforms and liberalization, coupled with more effective regulation," said Eswar Prasad, a Cornell University professor and former China head for the International Monetary Fund.

During his tenure, Mr. Zhou, often along with Mr. Yi, became a champion within the government for market-oriented changes. Even Mr. Zhou, a skilled politician who managed to put off his retirement for five years, has found himself having to reverse some liberalization efforts.

Stock market turmoil in 2015 and 2016 and a weakening yuan caused the leadership to shift course, putting a premium on stability. That necessitated tightening the more open channels for moving money in and out of the country that Mr. Zhou and Mr. Yi had charted.

Today, Chinese banks still lack full autonomy to set loan and deposit rates and the yuan is back under tight government control while businesses as well as individuals face renewed restrictions on taking money out.

When Mr. Xi delivered an ambitious development plan at the Oct. 18 opening of a twice-in-a-decade party congress, he didn't mention freeing up cross-border capital flows. Five years ago, Mr. Xi's predecessor clearly stated that as a policy goal.

Still, senior officials in recent weeks have said Beijing will take more measures to give foreign firms wider access to the nation's financial sector such as insurance. Part of the urgency comes from the Trump administration, which is pressuring China to take immediate actions to address the widening trade imbalance between the two nations.

taught for six years at Indiana University. In the past four years, he has been a member of President Xi's economic-advisory group, giving him important party-insider credentials.

His fluent English was also a plus, allowing him, like Mr. Zhou, to discuss policy and hobnob at meetings of the IMF and other major international financial gatherings.

David Loevinger, the U.S. Treasury Department's China coordinator during the first term of the Obama administration, recalls in key meetings with then-Treasury Secretary Timothy Geithner, his counterpart at the time, Vice Premier Wang Qishan, would insist on including Mr. Yi, sometimes in lieu of more senior Chinese officials. (Mr. Wang was named deputy head of state on Saturday.)

”It's clear Chinese leaders respect and depend on Yi's expertise,” Mr. Loevinger said.

As central bank governor, Mr. Yi is getting broader powers that include setting guidelines for the banking and insurance sectors, under a government restructuring unveiled last week.

At a press conference last week, on the sidelines of the annual legislative session, Mr. Yi pledged to liberalize China's capital account and to make it easier for foreign firms to invest in China, while doing so cautiously.

”We'll need to prevent risks as we continue to open up” China's markets, Mr. Yi said.

Unlike its Western peers such as the U.S. Federal Reserve, the People's Bank isn't independent and answers to the leadership; the central-bank governor often acts as a top lobbyist of sorts helping shape the nation's financial and economic policy.

The process of replacing Mr. Zhou, now 70, has been several years in the making. In March 2013, Mr. Xi named him to a third term despite Mr. Zhou having passed the retirement age of 65 for senior officials.

A year and a half later, Mr. Xi considered removing Mr. Zhou as he was installing more of his own people in key positions, according to officials with knowledge of the plan at the time. But as China's economy lost steam and global markets questioned Beijing's commitment to market-oriented overhauls, Mr. Xi kept Mr. Zhou on.

The decision paid off: Mr. Zhou spent the following year getting the yuan into the IMF's exclusive reserve-currency club—a much-coveted status for Beijing.

“Zhou is leaving a very big shoe to fill,” said Mr. Loevinger, now a managing director at TCW Group, a U.S. asset manager. But Mr. Yi's appointment “would be comforting to global markets.”

Corrections & Amplifications

Yi Gang, the newly appointed governor of the People's Bank of China, taught at Indiana University. An earlier version of this article incorrectly stated that Mr. Yi taught at the University of Indiana. (3/20/18)

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