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THE NEW APPOINTMENTS AT THE TOP OF THE CHINESE ECONOMY

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In recent months, the entire governance system of the Chinese economy has undergone considerable restructuring. In March, during the annual meeting of the National People's Congress, the legislative body charged with officiating the proposals coming from the party's leadership, the appointments of new directors at the top of the main financial institutions of the Country have been made official. Of particular importance are the assignments entrusted to Yi Gang, Guo Shuqing and Liu He, respectively the new President of the People's Bank of China, the new Secretary of the Communist Party at the same institution and the new Vice-President of the People's Republic with responsibility for industrial and financial affairs. These appointments are part of a specific plan, designed by President Xi Jinping, aimed at redesigning the entire executive apparatus of the country, placing political figures in lead positions, all featured by a great technical expertise and a sincere adherence to the leadership's political vision.

On 19 March, Yi Gang was appointed as new Governor of the People's Bank of China (PBOC), a body that plays a role comparable to our central banks. Yi, who joined the management of this institution in 1997, has served as director of the State Administration for the Foreign Exchange (SAFE) since 2016, in charge of drafting regulations for the exchange market and managing the national reserves of foreign currencies. He is a profound connoisseur of the monetary policy, thanks to the education he received in the United States (unusual fact for a top-level Chinese public manager). Back home, his career in the State administration had so far taken place in the shadow of the outgoing PBOC President, Zhou Xiaochuan, who had been head of the institution for the past 15 years.

Zhou has probably been the most remarkable Governor of the People's Bank of China in recent history, as well as one of the most influential personalities within the Chinese political system. Born in Shanghai and advocate for a more "liberal" approach to the management of the Chinese economy, he was purged during Mao's Cultural Revolution (1966-1976) and later rehabilitated by Deng Xiaoping, under which served as Minister of Industry. Politically close to Wen Jiabao, Zhou is a prominent member of the so-called "Shanghai group", the most "liberal" current within the Chinese Communist Party. He joined the leadership of the People's Bank of China in 2002. His work marked a real watershed in the country's economic policy. Zhou, in fact, was one of the main supporters of the opening of the Chinese market to foreign investors, as well as of the internationalization of the yuan against the hegemony of the US dollar. In 2012, it began a series of liquidity injections in the domestic market for a total of $ 46 billion. These maneuvers were aimed at stimulating demand, in a dramatic moment when the sovereign debt crisis hit hard Europe and international financial institutions demanded the application of deflationary policies and deep cuts in public spending.

The 15-year presidency of Zhou will be remembered as the most momentous attempt to restructure the Chinese financial architecture, moving from a purely centralist economic management to a substantially more market-oriented one. One of its main reforms within the PBOC has been allowing Chinese banks to set interest rates according to market conditions, instead of merely following government diktats. Beside this, a substantial easing of controls on capital flows has also found space, in order to increase the appeal of China towards large international investors. Since Xi Jinping has always attributed great trust to Zhou Xiaochuan, as well as considerable freedom of maneuver, the appointment of his dolphin Yi as President of the Chinese central bank, can not but imply the will to carry through the process of reforms started by Zhou. From a purely political point of view, what emerges is once again the strong influence of Xi, capable of placing with ease a man who is ideologically close and of great trust at the head of the country's main financial institution. The enormous responsibilities attributed to the role of President of the PBOC, however, do not translate into an indiscriminate freedom of action. The last word on the strategic direction to be taken, in fact, lies with the Secretary of the Communist Party at the People's Bank of China. This is a mainly political role, responsible for monitoring the management on the party's behalf. This office has been entrusted to Guo Shuqing, former Governor of the Province of Shandong and former head of the country's main banking and insurance regulatory authority, the China Banking and Insurance Regulatory Commission. Officialized on April 4, the appointment places Guo at the top of a new commission, created by the merger of the former main banking and insurance control authorities, promoted by the Chinese government to strengthen the control over the state-owned companies and reduce the risk of instability.

Both Guo and Yi are in turn obliged, in respect of a rigid pyramid scheme, to report on their work to the Vice-President of the People's Republic in charge of financial and industrial affairs, Liu He.

Liu, in light of his recent entry, which took place last October, inside the Politburo, is today one of the most powerful men in the Country. There are many points in common with Yi: both received an excellent education at American universities (Liu has holds a Master in Public Policy from Harvard), they have worked closely within the Committee of the Communist Party for Economic and Financial Affairs, and both profess themselves very attentive to issues such as liberalization and debt reduction. Liu He is considered not only a man close to President Xi but also the main proponent of the economic policy implemented by the current Chinese government.

All new appointments respond to the willingness, by the Beijing administration, to aggressively address the main structural problem within the the Chinese credit system. The high exposure to debt and the inefficiency of large national companies represent, to date, one of the clay feet of the People's

Republic. In the short term, the PBOC will therefore have to concentrate its efforts on supporting economic growth, at such a delicate time of transition from a developing economy to a complex and mature one, striving to avoid inflationary phenomena. The direction provided by Xi Jinping during the 19th Congress of the Chinese Communist Party, held last October, while on one side stressed the will to make China the main global hub for international trade, on the other it clearly expressed the need to identify the main internal fragilities, in order to increase the stability of the country's economic system.

China, to date, has a significant problem of debt exposure, especially with regard to the large state-owned companies (SOE's). The central administration, in light of a considerable stock of non-performing loans in national banks' portfolios, mostly referring to the giants of state entrepreneurship, is inducing the latter to reduce their debt starting from the sale of the most unproductive assets . In fact, it is necessary to slow down the credit flow to SOE's operating in sectors such as steel, coal and construction, since, generally, their supply is higher than domestic demand. To date, massively addressing exports means in fact to feed even more the Chinese trade surplus, already unpopular to many, not least to the Trump administration. Instead, more credit should be redirected to private companies, especially in the services sector, in order to stimulate domestic consumption and employment and to support the growth of the new middle class.

The role of the People's Bank of China has constantly evolved over time. If, during the roaring years of double-digit growth, its direct interventions within the economy were frequent and significant, today, faced with a more complex situation, the action of the PBOC must be more calibrated and careful, in order to avoid abrupt shocks to the economy. Currently, the country's main financial institution is no longer only concerned with setting short-term interest rates for inter-bank lending, but is also dedicated to openmarket trading of bonds and financial instruments to indirectly influence the yield curve. Very often we tend to give enormous attention to the appointment of the new Governors of the American Federal Reserve (FED) (as in the case of Jerome Powell, in office since last February), passing in silence the Chinese counterpart. Despite every single policy action taken by the US central bank generates significant echos on all international markets, this dynamic is now also true for the People's Bank of China, despite the way to become the world's leading player for monetary policy is still long.