

THE WALL STREET JOURNAL.

This copy is for your personal, non-commercial use only. To order presentation-ready copies for distribution to your colleagues, clients or customers visit <http://www.djreprints.com>.

<http://www.wsj.com/articles/china-replaces-finance-minister-lou-jiwei-in-surprise-reshuffle-1478495917>

WORLD | ASIA

China Ousts Finance Minister as Xi Jinping Turns to Allies

Shuffle of top posts shows focus on short-term growth and president's promotion of loyalists ahead of Communist Party congress



Chinese Finance Minister Lou Jiwei prepares to deliver a speech during the ceremony for the establishment of China's Asian development bank in June, 2015. He is now expected to become head of China's national pension fund. *PHOTO: WANG ZHAO/AFP/GETTY IMAGES*

By LINGLING WEI and JEREMY PAGE

Updated Nov. 8, 2016 3:52 a.m. ET

BEIJING—China removed its high-profile, reformist finance minister from the post in a shuffle that comes as President Xi Jinping positions trusted allies in key roles and Beijing prioritizes short-term growth over major overhauls.

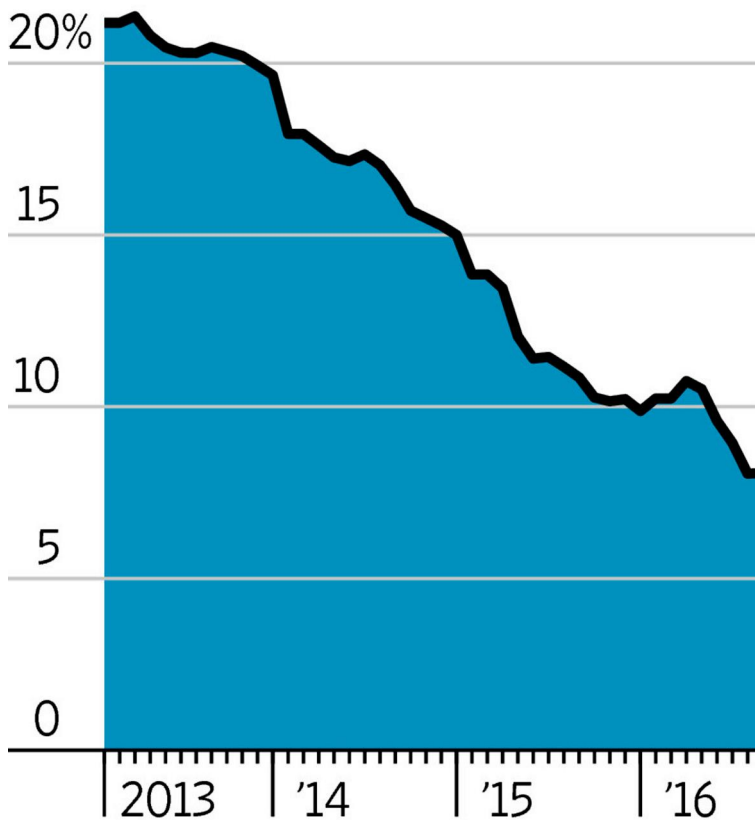
The shuffle put more senior government posts in the hands of Xi loyalists ahead of a twice-a-decade Communist Party Congress next fall that will shape policy for years to come.

Mr. Xi's supporters say he still faces pockets of political resistance and needs to consolidate power further to enact meaningful economic restructuring in his second five-year term.

Chilling Effect

Growth in fixed-asset investment in China has slowed, a slide some officials said was influenced in part by Finance Ministry policy.

Change from a year earlier:



Note: Year-to-date Source: CEIC Data

THE WALL STREET JOURNAL.

Within China's political, academic and business elite, however, there are concerns that Mr. Xi is increasingly focused on hitting growth targets and suppressing dissent rather than restructuring the economy and tackling other urgent problems. The latest moves on Monday include a rare intervention in the politics of Hong Kong and a plan to boost coal power despite a pledge to battle China's severe air pollution.

Lou Jiwei, the ousted finance minister, was an outspoken Communist Party veteran picked for the job for his competence rather than a close relationship with Mr. Xi in the early days of the Xi administration.

Shortly before his appointment in the spring of 2013, according to people with knowledge of the matter, Mr. Lou expressed a wish to Premier Li Keqiang to allow him to serve his full five-year term. Mr. Lou’s pitch, these people said, was that he had a plan to overhaul the country’s creaky fiscal system and tax code and needed time to carry it out. The chat with Mr. Li helped launch him as a major voice for market-oriented changes in China.

On Monday, with nearly two more years to go before his term ends, the 65-year-old Mr. Lou—weakened in part by his loss of Mr. Li’s backing and at odds with senior officials bent on sparing no effort to prop up the economy—was succeeded by a relatively low-profile bureaucrat.

“Lou Jiwei’s abrupt ouster sends a strong signal that any prospects of even limited economic reforms are falling prey to President Xi’s focus on consolidating his power,” said Eswar Prasad, a Cornell University professor and former China head of the International Monetary Fund.



Chinese President Xi Jinping, left, stands with Premier Li Keqiang at the National Peoples Congress in Beijing in March. *PHOTO: GREG BAKER/AGENCE FRANCE-PRESSE/GETTY IMAGE*

Since coming to power in late 2012, Mr. Xi has been moving away from the party’s decadeslong collective leadership model and centralized decision-making within a number of small committees he heads. Last month, he was named the “core” of the party’s leadership—a designation giving him an even stronger perch to influence the outcome of the Communist Party Congress next year.

At that time, up to five of the seven current members of the Politburo Standing Committee, the top leadership body, are due to retire. In addition, more than 60% of the 376-seat Central Committee—which includes ministers, state industry chiefs and army generals—are expected to be replaced.

Mr. Xi, despite his consolidation of power, still has to vie with departing and retired leaders seeking to promote their own favorites, party insiders say.

The shuffle announced Monday by the Standing Committee of the National People's Congress, China's legislature, also brought in new ministers of state security and civil affairs in moves that promoted Xi loyalists.

Minister of State Security Geng Huichang will be succeeded by Chen Wenqing. The appointment was expected after Mr. Chen was made party secretary of the ministry last year in what was seen as a move by Mr. Xi to strengthen his control over the security services.

LOU JIWEI'S PATH

A key factor behind the removal of Finance Minister Lou Jiwei was his promotion of measures that had the effect of squeezing short-term growth, according to party officials briefed on the move.

September 2007 to March 2013 Mr. Lou runs China's sovereign-wealth fund, China Investment Corp., turning it into a major player in global markets.

March 2013 Mr. Lou is named finance minister in the new government of President i Jinping with an aim to overhaul the fiscal system and tax code

October 2014 Mr. Lou's Finance Ministry issues rules aimed at curbing local-government borrowing

January-April 2015 China reports a sharp drop in fixed-asset investments

May 2015 China's State Council relaxes controls on the ability of local governments to raise money.

January 2016 China launches the Asian Infrastructure Investment Bank, an effort spearheaded by Mr. Lou.

April 2016 Mr. Lou's Finance Ministry enacts a new tax regime to lift the service sector. Many companies complain they don't have enough time to adapt to the new rules.

November 2016 Mr. Lou is removed from the post, and is expected to take a smaller role as head of the country's pension fund.

Cai Qi, a close associate of Mr. Xi's who was previously a senior official in the National Security Commission, was appointed mayor of Beijing last week and is now considered a front-runner for a seat on the 25-member Politburo next year.

“The best way to be sure of one’s power is to make sure that you put people you trust in positions to support you,” said Peter Mattis, a fellow at the Jamestown Foundation who studies China’s elite politics and security services.

Of the changes announced Monday, Mr. Lou’s departure was the surprise. In the past year, Mr. Lou led the effort to get a China-led regional development bank up and running, widely seen as a diplomatic coup for Beijing and a counterweight against U.S.-dominated institutions like the World Bank. This year, he shared the lead of a series of meetings of finance chiefs from Group of 20 major economies.

Mr. Lou is expected to take on a lesser role as head of China’s national pension fund, according to party officials briefed on the change.

Xiao Jie, 59, a former top tax administrator, succeeded him as finance minister.

Traditionally, China’s Finance Ministry has been a drab institution focused on putting together the nation’s annual budget; Mr. Lou helped lift its profile.

Behind Mr. Lou’s removal, the party officials briefed on the change said, is his spearheading of tough measures including attempts to rein in local-government borrowing, which have had the effect of squeezing short-term growth.

His bluntness earned him the nickname “Cannon Lou” in official circles, but didn’t do him any favor when senior leaders were mulling his position, according to the officials.

“This is about much more than his age,” one of the officials said. “He was expected to serve full-term.”

Mr. Lou, a protégé of former Premier Zhu Rongji, is nearing the age when it is customary for officials at his level to retire. But that rule has often been bent. China’s central-bank governor, Zhou Xiaochuan, was allowed to stay on in his role when he hit 65 in 2013, and the leadership appointed him vice chairman of the government’s influential policy advisory group. Most recently, a senior party policy official dismissed widely believed retirement rules for senior officials as “pure folklore,” saying those rules need to be flexible.



PHOTO: CHINATOPIX/ASSOCIATED PRESS

In his previous role as head of China Investment Corp., Mr. Lou vaulted the giant sovereign-wealth fund into the major league of global investment funds. He won the bid to be the first finance minister under Mr. Xi, who had set out to give market forces a bigger role in China's economy, largely because of his expertise on the country's convoluted tax and fiscal system, according to the party officials with knowledge of the matter.

At a time when local governments in China had racked up hundreds of billions of dollars in debt from big-ticket infrastructure projects, the new administration needed a tough official to put China's financial house back in order, the officials said.

In October 2014, Mr. Lou's Finance Ministry issued a policy intended to prevent financing companies sponsored by local governments from taking on new debt. Local officials soon complained the policy made it hard to make any planned investments. In early 2015, China reported a sharp drop-off in growth of investment in factories, buildings and other fixed assets—a plunge many in the government attributed to the crackdown on local borrowing.

After receiving complaints from local officials, even Premier Li, who had stood behind Mr. Lou's reform plan, expressed dissatisfaction with the policy, according to the party officials familiar with the matter.

In May 2015, the central government relaxed controls on localities' ability to raise money by again letting them tap government-sponsored financing firms—essentially reversing course on the measures launched by Mr. Lou months earlier.

Going into this year, Mr. Lou had resisted sharply increasing China's fiscal budget even as some officials called for stepped up government spending to spur growth. That also put him at odds with senior officials bent on sparing no effort to prop up the economy.

"I can't say I'm the toughest finance minister" in recent history, Mr. Lou said in an interview with The Wall Street Journal in April. "I can only say I'm a man of principle."

—*Liyan Qi*
contributed to this article.

Write to Lingling Wei at lingling.wei@wsj.com and Jeremy Page at jeremy.page@wsj.com