WALL STREET JOURNAL
8-1-16

Xi Jinping’s Micromanaging Leaves Markets in the Lurch

Bureaucratic dysfunction on display as president hoards keys to decision making; ‘It’s Amateur Hour’

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SHANGHAIð A defining characteristic of Xi Jinping, the Chinese president, is his controlling personality.

Mao reigned with godlike aloofness. Deng Xiaoping left the details to underlings. Mr. Xi, by contrast, takes charge of everything; heôs an inveterate micromanager.

Amid the mayhem of Chinaôs markets this week, one dysfunction stands out: bureaucratic confusion. The central bank is clearly not on the same page as the securities regulator. Its surprise decision to steer the yuan sharply lower this week added to panic in the equity markets, where investors took the move to mean that financial authorities are getting desperate about the state of the economy.

Chinese stock markets recovered Friday after a tumultuous week. But the WSJ's Andrew Peaple explains why few expect the relative calm to last.

Part of the problem, it seems, is a policy-making bottleneck. Mr. Xi has reversed a collective-type leadership process inherited from Mr. Deng and concentrated decision-making authority in his own hands.

But heôs thinly stretched. On his plate already: reorganizing the armed forces, leading the charge against endemic corruption (while defining a new Confucian-style morality to chasten his bureaucracy,) confronting America in the South China Sea and worrying about Taiwan elections coming up next week.

He personally chairs all the committees and commissions directly responsible for these areas.

Naturally, he also commands the economy. His platform is the ñLeading Group for Overall Reform,ò which he set up and chairs. Traditionally, the ñCentral Finance and Economy Leading Groupò has coordinated financial and economic issues; it has now been eclipsed by Mr. Xiôs outfit.

As a consequence, Premier Li Keqiangôs job has shrunk. His immediate predecessors ran the economy; he doesnôt enjoy the same autonomy. If things go seriously wrong, though, he might end up as a convenient scapegoat. Other highly competent economic leaders look less like decision makers and more like cheerleaders for policy concocted above their heads.

Meanwhile, day-to-day crises and international flare-ups consume whatever time he has left over. This week, for instance, the world demanded that he respond to North Koreaôs nuclear testð a slap in Mr. Xiôs face from Pyongyangôs ñYoung Generalò Kim Jong Un.

Styling himself as a blend of sage-king -- the Confucian ideal of a leaderð and a modern corporate chief operating officer was always going to leave Mr. Xi exposed. His vulnerabilities are growing as problems in the economy stack up.

Conventional analysis holds that the Chinese stock market doesnôt have much connection to the underlying economy, and therefore the wider world shouldnôt be too worried about the latest gyrations.

But this misses the point. Investors have a right to feel concerned about the mishandling of the markets, given the magnitude of Chinaôs long-term economic problems and the knowledge that when it comes to fixing them nothing short of flawless execution will do. All the big drivers of growth are running out of steam at the same time, including what had seemed an endless stream of rural labor and insatiable overseas demand for Chinese manufactures. China must upgrade its entire manufacturing sector while grappling with the legacy problems of the old growth model, including a despoiled environment and massive debt.

Instead, weôve seen almost comical ineptitude, the most recent example being the introduction of circuit breakers to reduce volatility in the stock market.

The measure had been fast-tracked by the securities regulator after the stock-market wobbles made Mr. Xi look more vulnerable than at any time since coming to power in 2012. But the circuit breakers had to be abandoned after only four daysð because they made volatility much worse.

The irony is that the real economy is actually looking up a bit after appearing to go into free fall earlier last year. Crucially, the residential real-estate market is rebounding.

That makes the central bankôs move to set the yuan on a bumpy downward course this week even more puzzling. Why now? asks Mr. Anderson. After all, the economy is at last finding its footing and the dollarôs appreciationð which has taken the yuan higher too, eroding Chinaôs export competitivenessð is petering out.

data. Some suspect that policy makers must have lost their once-steady touch because theyôve been so rattled by problems only they can see.

Besides, a depreciation of the yuan on the modest scale weôve seen so far wonôt do much to revive exports, Mr. Anderson says. ñIt doesnôt make a great deal of sense,ò he concludes.

The regulatory confusion reflects a contradiction at the heart of Chinese economic policy making, one that has Mr. Xiôs stamp all over it. On the one hand, the Chinese leadership wants efficient markets to help pull China through the transition to consumer-led growth. Yet Beijing doesnôt really trust free markets and prefers guiding them with regulation.

Itôs these bureaucratic interventions, poorly conceived and badly implemented, that now threaten the most damage.

The most pressing danger is that it will exacerbate capital flight, which is now at record levels. A crisis of confidence in the stock and currency markets could spill over into the real economy, which is still fragile. Worse, it would make Chinese leaders even more wary about implementing economic overhauls needed to ensure Chinaôs long-term prospects at the cost of a short-term hit to growth.

If he wants to stop the economy from running away from him, Mr. Xi may have to learn to give up control.