

Interview with the China Banking Regulatory Commission



By [Chris Devonshire-Ellis](#)

BEIJING, Feb. 18 - Liu Mingkang is the chairman of the China Banking Regulatory Commission and the People's Bank of China, the nation's central bank. The CBRC is authorized by the State Council to regulate the Chinese banking sector, making Liu one of China's most visible and important senior government officials. In effect, he directs the country's economy.

He was born in Fuzhou, and is a economics graduate of Peking University. He also has an MBA from the City University of London. He was appointed as chairman of the CBRC in 2003.

Chris Devonshire-Ellis

Interest rates in China now are very low, and [inflation also is now at just 1 percent](#). Is there a risk of China falling into a deflationary cycle?

Liu Mingkang

We have expected the consumer price index in China to drop to this level, and become negative in February-March. Many world economies have entered into recession and this has had a big impact on China, we are not immune. Emerging economies such as ours also face bigger challenges; falling external demand and outflow of capital. However, overall our fundamentals are strong. We have been able to kick start a domestic economy that is starting to purchase more goods, and our banks are increasing and co-coordinating loans to stimulate the economy. We haven't yet reached the bottom of a slowdown, but the end is in sight.

I expect a small recovery by the end of spring and the bell curve of domestic consumption and manufacturing to begin to move upwards in the second half of the year. This has been a tough period, not of our making, but we have been able to cope and I do not think we have a danger of deflation.



Chris Devonshire-Ellis with CBRC Chairman Liu Mingkang

Devonshire-Ellis

With banks lending more to stimulate the economy, is there not a danger that bad debt will increase?

Liu

Yes, inevitably some commercial usage of the fiscal stimulus package will not work out. Lenders should extend more loans and help industries upgrade while at the same time improve their risk control. We have targeted a lower non-performing loan ratio for 2009, but we will tolerate a scientific increase in the stockpile of bad debt.

Devonshire-Ellis

In my discussions with other ministries, it seems the Chinese government is taking a pragmatic view and treating part of the issue concerning the global financial crisis as an opportunity to plow more state funding into domestic businesses to help them upgrade equipment, machinery and technology. If this so, and if so, what do you think the outcome will be?

Liu

Yes, the government has seen an opportunity to assist businesses. Many industry sectors in China have not maintained pace with new technological developments, we have only be open to investment for 30 years, and there is a tendency in the China psyche to conservatism rather than innovation. A major part of our role in government is to provide a platform for continued reform and development, and to point the right direction for our still relatively inexperienced commercial sector.

We are encouraging expenditures in new technologies that our agricultural sector and industrial sector will see will lead to increased efficiencies and improvements in productivity. We would have preferred to have seen this growth develop naturally over the next three-four years. But the situation demanded we stepped in to assist. So yes, in a way the financial crisis has brought forward the capabilities of Chinese productivity. We will come out of the global recession stronger than when we entered it.

Devonshire-Ellis

A major part of the fiscal stimulus package is directed at the rural areas. Why is this?

Liu

There are several reasons. Firstly, 3/4 of our population lives in rural areas. With many of these migrant workers that have been laid off from the decline in export manufacturing, we are expecting to have to increase welfare and improve infrastructure to cater for them and ensure their livelihoods are secure. To

that extent, we have significantly increased spending in schools, medical facilities, infrastructure and even provided subsidies on the purchase of certain goods.

We also raised the prices of several commodities to permit farmers and their families to earn more money from the State. We have had several good years of bumper harvests, so we can afford to put some of the financial wealth that has accumulated because of this back into the pockets of the rural citizens. In doing so, we also hope to kick start a growth in domestic consumer spending in the rural areas and smaller cities. There is a huge amount of wealth in these regions, but persuading people to spend some of it instead of just hoard their savings has been quite a challenge.

Domestic consumption in China is now increasing, and this will provide us longer term with a better balanced economy in any event. Also, the main cities are wealthy, citizens there do not need so much state support, they have already made money. So the fiscal stimulus package is directed mainly at the inner regions and rural economies. They need help, and development, and now their time has come as a strategic part of our overall national development. In fact the pace of their development has now been accelerated.

Devonshire-Ellis

There has been criticism of trade protectionist practices by China during this downturn. How do you respond to this?

Liu

We reject this. In fact it's the United States who appear to be embarking on a "Buy USA" campaign at the expense of international competition. China is an easy target for such commentary. We've opened up our markets considerably. Ten years ago there were no Starbucks in China. Now it's a chain whose franchises you see on every major street corner of major Chinese cities. There are hundreds of them in cities like Beijing and Shanghai, and foreign investors now compete amongst themselves in these cities. That's a pretty open market. However, not many foreign investors have yet to set up in our inland regions, the areas of China with lower spending power but with huge populations. We can't force them to go, but for many years we have had significant investment incentives on offer to attract FDI into second and third tier cities. So these areas remain largely serviced by domestic companies, manufacturers and service providers. The opportunities have long been there. So if foreign companies want to take advantage of our fiscal stimulus plan, they need to be in the areas in which it is directed for the reasons I explained to you.

Foreign businesses must adapt and learn to compete with Chinese companies in these areas. That's up to them. They're more than welcome to invest anywhere in our country. Some industries however are still restricted, and there are a number of reasons for this. But we haven't decreased the opportunities for foreign investors, in fact we have amended several laws to allow easier participation by overseas businesses to sell products here. There's no protectionism.

Devonshire-Ellis

In what other ways is the development of rural China manifesting itself?

Liu

We are in the process of reforming our policy on rural economic development and finance. The Agricultural Bank of China will continue to support rural infrastructure, and will remain rural focused, exploring ways to serve the rural population on a commercial basis. The Postal Savings Bank of China will also expand their services further into rural areas. New types of financial institutions are already being developed, including in the non-banking sector, and as you are aware, we are looking into the provision and development of microfinance schemes with the World Bank to try and develop a China model for this, probably using credit cooperatives. Small community banks can also serve and deliver synergies together with our existing mainstream financial institutions. We are to provide a healthy,

stable and commercially viable rural market system.

Devonshire-Ellis

You know I'm going to ask this, and I suspect I know the answer you're going to give – will there be any movement in the RMB position this year?

Liu

You always ask me this question! We have studied the RMB position at length, and remember it is tied not just to the U.S. dollar but to a basket of currencies specifically to give it balance. We are satisfied it has reached its correct valuation. Politicians, especially from the United States always seem to argue our position, whichever way it goes. But it is in the global markets benefit for us to maintain a balanced currency and to manage it in a responsible manner. This year, as we face a decline in exports and unemployment in China rises, the RMB may weaken. But longer term, our economy is growing and it is inevitable our currency will gain in strength. We have explained our position at great length recently to the G7 and they understand where we're coming from. In fact we have taken great steps to ensure we are providing our own economy with stimulating domestic demand, and to maintain at least some growth in a global market that elsewhere is shrinking, or has moved into negative territory. A stable and globally balanced RMB is what is needed to manage the current situation, and that is what we have achieved.