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As part of the *Café Insights* series of interviews with inspiring speakers, The Insight Bureau recently caught up with influential Chinese economist Dr. Fan Gang, who is the head of the National Economic Research Institute, (NERI) and a Member of the Monetary Policy Committee of the People's Bank of China.



[link to the audio]

**AV:** Well hello and welcome to another in the series of Café Insights. I'm Andrew Vine, CEO of the Insight Bureau and today I am at the Mandarin Oriental Hotel in Singapore in conversation with leading Chinese economist, Dr Fan Gang. Welcome to back to Singapore.

**FG:** Hello Andrew.

**AV:** Fan Gang is the Director of NERI, The National Economic Research Institute in Beijing. He is also the Chairman of the China Reform Foundation, and was recently re-appointed for the second time as a Member of the China Monetary Policy Committee, of the People's Bank of China. So Fan Gang, I know you lead an incredibly busy life: tell us a little about the work you do very quickly.

**FG:** Well I remain as an academic, I will always be in the academic ...

**AV:** ... at Peking University ...

**FG:** ...in Peking University. Our think-tank, NERI, is working on policy issues, monetary policy, micro policy and also long term development issues, including some reform policies. So that's what we do.

**AV:** Well of course China's always front of mind, at the moment there's been a great deal of pessimism about China and particularly the growth rate. Just recently official third quarter year on year growth rate was announced at 6.9% but then we've also just been through six rounds of interest rate cuts so that kind of implies that perhaps growth isn't quite as robust as we think it is. Maybe 5 or 6% is more realistic but is that a worry even if it's true?

**FG:** Yes, well first of all the Chinese economy is slowing down, And why is it slowing down? Because it was growing too fast – over the past ten years we had two periods of overheating, one from 2004 – 2007 and another one because of the global financial crisis and the “stimulation” policy another round of overheating in 2009-2010. So now the economy is dealing with all the left-over effects of all this overheating and over-capacity, and local inflation. So that's the real situation, and why there have been so many policy movements, so many cuts by the PBOC. From my point of view, it is an exit from the tightening policy, because in 2010, China was first in the world to exit the stimulating policy, but then in dealing with the overheating, the policy adopted a lot of tightening including 20% reserve resource, 3% interest rate policy, which seems not to be so high, but when everybody else has negative interest rates, and when China has deflation, it's quite high! So, now when the economy is back to normal, no longer in overheating, you need to cut those returns and bring the policy back to normal. We are still not there yet, we still need some more changes, maybe, to maintain the economy from preventing the slowdown going too far. So, it's a slow-down, it's an adjustment, it's a kind of post- overheating crisis, and it takes time. Importantly, China wants to have the so-called 'soft landing', and a soft landing takes a longer time than a hard landing to complete this adjustment. So that's where we are.

**AV:** And I suppose the world has been reliant upon China's economy to be speeding ahead, at a time when North America's and Europe's have been in the doldrums, so I'm sure that's what fuels the feeling of pessimism.

**FG:** [*laughs*] But I don't think China should have another overheating to save the world! It has left China with such huge problems, and probably created the global fluctuations, which are not that good.

**AV:** I was just recently in conversation with Vijay Vaitheeswaran who is the China Business Editor at The Economist, and he just came out with the recent China Special Report, and he is very upbeat and he thinks at the moment we're too heavy perhaps on the pessimism. What he's saying is that it's China's private sector growth which is more interesting, that's what people should focus on; entrepreneurship, the level of innovation that's coming from within the economy ... I wonder whether you can comment on that?

**FG:** Yes, actually the major achievement of leadership in past 3-4 years of reform and I would think this would be the major area where the reform and the new development momentum will come from at the next stage. The reform of state sector is very difficult, particularly now the state sector or the resources industry – many monopoly industries -- it's hard for them to be making money. But development in the private sector is an easy thing to do and the government is really enthusiastic on the innovations, start-ups...

**AV:** and that comes right from the very top ...

**FG:** Yes, and they encourage this; and with the other things like anti-corruption now, people are more encouraged by the private sector than with the government sector or the state owned companies. So I would say the situation now is quite similar to the early '90s when the reform just had started and the private sector had just got the momentum. Now the situation is quite similar; everyday there are so many start-ups and so I expect that this will continue. In other words, this is a change in the structure of the economy. Even without reforming the state companies, you will see a larger private sector, the change of the private sector will benefit, in the long run, China's growth.

**AV:** You mentioned tackling some of the longer term big issues in China and one of them is in the area of climate change. I know you're involved in the new climate economy alongside great names like Nicholas Stern and prominent people from the IMF, OECD etc. China's obviously got to play its role in this whole debate, I wonder what your involvement is on it.

**FG:** Anyway China now contributes the largest carbon to this globe, so China definitely has a lot of responsibility. Of course, we still need to distinguish the historical responsibility and current responsibility. There is a lot of debate around this, but China is going in that direction anyway. That involves a lot of things for us as economists; I think we need to combine this with economic development, i.e. if you have more efficiency, efficiency will reduce emissions. If you have more development of new energies, clean energies, renewable energies, which create new business that will allow you to create growth with climate control, with climate change management. So how to combine this climate mitigation or control with the development of the economy, particular developing country economy is a key issue.

**AV:** .because the aim seems contradictory; you want to develop your people's welfare in the country at the same time as enforcing constraints on carbon emissions.

**FG:** Yes. So that's why it's so important to have clean energy, the new energy consumptions and you also need to have the new business model for those renewable energies. So that is on one side

quite a challenge to the Chinese economy because so far more than 60% of Chinese energy consumption is coal. Natural gas is a different story. So China needs more incentives to pursue on that ground, but actually, the good news (or bad news) is that China has got the serious problem of *local* pollution. So that makes the Chinese feel more compelled to do more about environmental protection.

**AV:** So an ordinary person who lives in Beijing or Shanghai, sending their kids to school, cares very much about it.

**FG:** That's right. First of all they care about their local pollution, not the global pollution. The carbon issue is global. I think this is a good opportunity for policy makers to move, because this has become a local political issue. And with this local political motivation (for local pollution reduction) also contributes to global climate control. So, from that point of view, I would say it's a good opportunity for the policy makers to move aggressively on this front.

**AV:** Turning to China and its role in the world, clearly every year it gets stronger and stronger in terms of China's power both economically, and, well, in every which way! Do you think that the relationships with the West are going to be strained in some way, do you think it's going to be a competitive world or do you think the interdependence that we have seen economically at least is going to be the thing that sort of ties everything together.

**FG:** It is always interdependent to each other anyway, but it's always competitive and always bumpy and you would not expect any so-called emerging power to have very smooth relationships with the existing powers. It's always the same thing. But the good thing is now, after our long human history, we understand that we have to manage it, rather than go to war, go into conflict. We have globalisation, we have interdependence, so this makes it better to manage the differences, to manage the conflicts. This has always been the case, we've always had differences and we always try to manage them, so it's not easy but...

**AV:** ...responsible leadership ...

**FG:** Yes, as long as we are responsible.

**AV:** And of course we are heading next year into elections in the US, we don't know if we're going to see a Hilary Clinton or Marco Rubio or perhaps even someone else; but does it really matter to China at the end of the day? There's probably going to be China bashing along the way because it's domestic politics but to China does it matter?

**FG:** Election time is always China bashing time [*laughter*] and in the end after all the elections you will see the smooth-out situation, no matter who is in power. So from that point of view I would say it doesn't matter very much. I think as long as the leadership of both countries responds in the best interest of the country, this is also in the interest of two countries. So you have to get along with each other and you have to manage this relationship. So from the point of view I would say no matter.

**AV:** Well thank you very much Fan Gang again for taking time out from your schedule today and all the best as you fly back to Beijing tonight.

**FG:** Thank you very much.

<http://www.insightbureau.com/FanGang.html>