China Ousts Finance Minister Lou Jiwei as Xi Jinping Turns to Allies in Surprise Reshuffle

Senior official was widely seen as a voice for reform of the country's fiscal system

Lou Jiwei, China's finance minister, at the International Monetary Fund and World Bank annual meeting in Washington last month. He is expected to become head of China's national pension fund.
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11 COMMENTS

BEIJING—China unexpectedly removed Lou Jiwei, its highest-profile finance minister in years, in a reshuffle of top government posts ahead of a Communist Party Congress late next year.

Mr. Lou, an outspoken Communist Party veteran, had been picked for the job for his competence rather than a close relationship with President Xi Jinping in the early days of the administration. His removal raises questions about whether reform-minded officials are being sidelined as Beijing prioritizes short-term growth over major overhauls.

Shortly before his appointment in the spring of 2013, according to people with knowledge of the matter, Mr. Lou had expressed a wish to Premier Li Keqiang to allow him 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 was replaced by a relatively low-profile bureaucrat.

The reshuffle, which also included the ministers of state security and civil affairs, is further evidence that President Xi Jinping is trying to position trusted allies in key government roles ahead of next year's party congress that will shape policy agendas for years to come.

Of the personnel changes announced by the Standing Committee of the National People's Congress, or China's legislature, Mr. Lou's departure was the big surprise.

“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.

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 congress in late 2017.

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

In another high-profile move announced Monday, Minister of State Security Geng Huichang will be succeeded by Chen Wenqing. The appointment was widely 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. And 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.

As for Mr. Lou, he 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.

Ostensibly, Mr. Lou, a protégé of former Premier Zhu Rongji, is nearing the age when it’s 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 as “pure folklore” widely believed retirement rules for senior officials, saying those rules need to be flexible.

Behind Mr. Lou’s removal, the party officials say, is a series of tough measures he spearheaded, especially attempts to rein in local-government borrowing, which have had the effect of squeezing short-term growth. His no-nonsense style and well-known bluntness, which earned him the nickname “Cannon Lou” in official circles, also didn’t do him any favor when senior leaders were mulling over 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.”

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 race 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. Soon, however, local officials complained to the top leadership that 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.

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.

In the past year, Mr. Lou had 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 co-chaired a series of meetings of finance chiefs from Group of 20 major economies.

“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.

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