Fix Your Balance Sheet, Says Xu Xiaonian

Fix your balance sheet if you want to grow! That's the advice outspoken economist Professor Xu Xiaonian offered China and Europe during CEIBS Europe Forum series across four major cities this May.

Xu, a Professor of Economics & Finance at CEIBS is known for his frank comments that are often not perfectly aligned with China's economic policies. Throughout the Europe events, he chose his words carefully – not backing down from expressing himself but also presenting a fairly balanced picture. While he stressed that he does not at all understand the thought process behind the economic policies both China and Europe are now using, he is still bullish on at least one of the two countries. "I'm not pessimistic at all about China, that's why I'm still [living there]," he told an audience of about 250 diplomats and business executives during CEIBS 2nd Europe Forum 2016 event at the UBS conference centre in Zurich on May 20. "Please stay [in China] and work with us. If you miss the opportunity to work with China, you will regret it," he added.

Xu is confident that there is no currency crisis on the horizon for China, no serious debt crisis "because the government has trillions in assets", and the country still has a "huge potential" for growth. He expects that once economic reforms are launched in China, we will see "a new phase of economic development."

His comments came on the heels of a long-running debate on the status of the Chinese economy. A large part of the four series of events hosted by CEIBS in May was to help the European market better understand the Chinese economy and firms, and vice versa, while providing the knowledge base and platform needed by its alumni who are eying the global market.

During his keynote speech, Xu drew parallels between the choices China now faces and the inadequate steps the EU took to deleverage its economy after the 2008 crisis. He cited data that showed that the US economy, which took a haircut after the crisis, recovered earlier than the EU, which is still lagging behind. "My advice to China and the EU is clean up your balance sheet first, then we can talk about economic recovery," he said.

The concrete steps the Chinese government needs to take, Xu added, include shrinking the balance sheet and cleaning up excess. This would mean selling state assets and using the money to write off bad loans and recapitalise the banks; resolving over-capacity by closing loss-making firms; and engaging in fiscal austerity though it may deepen recession in the short term. Xu also suggested the deregulation and breaking up of state monopolies, steps that he said would create investment opportunities and jobs as well as promote competition and improve efficiency of resource allocation. He also spoke of the need to protect private property rights in order to encourage long-term investment in R&D, which would also decrease capital outflows and therefore provide support to the Chinese currency. These steps, he added, would require judicial reform to separate law enforcement from the administration.

For MNCs and others doing business in China, he urged: "Stay [in China] and go through the difficulty with us; work with us. The well-being of the people is still the number one priority of the [Chinese] government."