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Q&A - Trump's trade policy against China is very unreasonable: Dr. Min Zhu, Deputy Managing Director, International Monetary Fund

It has been a year since the first speech by a Chinese president at the annual World Economic Forum meeting in Davos, in which President Xi Jinping said China would keep its borders open, stressing there would be no winners from a trade war, and urging all countries to continue to support the 2015 Paris climate change accord.

One year later, China will continue to support the free trade flow and avoid a trade war, IMF deputy manager and former deputy governor at the People's Bank of China Dr. Min Zhu told the Reuters Global Markets Forum in an exclusive interview from the resort on Tuesday, January 23.

Following are edited excerpts from the conversation:

Q: What is China's strategy to cope with Trump's planned tax cuts, which could make it harder for China to lure foreign investment?

A: Trump's trade policy against China is very unreasonable. China will continue to support globalisation and the free trade flow, that is the most important thing and not get into a trade war because you have to look at the global situation rather than a one-on-one with the United States. The trade war is no good for anyone. Remember, the U.S. launched a tyre war against China's exports. After two years, a study showed it saved 1000 U.S. jobs but American customers paid more than $10 billion because of the high tariffs. So, per job, the U.S. consumer paid one million dollars. So this type of thing is really not good from a social welfare point of view for the U.S. consumer or the Chinese producer.

Q: Does that mean it's too early for China to relax curbs on capital outflows, given the yuan could face renewed depreciation pressure?

A: Things have very much stabilised and the yuan appreciated against the dollar 4.6 percent within the last year, but against the basket it was quite stable, so I don't see the current situation of the capital outflows as a key issue for China.

Q: Do you expect the PBOC to nudge up money market rates to support a deleveraging drive? Is there any room for the PBOC to raise benchmark interest rates in response to rising inflation and the Fed rate hikes?

A: China will keep neutral monetary policy I think on the current situation. The deleveraging continues and the debt-to-GDP ratio did not increase last year. It was 236 percent and at the end of last year it remained the same. So the debt level stall indicates that debt growth is much slower. I expect to see the deleveraging continue but I don't see the reason to raise interest rates

Q: Is the Chinese economy resilient enough to cope with higher borrowing costs after a recent jump in corporate borrowing costs?

A: We observed very good growth last year of 6.9 percent, which is the first time growth really picked up since 2011 and at that time all the concern was whether growth would continue to slip downward. So I think there's clearly a show of resilience of China's economy and the first success of economic transformation, moving from more manufacturing and export to the service sector. And the market rate will vary according to the liquidity situation, which is a normal situation because deleveraging is still the key issue for the Chinese economy.

Q: China's financial deleveraging has pushed up market rates, bond yields and corporate borrowing costs as broad M2 money supply growth hit a record low last year, will this hurt the economy going forward?

A: Yes, indeed and M2 growth was much slower last year than previous years, which is a good indicator of the deleveraging, but meanwhile, M2 growth is not necessarily a good measurement of the liquidity or credit into the system. So overall, you need to look at the growth rate of total social finance increase, which is around 12 percent. That is quite reasonable growth, providing good liquidity for the real economy to grow.

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