The Inflation Battle: Juggling Three Swords

Barry Naughton

Inflation has once again become a serious problem in China. The government has three potential weapons to fight inflation: tighter monetary and fiscal policy, RMB appreciation, and price controls. Facing enormous economic uncertainty and unprecedented natural disasters, the government has vacillated among these three approaches. There is no immediate prospect of breaking out of this triangular trap.

Introduction

2008 has been a terrible year. The year will go down in history for the devastating May 12 earthquake in Wenchuan, Sichuan, which killed more than 70,000 people. But even before the earthquake, a succession of troubles had disturbed the nation. In January, the southern part of the country was paralyzed by snowstorms, and there have been notable train crashes, fireworks explosions, and outbreaks of communicable disease. On the purely economic front, the Chinese stock market, a champion performer through most of 2007, has gone down in flames, losing exactly half its value by 10 June 2008 from its October 2007 peak. Yet through all this adversity, the economy has continued to lumber ahead. The National Statistical Bureau's estimate of GDP growth in the first quarter 2008 was 10.6 percent over the year previous period, well above most predictions. The Statistical Bureau even revised their figures for last year's growth rate upward, to a scorching 11.9 percent.

The economic phenomenon that unites growth and hardship into a single heady brew is inflation. Inflation grows out of the overheated economy that blazes on despite obvious setbacks. Inflation is a bad thing that, in the short run, just adds to the economy's momentum. During inflationary episodes, businesses and households accelerate purchases, buying before prices rise further, and also try to stockpile goods if possible. On the other side, natural disasters contribute to inflation, because they destroy wealth and reduce supply, and also create sudden spikes in the demand for food and rebuilding supplies. The disasters—in combination with world economic forces—make it certain that inflation will not be quickly vanquished. In September 2007, this journal told you that China "anxiously faces a future of rising prices" as inflation surged above 6 percent, and in fact, since February 2008, inflation has stayed stubbornly above 8 percent.

Natural disasters and inflation both contribute to an air of unease, a sense that these clusters of bad news might be portents of something worse. Inflation contributes to a subjective feeling of instability, and may also lead to erosion in living standards for some segments of society. Certainly Chinese political leaders hate inflation, and with

some reason. Hyperinflation was a key factor that shattered the legitimacy of the Chinese Nationalist Party (KMT) in 1945–1949, and brought the Chinese Communist Party to power in the first place. More recently, both of the previous bouts of inflation in China led directly to the fall of top leaders: the burst of inflation in 1988–89 contributed to the unrest at Tiananmen Square and the fall of First Party Secretary (and former premier) Zhao Ziyang. A few years later, the inflation of 1992–93 led to the loss of economic authority by Premier Li Peng (Zhao's successor), and his replacement by Zhu Rongji (who remained vice-premier but took charge of economic policy). Inflation is strongly associated with a government that is losing control, and with the prospect of social disorder. While the government's quick and effective response to the Wenchuan earthquake reassured Chinese citizens and helped consolidate support for the government and the current administration, inflation presents the opposite image of the regime. In China, inflation causes political failure.

China's initial response to the inflationary challenge in 2007 was strong, but not necessarily sure. During 2008, policy has wavered further. China has used all three of the tools readily available to it—monetary tightening, RMB appreciation, and price controls—but the mix has been uncertain, and the impact inadequate. Moreover, international influences, including soaring energy and food prices, have made the challenge more difficult. In the following, we describe the main policy actions and considerations, and then discuss the political implications. Both the monetary policy tightening and RMB appreciation have been important, but also inconsistent, and probably insufficient. At the same time, an intrusive apparatus of price controls has been imposed on the economy that will have significant long-run costs. This inconsistent mix of policies may be related to the transition to a new economic policy team, following the National People's Congress, that has not yet found its feet. Without better policymaking, this team risks a gradual erosion of support.

The Return of Inflation

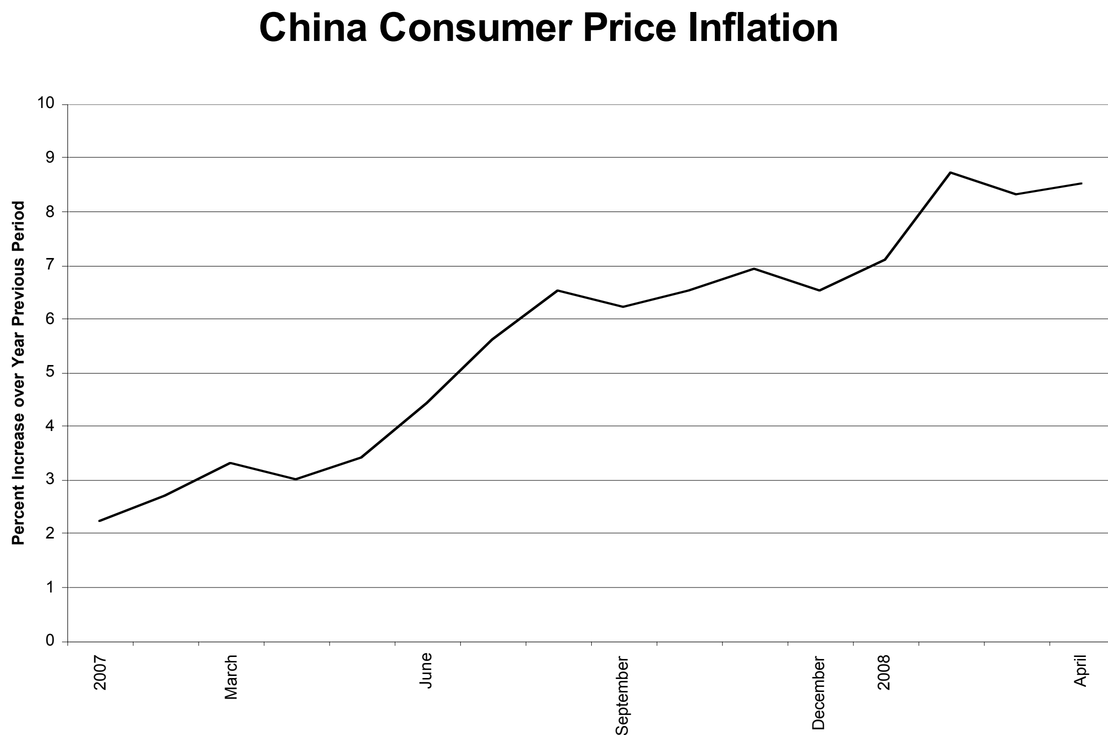
For 10 years, between 1997 and mid-2007, inflation in China was insignificant. Except for a brief episode in 2004, inflation had been safely below the 5 percent rate that policymakers had repeatedly said was the upper limit of acceptable inflation. On the surface, what changed in mid-2007 was a simple spike in food prices. Affected by the exotic-sounding "blue ear pig disease," the price of pork shot up, and a flock of related food prices surged as well. To some analysts, this was simply a one-time shift to higher food prices, a response to a changed agricultural supply situation.

However, many macroeconomists had been on "inflation watch" for a long time. On one hand, monetary growth in China had been high, and the central bank had been struggling to restrain liquidity. The pile-up in Chinese foreign exchange reserves translates into an increase in domestic (base) money. How long could the central bank prevent this excess liquidity from working through to significant price increases? Even when prices were still stable, Chinese monetary authorities believed that domestic inflation could quickly become a problem. On the other hand, China seems to be reaching

a stage of her development where labor and land begin to become more costly, and regulations to improve working and environmental conditions are also adding to costs. In fact, starting in June 2007, the inflation rate increased consistently and then stayed high (see figure 1, next page). By the fall of 2007, Chinese leaders were clearly responding to the inflationary challenge. In the next few months, they tightened monetary policy,

accelerated the pace of renminbi appreciation, and imposed price controls. We examine these three policy initiatives in turn.

Figure 1



Monetary Policy

Since inflation is a monetary phenomenon, the first line of defense is monetary policy. Through most of 2007, the monetary policy response was vigorous, and a tight money policy was officially endorsed in December 2007 at the annual Economic Work Conference. The People's Bank of China (PBC) raised interest rates six times during the course of 2007, and increased required reserve ratios on bank deposits 10 times. Since 2008 began, though, the policy mix has changed, and some commentators have questioned whether monetary policy is sufficiently "tight," or adequately committed to the anti-inflation effort. One reason for the skepticism is that benchmark interest rates have not been raised so far this year. However, the PBC has continued to steadily raise

reserve ratios. Half a percentage point hikes (0.5 percent) were announced for 25 January, 25 March, 25 April, and 20 May, bringing the required reserve ratios to 16.5 percent. These increases require commercial banks to keep a larger proportion of their funds on deposit with the central bank, which reduces the amount that they can loan, reducing the so-called money multiplier and the overall money supply.

Despite these measures, the broad money supply continued to grow fairly quickly during the first quarter of 2008, at about a 16 percent annual rate. This was only one percentage point lower than a year ago. Loans made in RMB grew at the same 16 percent rate, in this case 0.5 percentage points higher than a year ago. The growth of money has not been reduced despite the increase in reserve requirements (and reduction in the money multiplier) because of the continuing increase in base money. Base money is created whenever official foreign exchange reserves go up: Since China has continued to increased its official foreign exchange reserves—reaching a whopping $1.7 trillion at the end of April—this increase in liquidity has offset the effects of increased reserve requirements. However, without increased interest rates, demand for loans has continued to increase. Inflation pushes up costs and increases business demands for credit. Meanwhile, “real” interest rates are negative, meaning that nominal interest rates are currently below the inflation rate, so businesses expect it to be easy to repay loans later with cheaper money. With business demand up and the central bank struggling to control the quantitative supply of lending, there is naturally rationing of credit going on. Small and medium enterprises in particular report that it is harder to get access to bank credits, and complain that they are forced to have recourse to more-expensive informal market credits. It seems that nobody is really happy with monetary policy.

On 7 June 2008, the PBC suddenly revealed that it too believed that a tougher monetary policy was needed. It announced still another increase in the bank reserve ratio, but this one was a double-barreled full percentage point hike, divided into two successive 0.5 percent hikes to take effect on June 15 and June 25.[1] This action will bring the reserve ratio up to 17.5 percent, an unprecedented level. Even before this hike, the reserve ratio was higher than it had been since China began setting a formal requirement and using it as a monetary management tool. It returns the banking system to a version of the 1980s, when even higher reserve ratios were unofficially required, so that central planners could move money around in the economy according to their own wishes. The announcement of a double hike at one step shows how urgently the PBC views the situation, and immediately caused a drastic stock market decline. Whether the central bank’s action is enough in the current inflationary environment is a matter of considerable debate within China.

RMB Appreciation

The Chinese government also responded to inflation by greatly accelerating the pace of RMB appreciation. Since the RMB began its “managed float” in July 2005—breaking its fixed link to the U.S. dollar—it had crept slowly upward in value against the U.S. dollar. In May 2007, the pace began to accelerate, and the RMB appreciated by one half of one

percent for each of the next several months. Then, between November 2007 and March 2008, the RMB appreciated a full percentage point per month, totalling more than 5 percent. Clearly, the fear of inflation had finally induced China's leaders to accept significant RMB appreciation. Hoping to moderate the impact of imported inflation—in the form of higher energy and food costs—policymakers were hoping that a stronger domestic currency would present the dollar price increase of those inputs from being passed through fully to the domestic economy.

Then suddenly RMB appreciation stopped. During April and May, the RMB scarcely appreciated at all, hovering around 7 to the dollar, before resuming a perceptible, but slower, appreciation after about May 20. During April, substantial political opposition emerged to the policy of sustained rapid RMB appreciation. Opposition was due to two causes. First, some of China's exporters were beginning to report significant difficulties in coping with the more valuable RMB. To be sure, the problems were not caused solely by appreciation. A new labor law came into effect on 1 January 2008 that raised exporters' costs by requiring social security contributions and making it harder to fire workers. More stringent land and environmental regulations are raising costs as well, and in some regions, employers report upward wage pressure. For all these reasons, RMB appreciation has been hard for some exporters to absorb through efficiency improvements. The dilemma is that the some domestic inflationary pressures that make RMB appreciation desirable for macroeconomic management also make RMB appreciation more difficult to assimilate by exporters facing rising domestic currency costs to begin with. Moreover, exporters have simply had more time to organize opposition to the appreciation policy as it has become increasingly obvious. There have been increasing voices raised throughout the government warning against rapid appreciation, and sometimes even urging depreciation. Although these voices have not been adopted as official policy by any agency, they express opposition most strongly felt within the Ministry of Commerce, the Statistical Bureau, and the National Development and Reform Commission (NDRC).[2] Skeptics point out that despite the cost increases, exports still increased more than 20 percent during the first quarter of 2008. Despite this evidence, exporters are worried about the future.

The second reason for hesitation about RMB appreciation was the increase in "hot money" inflows. While China's economy is theoretically closed to liquid capital inflows, the reality is that there are many channels through which money can enter the country. With steady and predictable appreciation, many speculators rushed to put their money into RMB interest-bearing assets. Although inherently difficult to track, it appears that hot money inflows into China soared during the early months of 2008.[3] These trends led critics to worry that steady RMB appreciation was simply rewarding speculators who put their money into RMB assets. The pause in appreciation might therefore have simply been a signal that investors should not and could not rely on predictable increases in RMB value. They would have to bear risk like anybody else. In fact, these policies caused turbulence in the market for so-called non-deliverable forwards in future RMB values. On 14 May, the futures price of the RMB actually fell below the current spot market price, meaning that the market was betting, at least temporarily, that there would be no further RMB appreciation. This reversal only lasted two days, but expectations of

future RMB appreciation remain significantly reduced from their levels just a few months ago.

The difficulty in coping with hot money inflows also helps explains the reluctance of the PBC to raise interest rates. Since the American sub-prime mortgage crisis broke out in the fall of 2007, the U.S. Federal Reserve Board has aggressively slashed U.S. interest rates. This has opened up a huge differential between the return to *safe* RMB-denominated assets versus safe U.S. dollar–denominated assets. Higher nominal RMB interest rates *plus* expected RMB appreciation means that everyone should shift their bank deposits to RMB! If the PBC raises interest rates further, it makes this gap even bigger and further encourages hot money inflows. The difficulty of making orthodox monetary policy well in this environment helps explain why China has had recourse to the third arrow in its quiver, price controls.

Price Controls I: State-set Prices

Since the emergence of inflation in mid-2007, the Chinese government has gradually slid into an increasingly intrusive set of price controls. To understand how this has happened, it is important to stress the distinction between government-set prices and temporary government price-control interventions. The former refers to a specified set of prices where the central government has maintained the authority to set prices, usually exercised by the Price Division of the NDRC. In sectors with government-set prices, The NDRC also typically has a direct command channel to large, state-run firms that monopolize, or at least dominate, the provision of goods and services. Government-set prices have always been part of the Chinese economy, but the actual price-setting principles have varied, and, after getting much better, are now getting worse again. Temporary government price-control interventions are another matter altogether: they were nonexistent a few years ago, and are legally mandated to be temporary. The government invoked them again on 15 January 2008 and has since tried to apply them in situations where price determination is dispersed among many—sometimes millions—of small suppliers. This double-barreled approach, if sustained, will cause serious losses to the Chinese economy.

Since the two types of price control are so fundamentally different, it is worth referring back to the legal framework on which they are based. Evolving away from a system in which the government fixed virtually all prices, the scope of government price control steadily shrank through the 1980s and 1990s. In 1998, the government was confident enough to promulgate a National Price Law, which outlined the principle that the vast majority of prices would be market determined. According to Article 18, the central government would set prices in only a few sectors possessing natural resource or natural monopoly characteristics, or other national significance, and would publish a specific list of those prices.[4] In fact, as planning continued to shrink and overall prices were stable, the NDRC (at that time still called the Planning Commission) published in July 2001 a list of centrally set prices that covered only 13 sectors. The most important prices covered were natural gas (but not crude oil or refinery products), electricity,

transport rates, some medicines and a portion of fertilizer output, and basic telecom rates. Subsequently, the NDRC described some "guidance prices" as well, but a complete list of guidance prices was not published. Guidance prices for gasoline and diesel fuel were set as a weighted average of Singapore, Rotterdam, and New York FOB prices plus transportation costs, with firms allowed to charge plus or minus 8 percent of the guidance price, with NDRC approval required when large changes in the reference price were passed through to customers.[5]

As inflationary pressures have risen, the relatively automatic adjustment of gasoline and diesel prices according to world market prices has gradually given way to delayed, and then even quasi-fixed prices. Some time during 2004—probably during the burst of food price inflation in that year—the NDRC stopped allowing Sinopec and Petrochina to adjust gasoline and diesel prices in line with world market prices. Crude oil was priced at market rates but refinery product prices were capped. Petrochina has plenty of crude, but Sinopec does not, so the NDRC agreed to provide direct subsidies to Sinopec. The NDRC provided Sinopec with RMB 9.4 billion in 2005; 5 billion in 2006; 4.9 billion in 2007, as world prices rose and fell, and domestic prices sometimes caught up and sometimes fell behind them. The last major adjustment of gas and diesel prices came in November 2007, but even with that adjustment, the gap with world oil prices has gotten larger and larger. Sinopec was given 7.4 billion RMB for the first quarter of 2008. In the beginning of April, the Ministry of Finance agreed to make monthly payments to Sinopec and Petrochina to offset soaring crude prices, and also to exempt value-added tax on imported refined products. Petrochina received a staggering 12.3 billion RMB payment at the end of May, by far the largest payment to date. However, despite their size, the direct subsidies are believed to offset only about half of the losses the oil companies experience because of government policy. According to estimates from China International Capital Corporation, total implicit and explicit subsidies for oil products in 2007 were 220 billion, or 0.9 percent of GDP, and by some estimates they may reach 2.2 percent of GDP in 2008 if policy is unchanged and world oil prices stay at $130 a barrel.[6]

A parallel situation exists for electricity. Electricity prices are state-set (sometimes through complex decentralized formulas), but the price of coal, the main fuel for electricity, is market-determined. Until May 2005, electricity generators were allowed to pass through increases in the price of coal, but since then, regulators have only allowed two electricity price hikes, despite soaring coal prices. As a result, four of the five big state-run power companies are now in the red, reportedly losing 2.7 billion RMB during the first 5 months of 2008.[7] Since the government imposes state-set prices predominantly on large state-owned companies, it has the capability to enforce its decision, but the consequences are negative. Some electricity producers cannot afford coal, or do not choose to buy coal, to generate electricity at a loss. At the end of May, 41 power plants with almost 7 million kilowatts capacity were idle due to problems with coal supplies. Gas stations are frequently out of gas, and even more frequently diesel fuel, and consumers in Shanghai and Guangdong report driving from gas station to gas station, searching for a place to fill up.

Price Controls II: Temporary Price Caps

The Price Law in Article 30 gave the government the authority to temporarily intervene in other pricing decisions, only in the case of emerging inflationary pressures. This authority was invoked by the NDRC on 15 January 2008, with respect to six commodity categories plus an unspecified "other." The six categories were grain and noodles, vegetable oil, meat, dairy products, eggs, and liquefied petroleum gas. Suppliers above a certain scale are required to report price rises at least 10 days in advance, and are limited to pass-through of cost increases. Smaller suppliers are left to provincial authorities to manage, but they should follow the general approach laid out by the national authorities.[8] It is quite clear that this type of intervention is far more difficult to implement than the control of prices of large state-run corporations. In the first place, all the food commodities are sold by millions of dispersed producers who are difficult to control, and who will quickly take advantage of shortages and price gaps with larger, more closely controlled suppliers. Secondly, the legitimacy of these measures is by no means universally accepted in Chinese society. Free market economists generally oppose the measures, and many farmers suspect that the measures will undermine their interests and prevent them from (finally) taking advantage of a favorable shift in relative prices. Perhaps in response, regulators have focused their attention on large retailers, supermarkets, and big packaged food companies.

Citizens are encouraged to monitor sellers, and stories of price gouging are reported in the newspapers. There is a national hot line to call to report violations. Moreover, the government has an apparatus in place that can provide some enforcement, since price bureaus exist in every county in China. The government thus has the ability to implement these measures provisionally. But what are policymakers trying to achieve? Clearly, they hoped that the original surge in food prices would not turn into a self-reinforcing inflationary cycle. By limiting consumer prices increases they hoped to pacify an important interest group (city dwellers) and forestall the process through which inflationary expectations become entrenched. If Chinese farmers could then be counted on to respond to higher farm prices, the fall harvest in 2008 would be sufficiently abundant that prices would stop increasing. Thus, Chinese policymakers expected the initial price interventions in food to last for about six to eight months. Of course, if they are to respond to higher prices and produce more food, China's farmers must expect that the higher prices they have seen over the last six months will in fact prevail after the next harvest. The NDRC has twice raised the price-support levels for grain procurement, most recently on 28 March 2008. Chinese grain farmers already receive direct subsidy payments per unit of land under grain, and these payments are being raised. These measures are essential, since farmers are already struggling to digest higher prices for fertilizer and pesticides, among other inputs. However, this complex mix of policies means that the NDRC is in the very difficult position of trying to increase prices for grain procurement, while simultaneously limiting the pass-through of increased procurement costs for processed grain and grain products. The leaders of the NDRC are not under the illusion that they can prevent inflation by controlling agricultural prices. Therefore, it is clear that this type of price regulation is temporary, both in its legal justification and in its expected efficacy.

Things Got Much Worse in the Spring of 2008

The initial policy measures adopted in fall of 2007 were aimed at preventing inflationary expectations from becoming established. Even price controls might be justified if they were short-term and efficient in signaling to the population the government's commitment to maintaining price stability. However, this initial objective of forestalling inflationary expectations was probably doomed by the evolution of the U.S. sub-prime mortgage crisis. Once the U.S. Federal Reserve Board became concerned about the integrity of the U.S. financial system, and began aggressively cutting interest rates, it was probably inevitable that inflation would become a worldwide phenomenon and a worldwide concern. After all, inflation has spiked to near 10 percent in India, and to near crisis levels of 25 percent in Vietnam. The tripling of Asian rice prices in April 2008 signaled a new source of inflationary pressures, and of course the inexorable rise in oil prices is straining economies around the world. In some ways, it appears that China is simply facing the same problems that other countries are facing.

Yet China is not disconnected from these global trends. There is the obvious fact that China's rapid growth and the appetite for commodities has contributed importantly to the rise in nearly all global commodity prices. In the specific area of food grains, China's inflation fight has contributed to global food prices. That is because beginning in 2007, China stopped allocating grain export quotas. China has been a modest but significant exporter of grain in recent years, and is especially important as a rice exporter. Without export quotas, net grain exports have gradually dried up, dropping to 0.5 million tons in the first quarter of 2008, from over 3 million tons in the first quarter of 2007. This has driven a large wedge between China's domestic grain prices and world prices. Ironically, China provides direct subsidies to grain farmers to support their income; yet it pursues trade policies that keep grain prices low and farm incomes low as well. In addition, many Asian countries have begun to remove fuel price caps and subsidies, now that they perceive that high oil prices will be around for awhile. So far, however, China appears stuck on a path of control and subsidize, a path that leads to further distortions and escalating costs.

On top of all this, the Sichuan earthquake created urgent new demands, both for relief and for reconstruction. Whatever the fate of purely domestic efforts to control inflation might have been, they have been overwhelmed by external events and domestic catastrophes. China now has no chance of reaching its target 4.8 percent inflation rate for 2008 as a whole. Worse, China seems hobbled by inconsistent policymaking and a lack of decisive action to position the economy for a healthy future move out of today's inflationary dilemmas.

Conclusion: Politics

Because of the political sensitivity of inflation, and because of the broad consensus in favor of an active and interventionist role in the economy for government, there is no discernable difference among top political leaders in their attitude to inflation. First Party

Secretary Hu Jintao has called for "strengthening supervision over prices," and Premier Wen Jiabao has orchestrated the recent round of price-control measures. All political leaders and technocrats agree that inflation is a significant danger to be avoided.

However, there is some difference in approach between the two major institutional systems that have a voice in macroeconomic and price policy. The financial system under the PBC has been arguing for a harder line against inflation since at least 2004, and has favored reliance on orthodox monetary and fiscal policies as the best way to forestall the emergence of inflation. This has included advocacy of renminbi appreciation. Under the leadership of PBC governor Zhou Xiaochuan, the finance technocrats have consistently argued that inflation is a real danger, notwithstanding actual price stability between 1998 and the first half of 2007. The abrupt emergence of significant open inflation in the third quarter of 2007 strengthened this group, since it seemed to vindicate their analysis and projections, and a more rapid rate of RMB appreciation can be seen as the victory of this group. Moreover, Zhou Xiaochuan, who had been slated to step down as central bank chief in March 2008, was instead pressed to stay on to deal with domestic inflation and unprecedented international financial uncertainty.

The other camp has been the "national planning" system under the NDRC. The NDRC has typically been less worried about inflationary pressures, and tends to advocate specific interventions in the economy to combat concrete problems. The NDRC sees itself as an advocate for economic growth. It will often interpret rising prices in a specific sector as evidence of a "structural" problem, and may push for a program of investment in that sector in order to increase capacity, reduce bottlenecks, and alleviate price pressures. In the macroeconomic debates of the past several years, the NDRC found its position clearly vindicated once, during 2004. During the third quarter of that year, consumer price inflation pushed above the leadership's bright red line of 5 percent. However, the NDRC argued that this was a one-time change in relative prices, that farm prices were recovering from a period of abnormally low prices, and that a robust supply response would prevent the farm price jump from turning into sustained inflation. In the event, the NDRC economists were correct, and the inflation rate promptly dropped back down. However, NDRC economists essentially repeated this analysis in 2007, under apparently similar conditions, and this time they were mistaken. The NDRC thus found its predictions confounded, and it faced a loss of credibility. However, the NDRC is also the lead administrative agency in any direct price-control measures. Thus, ironically, while the surge of inflation has discredited the NDRC to some extent, it has also strengthened it, by giving it the green light to deploy one of its most direct administrative interventions. This type of price oversight has not been terribly important during the past 10 years of price stability. However, it has always been a potential instrument of NDRC power, and the NDRC has deployed it with vigor in recent months.

There is uncertainty about the future direction of macroeconomic policy because a new group of politicians has assumed control over the economy in the wake of the National People's Congress meeting in March. Newly appointed executive vice-premier Li Keqiang has formal responsibility for the "macroeconomic" portfolio, which includes

oversight over the NDRC, price regulation, and (in theory) overall monetary policy. However, there is nothing in Li Keqiang's background that gives him special expertise in these areas, nor does Li appear to have the character and personality to be an economic "strongman." Instead, Li was appointed to assist Wen Jiabao, and generally assists and conforms to the leadership consensus. A much more important role is being played by another vice-premier, Wang Qishan. With a strong background in finance and economics in general, Wang has quickly extended his influence from his core trade portfolio to finance and macroeconomic policy in general. To some extent a rival of PBC chairman Zhou Xiaochuan, Wang now clearly outranks Zhou and has consolidated his control and reputation as top economic leader. Thus, the evolution of policy depends on how effectively Wang assembles a leadership consensus on the vital next steps.

Notes

[1]People's Bank of China, "*Zhongguo Renminyinhang jueding shangdiao cunkuan zhunbei jinlu*" [PBC decides to raise the desposit reserve rate], 7 June 2008, at http://www.pbc.gov.cn/detail.asp?col=100&id=2725; for the previous hikes, see http://www.pbc.gov.cn/detail.asp?col=100&ID=2691.

[2] Sun Jianfang and Cheng Zhiyun, "*Pianzhilun fengsheng tujin; Renminbi zuoxiang weimiao*" [Suddenly people are seriously advocating depreciation; the direction of the renminbi is uncertain], *Jingji Guanchabao*, 2 June 2008, pp. 17, 20.

[3] Zhang Huanyu, Shen Hu and Li Zengxin, "*'Zheqian' zhimi*" [The mystery of 'hot money'], *Caijing*, 12 May 2008, pp. 92–94.

[4] "People's Republic of China Price Law," accessed at http://www.gov.cn/banshi/2005-09/12/content_69757.htm. Similar provisions were made for nationally "guided" prices, and for locally set prices. The law was passed on 29 December 1997, and went into effect on 1 May 1998.

[5] "List of fixed prices set by State Planning Commission and other relevant departments of the State Council," 4 July 2001, accessed at http://www.fjjg.gov.cn/fjwjj/jgzcfb/jwfg/webinfo/2007/10/1193014838839430.htm.

[6] Wang Lu, "*Dazong shangpin jiague huiluo weishi shangzao; Zhongguo mianlin tigao chengpin youjia yali*" [Commodity prices are not yet coming down; China faces pressure to raise petroleum product prices], *21 Shiji Jingji Baodao*, 9 June 2008, p. 6; Zhang Xiangdong, "*Jidu youhuan jiankao; Fagaiwei buyen tijia*" [More signs of gas shortage; NDRC is not talking about raising prices] *Jingji Guanchabao*, 9 June 2008, p. 3; "Energy Demands too big for state control," *South China Morning Post*, 9 June 2008. Accessed at http://www.wsichina.org/morningchina/archive/20080610.html.

[7] Xu Weixuan, "*Shanxi caixiang: Meidian 'gengzu' puoti*" [Shanxi guesses: electricity coal "obstruction" sets the theme], *21 Shiji Jingji Baodao*, 4 June 2008, pp. 1–2. The state giant Huaneng, which has the most modern generating facilities and the largest captive coal supply, is still earning profits.

[8] National Development and Reform Commission, "Regulation Regarding Temporary Price Intervention of Selected Important Goods and Services," 15 January 2008, accessed at http://jgs.ndrc.gov.cn/zcfg/t20080116_185389.htm.