A New Team Faces Unprecedented Economic Challenges

Barry Naughton

Following the 11th National People's Congress in March 2008, a new economics team was installed in the Chinese government. The distribution of responsibilities among this new team was hammered out very late in the day, months after the key vice-premiers were chosen. In any case, this new division of labor quickly crumbled in the face of a global economic environment of unprecedented complexity, in which difficult and urgent policy choices are required. At mid-year, the economic leadership responded with a highly scripted and formalized policy exercise that culminated in a significant loosening of macroeconomic policy. Through this process we may dimly perceive a big increase in the behind-the-scenes influence of Wang Qishan, the vice-premier with the strongest economic background.

Until 2008, the challenges facing Chinese economic policymakers were fairly straightforward. Experiencing China's unprecedented economic boom, policymakers essentially had two tasks. First, they had to tap the economic brakes, slowing the economy's growth surge in order to sustain a more moderate growth over the long term. Second, they had to nudge quantitatively rapid growth into a qualitatively superior growth, providing more environmentally friendly development that contributed a better quality of life to a broader share of the population. These are not easy tasks, by any means, but policymakers could count on a shared framework for understanding problems, even as vigorous debate raged about the amplitude and rigor of specific policy measures.

Since 2008 began, the challenges have become much more complex. It is still necessary to cool the economy, to tap on the brakes. Indeed, inflation has raged at unacceptable levels through 2008, and exceeded 8 percent for three months from February through April. Moreover, global surges in energy, food, and commodities prices threatened to spill over into China's already inflationary environment. But at the same time, the Chinese and the global economy began to display signs of weakening during the second quarter of 2008. Before inflation had been banished, an economic slowdown also became a serious concern. A particular focus of concern was the labor-intensive manufactured export sector, which has been such a dynamic part of the Chinese economy over the past 20 years. This sector, dominated by small and medium enterprises (SMEs) has begun to feel the effects both of the appreciation of the RMB since 2005, *and* of the higher labor and raw material costs brought about by domestic and international inflation. As the economy headed toward the year's midpoint, it was possible to argue either that it needed more growth (and economic stimulation), or more stable prices (and less economic stimulation). Moreover, the steady appreciation of the RMB that took place between November 2007 and March 2008 was attracting huge capital inflows, and appeared increasingly unsustainable. These problems are severely challenging the new economic team.

The New Economic Team

China's leaders are designated by the Communist Party. As a result, following the 17th Party Congress in October 2007, it was clear who the members of the next State Council would be, even though the formal selection and announcement did not occur until the meeting of the 11th National People's Congress in March 2008.[1] The political process playing out at the Communist Party Congress designated the politicians who would rise into the inner circle of power, but did not specify the specific portfolios of each politician, and there were conflicting reports about those portfolios. Most important was the designation of jobs for the vice-premiers. As Albert Keidel has pointed out, vice-premiers have a key role in the Chinese governmental apparatus, akin to the powerful secretaries of Treasury, State, and Defense in the United States. They are the top policymaking officials, while the ministers, by contrast, are more likely to be career bureaucrats in charge of implementing policy. However, unlike a minister, a vice premier does not have a fully routinized job definition, and so his or her portfolio can be shaped by the incumbent's personality and expertise.

A key focus for the uncertainty of job definition has been Vice-Premier Wang Qishan. In the first place, Wang is the only one of the vice-premiers who has real economic management expertise. The others are all politicians. And while Wang is also a politician, he has a rich and fairly accomplished record in the financial sector, and has earned the respect of other economists.[2] It would have been natural to assign Wang the finance portfolio (previously held by Huang Ju, who died in office). In fact, the need was greater in other areas. The financial sector was relatively well managed under People's Bank of China governor Zhou Xiaochuan, while at the same time, China needed a competent and high-ranking official to deal with external economic relations. The China-U.S. Strategic Economic Dialogue had begun in 2006 under the direction of Vice-Premier Wu Yi and U.S. Treasury Secretary Hank Paulson, and only Wang Qishan had both the rank and the expertise to conduct a dialogue at that level. Conversely, since Li Keqiang was executive vice-premier, and was clearly being groomed for the premiership in the next administration, it was essential that Li be given clear economic authority as well. As top policymakers struggled to assign responsibilities, unclear and conflicting signals were given about the future responsibilities of the vice-premiers.[3]

The assignment of responsibilities was particularly difficult because it became entangled in an effort to rationalize and reorganize State Council economic decision-making as part of the beginning of the second term of the Hu Jintao-Wen Jiabao administration. There was a strong feeling that economic decision-making in the first Wen Jiabao administration had become too diffuse and uncoordinated, and that Wen was having a hard time imposing a consistent message on the bureaucracy. These are real issues: Even after 30 years of marketization, the Chinese government bureaucracy intervenes directly in an astonishing range of practical decisions. The Chinese premier personally meets a huge range of individuals, and Wen Jiabao, of course, also responds directly and personally to crises such as the Wenchuan earthquake. It is literally impossible that an organization could cover such a vast realm of policy decisions, and Wen Jiabao's philosophy of hands-on responsibility, admirable and popular though it may be, adds further to the problem. Lack of coordination—combined with bureaucratic capture by relevant agencies and interests—is a serious issue.

In any case, the basic approach to improving these issues has been to attempt to amalgamate sections of the bureaucracy into larger "super-ministries," and then have stronger reporting relations in which these super-ministerial systems are coordinated by vice-premiers. Work was under way on this reorganization before the March meeting of the National People's Congress, and at the NPC, it was announced that five new super-ministries were being created. One of these was the Ministry of Industry and Information Technology (MIIT), which was created to coordinate industrial policy. MIIT was based on the former Ministry of Information Industry, but also absorbed industry and technology management functions from the NDRC and the defense industry complex.[4] Although the other four ministerial reorganizations announced at this time were also described as "super-ministries," in point of fact they were not.[5] Instead, the changes reflected normal bureaucratic reshuffling, combined with modest changes in priority, such as the increased emphasis given to environmental problems symbolized by the increased status of the Ministry of Environmental Protection. At the same time, a new set of State Council Administrative Procedures was promulgated.[6]

Even more significant than these modest reorganizations were those that did *not* occur. Most prominently, the much anticipated Energy "super-ministry" did not emerge. This was widely seen to be due to a failure to pacify the powerful entrenched interests involved. Instead, a new National Energy Bureau was created, grouping together some dispersed organizational function, but remaining initially subservient to the NDRC, at least initially.[7] Also on the agenda in the run-up to the NPC had been the creation of an overarching financial regulatory apparatus. Currently the central bank (People's Bank of China, or PBC) divides regulatory functions on a more or less ad hoc basis with the China Bank Regulatory Commission, China Securities Regulatory Commission, and the China Insurance Regulatory Commission. Various proposals for the amalgamation or coordination of these agencies had been on the table for a long time, and many felt that the NPC would take a decisive step toward resolving this. But it was not to be: No significant change came out of the NPC meeting.[8]

The new vice-premiers, then, were expected to take over this somewhat reformed governmental structure. No announcement was ever made of the vice-premier portfolios. Instead, outside observers had to infer portfolios from the initial activities of the vice-premiers, who were formally selected by the National People's Congress on 17 March 2008. The first meeting of the new State Council, on 19–21 March, set up a division of labor among the new vice-premiers. According to this division of labor, Wang Qishan would be in charge of Commerce, including external economic relations, as well as financial system reorganization and reform. Indeed, that same day, Wang Qishan met with a delegation headed by U.S. Trade Representative Susan Schwab. Subsequently, the fourth meeting of the U.S.-China Strategic Economic Dialogue took place in Annapolis, Maryland on 17–18 June 2008, with Wang Qishan representing the Chinese side.[9] Within days of the NPC meeting, the other vice-premiers were involved in public events that clarified their portfolios. Executive Vice Premier Li Keqiang presided over the opening ceremony of the China Development Forum, a project of the National Development and Reform Commission (NDRC), showing that his portfolio covered the NDRC. The third vice-premier, Zhang Dejiang, accompanied the new minister of Industry and Information Technology, Li Yizhong, and the head of the State Energy Office, Zhang Guobao, to a meeting on nuclear power, showing that his portfolio covered large-scale industry.[10]

Thus, by April, a formal organizational structure had been created for Wen Jiabao's second cabinet. Under this system, Li Keqiang was supposed to have authority over "macro" issues, including the long-range planning done by the NDRC and standard macroeconomic issues, such as interest rates and monetary policy. Zhang Dejiang was responsible for large-scale industry and technology policy. Hui Liangyu continued to be responsible for agriculture and rural development. Wang Qishan was responsible for commerce and external economic relations, but also for financial system reform (so that he could drive the reorganization of the regulatory agencies into a coordinated system). However, no sooner had this system rolled out than it began to fall apart. Challenging economic problems demanded responses that did not fit neatly into the divisions created by the political leadership.

Critical Economic Issues

The most important issue, of course, was inflation. The consumer price index (CPI) had soared to 8.7 percent in February (year over year), and remained high, at 8.5 percent, through April. However, from April, the CPI began to drift down, and it reached a much more comfortable 6.3 percent by July. Interpretation of CPI trends, though, was not straightforward. The reason the CPI stabilized and declined was because the surge of food price increases from the summer of 2007 had worked through the system. Food prices stabilized around the higher levels established in late 2007, and no longer showed a strong tendency to increase. To some of China's economists, this signified that the worst of the inflationary surge was over. But in the meantime, inflationary pressures, driven by higher energy and materials prices, have been building in other sectors. Yet, as discussed in the last issue, China has kept a lid on energy prices, subsidizing producers rather than allowing price increases. Even so, by July 2008, the *producer's* price index (PPI)—which has continued to increase—reached 10 percent, and nearly all industrial sectors are now reporting price increases. And this *without* allowing energy price increases to pass through into the system. Price controls are causing severe distortions in conditions across sectors. For example, during the first five months of 2008, profit soared in the extraction industries, oil and coal (increasing 54 percent and 98 percent respectively); but profits in the electric power industry declined 74 percent, while in petroleum refining, a profit of 35 billion RMB in 2007 was transformed into a loss of 44 billion in 2008.[11] Another group of China's economists believe these figures show that there is still substantial inflationary pressure in the system, barely contained by price controls that simply allow pressures to build up by retarding market-driven adjustments in the structure of demand.

One of the main tools for cooling the economy since November 2007 has been appreciation of the RMB, which has strengthened by about 1 percent per month since that time. This means that the RMB in July 2008 was almost 10 percent stronger than in October 2007. The experience of RMB appreciation has led to vigorous debate over three issues. First, has the RMB appreciated enough? Since the fixed dollar link was broken in July 2005, the RMB has appreciated just over 21 percent. Moreover, Chinese inflation during that time has been higher than in the United States, so the real appreciation has surpassed 25 percent. That means that, on the one hand, appreciation has allowed China to absorb about one-quarter of the international oil price increase since 2005. On the other hand, it means that the cost of producing goods in China is, in U.S. dollar terms, about 25 percent higher than it was in 2005. Some in China argue that this is quite sufficient to make China a responsible contributor to rectifying global economic imbalances.

Second, there is debate over how big an impact China's 25 percent real appreciation has had on China's exporters. How much does it matter to China if it costs 25 percent more to produce export goods? If we are concerned simply with the growth of Chinese exports, we have to conclude that the impact has been modest. While the growth rate of Chinese exports has diminished, overall exports have continued to grow robustly: During the first half of 2008, exports increased 21.8 percent, and the growth rate actually increased to 26.9 percent in July. Imports have increased more rapidly (30.6 percent and 33.7 percent for the first half and July, respectively), so the trade surplus has diminished, but only slightly. However, when we examine the condition of export enterprises, a very different picture emerges, one of substantial financial stress. In the traditional centers of labor-intensive export manufacturing, many firms are reporting problems. In Guangdong, it is reported that half of all the shoe manufacturing and export firms have closed down; in Wenzhou, thousands of small private firms have gone bankrupt. Nationally, 67,000 of those small firms large enough to fall under the Statistical Bureau's data collection closed down during the first half of the year.[12]

Finally, steady RMB appreciation created enormous incentives for capital to move into China. After the U.S. Federal Reserve Board began cutting interest rates in the United States, the interest rate differential in favor of RMB bank deposits became significantly positive. Add a monthly percentage point for a strengthening currency, and the difference in return becomes overwhelming. With other global investment opportunities looking shaky, and with RMB appreciation apparently a sure thing, why not put your money into Chinese banks and enjoy the guaranteed return? Not surprisingly, China's foreign exchange reserves swelled in the first half, far surpassing the sum of the trade surplus and net incoming foreign direct investment. Clearly, households and businesses were seeking to take advantage of China's appreciating currency.

All these problems raised difficult issues of interpretation. They also threw into question whether China's tough anti-inflation policies since November 2007 were still required. In the minds of some leaders, RMB appreciation was becoming less necessary, while the harmful side effects of steady, gradual appreciation were becoming more evident. If it were true that inflation was easing off, it might be possible to ease off on tough monetary policies as well. These puzzles were on the table by mid-2008, when they were given extra force by new evidence that both the world economy and the Chinese domestic economy were beginning to slow down. If external demand dropped, China's trade surplus would decline even without further RMB appreciation. And if Chinese growth itself were slowing, Chinese leaders could be expected to adjust policy to bolster growth. In fact, policymakers did just that—however, the way they did so was rather unusual.

A Scripted Policy Process

Beginning at the midpoint of 2008, policymakers choreographed an elaborate set of procedures that culminated in an adjustment, and relaxation, of Chinese macroeconomic policy. The first step was a series of visits to key areas of export-oriented manufacturing in July 3–7. Four top leaders fanned out to five provinces: Xi Jinping, Wen Jiabao, Li Keqiang, and Wang Qishan visited Shandong, Jiangsu, Shanghai, Zhejiang, and Guangdong. The focus for each was visiting firms, hearing about export conditions, and stressing the importance of small and medium enterprises.[13] Subsequently, Hu Jintao visited Shandong, while Wen Jiabao headed down to Guangdong. These visits clearly demonstrated that economic decision-making was to be dominated by a new triangle: Wen Jiabao, Li Keqiang, and Wang Qishan.[14] Among these three, of course, Wen Jiabao retains the last word; but increasingly, the most influential voice is that of Wang Qishan.

The leadership moved directly from "investigation" to discussion. Three economic conditions discussion meetings were convened in Beijing between 8 July and 11 July. All five members of the State Council economic team were present: Wen Jiabao, Li Keqiang, Hui Liangyu, Zhang Dejiang, and Wang Qishan, as well as State Council Secretary General Ma Kai. The first meeting involved presentations from regional leaders, and included reports about the recent central leader inspections trips. The second meeting heard from eight nongovernmental macroeconomists. Finally, the third meeting focused specifically on finance and housing markets. [15] After these discussions, two sets of formalized meetings took place simultaneously on 15 and 16 July. The State Council itself met in plenary session for two half-day sessions, while the Finance and Economics Committee of the National People's Congress also met.[16] Following the conclusion of the formal meetings, the Party Center called a meeting with "non-Party personages" on 21 July. While the meeting was ostensibly to discuss economic conditions—and some first-rate economists attended—it resembled nothing so much as a formalized consultation with the China People's Consultative Conference.[17] Thus, over a three-week period, the Chinese leadership had walked through a carefully scripted and formalized process to examine economic conditions, discuss them inside and outside the government, and then review them with non-Party experts.

The final step was a Politburo meeting, which took place on 25 July. The

Politburo adopted a series of policy adjustments that amounted to a moderate relaxation of the contractionary and appreciation policies adopt at the October 2007 national Economic Work Conference. From the previous policies of "preventing overheating and controlling inflation," the Politburo shifted to a policy of "preserving while controlling (*yi bao yi kong*)," that is, preserving stable rapid development, while controlling overly rapid inflation.[18] Clearly, the new stress on growth was a response to concerns about a possible economic slowdown, and an attempt to address the new problems and challenges that had emerged during the first half of 2008. While relaxing policy, it was important not to jettison the carefully crafted policies of late 2007. Leadership credibility, and the struggle against inflation, would suffer if the new policies were seen to be departing too radically from the existing policy orientation.

The New Policy Package

The new policies adopted in July were clustered around the need to strengthen the small and medium enterprise (SME) sector, and in particular those parts of the sector engaged in export activity. As described above, there was evidence that this sector had begun to undergo significant economic pain in the first part of the year; and of course the leadership could have found confirmation for this on their inspection tours if they wanted. While securely centered on SMEs, the policies also aggregated into a significant relaxation of macroeconomic policy, that is, to an increase in economic stimulus. The key points of the new policy orientation include:[19]

- A substantial pause in RMB appreciation. So far in August 2008, the RMB has depreciated slightly against the dollar. To be sure, it is possible to explain this depreciation with reference to the dollar's sudden increase in value vis-à-vis the euro and yen since late July. However, there has been a conspicuous shift in rhetoric as well. Policy is clearly designed to interrupt expectations that the RMB would enjoy a steady and continuous appreciation against the dollar.
- A moderate loosening in monetary policy. The overall credit quotas issued as guidance to commercial banks was increased 5 percent for the remainder of the year. However, the locally run commercial banks that especially serve SMEs were given a 10 percent quota increase. Talk of further increases in banks' required reserve ratios or interest rates evaporated.
- Rebates of value-added taxes for clothing and textile exports were increased. This was the first time since 2006 that VAT rebates had been increased and clearly signaled that China would take steps to support the labor-intensive exports that provide many jobs in coastal regions.

Put together, these policies have a significant stimulative impact. A further policy measure was significant in combining macroeconomic impact (by reducing capital inflows) with support for SMEs: Exporters were, for the first time, allowed to keep the foreign exchange receipts of their exports without converting them to RMB. (While exporters have long held foreign exchange when convenient, they had had to do so surreptitiously using offshore accounts). This concession was combined with new regulations making it harder to convert foreign exchange into RMB by requiring foreign exchange holdings to be temporarily held in special bank accounts before conversion. Together these policies are directed at reducing capital inflows while not overly restricting enterprise flexibility.

The shift to support for SMEs even came through in the favorable attention given to an old institution. The latest Monetary Policy Report from the PBC describes the increasing importance of informal, private credit markets in the past few years. It asserts that informal credit is an important complement to formal financial institutions, and explicitly calls for the legalization of credit clubs and private moneylenders and the normalization and regulation of informal credit.[20] If such a recommendation is adopted, it will provide significant support to SMEs, which disproportionately rely on informal markets for finance. Moreover, it would also potentially open up to private business a part of the Chinese economy that has remained dominated by state-owned institutions to this day.

Conclusion

Unusually complex economic challenges are facing China this year, but in this, China's is similar to many other economies facing unprecedented global economic shifts. However, China presents an unusual picture of effective policy adaptation among largely dysfunctional institutional arrangements. The effort to set up an effective division of labor among the top economic decision-makers has so far not been a notable success. But a drawn-out and highly formalized process of consensus-building has nonetheless resulted in a reasonably effective and timely set of policy adaptations. This may reflect the urgency of the particular economic challenges facing China, or it may represent a strength of the Chinese system of unitary coordination and decision-making.

Amidst the highly scripted and formalized public procedures, we may perhaps see the rising influence of Wang Qishan on economic policy. In theory, both Li Keqiang and Wang Qishan have a broad range of responsibilities over the economy. In theory, again, Li Keqiang has generalized responsibility over different types of macroeconomic policy, while Wang Qishan has specific responsibility over two different areas that are crucial to macroeconomic policy, namely finance and trade. In practice, though, Wang Qishan's widely acknowledged economic expertise gives him a clear edge. Wang Qishan's style is considered decisive and relatively straightforward. He is self-confident and effective. He is seen by other economists as an economist like them, and he can therefore draw on their expertise and opinions easily.

What does this mean for Chinese policy? We can already detect signs of Wang Qishan's influence in the policy package described in the previous section. Wang is relatively market-oriented, and relatively favorable to private business. Wang seems to be working closely with Wen Jiabao, who makes the final decision on ordinary economic questions (subject to ultimate approval by the Politburo Standing Committee). However, Wang is somewhat less "soft" than Wen, more market-oriented and less committed to ameliorating the social impacts of free market development than is Wen. Thus, to a certain extent, Wang may push Wen's policymaking away from the "Left Tilt" that shaped it during the first Hu-Wen administration, and toward a somewhat greater private sector orientation. In that sense, Wang is more in the Jiang Zemin-Zhu Rongji camp, and may act as a balance, or even a check, to Wen Jiabao. Certainly the focus on SME development—which inevitably means private sector development—is fully consistent with the kind of policy initiatives we would expect Wang Qishan to support.

Wang Qishan is also considered to be ambitious. Having just celebrated his 60th birthday, he is the right age to be considered for advancement to premier, and he must be considered a potential rival to Li Keqiang. Although not himself a "princeling" (child of high-ranked leaders), while in the countryside in northern Shaanxi during the Cultural Revolution, he married Yao Mingshan, the daughter of Yao Yilin, a former vice-premier and top economic planner.[21] He is thus a princeling by marriage, with access to whatever support networks such a status provides. Wang's influence on policy and the extent to which he is successful in managing the economy will have a significant influence on Chinese politics over the next few years.

Notes

[1] For example, see Barry Naughton, "China's Economic Leadership after the 17th Party Congress." *China Leadership Monitor* 23 (Winter 2008). Accessed at http://media.hoover.org/documents/CLM23BN.pdf.

[2] For the standard official biographical highlights, see "Wang Qishan" at http://news.xinhuanet.com/ziliao/2002-03/05/content_300439.htm. A readable, but still laudatory account is Li Hongbing, "Wang Qishan's new mission," *Nanfang Zhoumou,* 17 April 2008, accessed at http://www.nanfangdaily.com.cn/osouthnews/zmzg/200804170101.asp.

[3] Including in Barry Naughton, "China's Economic Leadership after the 17th Party Congress." *China Leadership Monitor* 23 (Winter 2008). Accessed at http://media.hoover.org/documents/CLM23BN.pdf.

[4] Xinhua Agency Service, "'Super' ministry inaugurated in Beijing," 29 June 2008, accessed at http://www.chinadaily.com.cn/china/2008-06/29/content_6803711.htm.

[5] Xinhua Agency Service, "China to set up five new 'super ministries'," 11 March 2008. Accessed at http://www.chinadaily.com.cn/china/2008npc/2008-03/11/content_6526802.htm. The other four were the Ministry of Human Resources and Social Security, the Ministry of Environmental Protection, the Ministry of Housing and Urban-rural Construction, and the Ministry of Transport.

[6]State Council, "*Guowuyuan gongzuo guize*" [State Council Work Regulations] 21 March 2008, http://news.xinhuanet.com/newscenter/2008-03/25/content_7856588.htm.

[7] Downs, Erica S., "China's Energy Policies and Their Environmental Impacts," 13 August 2008, accessed at http://www.brookings.edu/testimony/2008/0813_china_downs.aspx. There is some prospect of a gradual increase in independence and capabilities of the Energy Bureau. However, the initial head of the Bureau was Zhang Guobao, the bureaucratic stalwart who has managed energy issues from within the NDRC for years.

[8] Editorial Staff, *Mingbao* [Hong Kong], "*Wang Qishan jiang zhang zhongyang jinrong; dabuzhi jianchengxing; zhengzuan yinhang tixi tongyi guanli*" [Wang Qishan will take over central finance; the "big ministry" system will be gradually implemented, with unified management of banking and securities], *Mingbao*, February 2008. Accessed at http://specials.mingpao.com/cfm/News.cfm?SpecialsID=150&Page=1&News=d993226c16333948dd8307201e3d3556c1ca87275d1b7028d0cb47641a0d7456bc&ChineseName=%E6%94%BF%E5%88%B6%E6%B3%95%E5%BE%8B; Li Hongbing, *op cit.* In addition, the Ministry of Finance has important regulatory powers, so the system is sometimes referred to as "Five Dragons Dividing the Waters."

[9] U.S. Treasury Department, "U.S.-China Economic Dialogue Ends on Successful Note: Mutual respect

and trust lead to trade and development agreements," 19 June 2008. Accessed at http://www.america.gov/st/texttrans-english/2008/June/20080619150342xjsnommis0.7032129.html.

[10] "*Sanwei xinpu guzongli liangxiang; toulu Guowuyuan zhong zhugugan gongzuo*" [Three new vice premiers appear in public; showing division of responsibilities in State Council], *Nanfang Dushibao*, 30 March 2008, accessed at http://news.xinhuanet.com/politics/2008-03/30/content_7881955.htm.

[11] Huang Xia, "*Dianli lirun xiajiang 75%; meitan lirun cengzhang 98%*" [Electricity profit declines 74%; Coal profit increases 98%], *Yangcheng Wanbao*¸ 30 June 2008. Accessed at http://finance.sina.com.cn/roll/20080630/14182304505.shtml.

[12] Xu Haixing, "*Qian 5 yue zhusanjiao yiban chukou xieqi yinhuilu bianhua tuichu shichang*" [In the first 5 months, half of the shoe exporters in the Pearl River Delta have left the market because of exchange rate changes], *Guangzhou Ribao*, 30 June 2008, accessed at http://finance.sina.com.cn/chanjing/b/20080630/08245035968.shtml; Zou Qing, "*Yanghang tiaoceng defang shanghang xindai guimo 10%, jiuji zhongxiao qiye*" [The central bank is increasing the credit quota for local commercial banks by 10% in order to save small and medium enterprises], *Shanghai Zhengzhuan Bao,* 5 August 2008, accessed at http://finance.sina.com.cn/g/20080805/03405166413.shtml. Small firms with aggregate annual sales over 5 million RMB are included in the Statistical Bureau's survey.

[13] Xinhua Agency Service, "*Zhongyang gaoceng miji tiaojiu qiye jingying qingkuang*" [Top central leaders do a concentrated investigation of enterprise management conditions], 21 July 2008, accessed at http://news.xinhuanet.com/fortune/2008-07/21/content_8706324.htm.

[14] Li Ping, "*Wen Li Wang 'tie sanjiao' mianlin tiaozhan*" [The Wen Li Wang "iron triangle" faces challenges], Apple Daily [Hong Kong], 15 July 2008. Accessed at http://opinion.atnext.com/viewthread.php?tid=25508.

[15] Xinhua Net, "*Guowuyuan zhaokai sanci jingji xingshi zuotanhui tinqu gefang yijian*" [State Council convenes three economic discussion meetings, hears diverse opinions], 27 July 2008, accessed at http://news.xinhuanet.com/newscenter/2008-07/27/content_8782074.htm.

[16] Xinhua Net, "*Quanguo renda caijingwei tingqu shangbannian jingji xingshi huibao*" [National People's Congress Finance and Economics Committee hears reports on the economic conditions in the first half of the year], 16 July 2008, accessed at http://news.xinhuanet.com/newscenter/2008-07/16/ content_8556999.htm

[17] Xinhua Net, "*Zhonggong zhongyang zhaokai dangwai renshi zuotanui; jiu dangqian jingji xingshi he jingji gongzuo tingqu yijian*" [CCP Center calls discussion with democratic party personages; hearing their opinions on current economic conditions and economic work]. 25 July 2008, accessed at http://news.xinhuanet.com/newscenter/2008-07/25/content_8770190.htm.

[18] Zhang Dandong and Yao Junfang, "*Jiedu hongguan tiaokong zhengce xin jucuo beihou shenyi*" [Decipher the deep behind-the-scenes significance of the new macroeconomic control policy measures], Xinhua, 12 August 2008. Accessed at http://finance.sina.com.cn/review/20080812/14575191792.shtml. The Politburo also decided that the Third Party Plenum would be held in October and focus on rural issues. Xinhua Net, "*Hu Jintao zhuchi zhengzhiju huiyi; jueding zhaokai shiqiejie sanzhong quanhui*" [Hu Jintao presides over Politburo meeting, decides on a 17th PC Third Plenum], accessed at http://news.xinhuanet.com/newscenter/2008-07/25/content_8770081.htm.

[19] Zhang and Yao, "*Jiedu hongguan tiaokong zhengce xin jucuo beihou shenyi*"

[20] People's Bank of China Monetary Policy Analysis Small Group, *Zhongguo Huobi Zhengce Zhixing Baogao* [China Monetary Policy Implementation Report]. Second quarter 2008. 15 August 2008, pp. 21–23, accessed at http://www.pbc.gov.cn/detail.asp?col=432&ID=2270.

[21] Wang Qishan's own father was an engineer in the City Planning and Design Institute of the Ministry of Construction. Li Ping, "*Diyige zhiru zhengzhiju de shizhang*" [The first mayor to go directly into the Politburo], *Apple Daily*, 1 November 2007, accessed at http://opinion.atnext.com/viewthread.php?tid=7383.