

What Price Continuity?

Barry Naughton

The Fifth Plenum of the 17th Party Congress in October 2010 sent a strong message of continuity. In economic policy, continuity was proclaimed with the official Communist Party “Suggestions” on the forthcoming 12th Five-Year Plan (2011–2015), which basically restated the principles enunciated in the ending 11th Five-Year Plan (2005–2010). However, this ideal of continuity is challenged by two questions: First, what changes would be needed in order to implement those parts of the 11th Five-Year Plan “rebalancing” program that still have not been realized? Second, how likely is it that growing inflationary pressures will blow China’s economic policy off its supposedly steady course? By the end of December 2010, China was barely beginning to face some of the difficult choices that were deferred at the Fifth Plenum.

Chinese economic policy faces unique challenges. The global economic environment is extremely challenging and complex, so China’s policy-makers, like their counterparts in other major economies, must be able to respond promptly and effectively. In addition, Chinese policy-makers have taken on responsibility for steering major long-run changes in their economy in a way that is far more ambitious than any other large-country government attempts. In the last few years, Chinese leaders have gathered those long-run changes into the portmanteau term of “scientific developmentalism” (*kexue fazhanguan*). Scientific developmentalism includes, at a minimum: increased investment in human resources; better provision of social services; investment in science and technology; shift to knowledge-intensive sectors; and transition away from low-skilled, resource-using heavy industrial sectors. As the Hu Jintao-Wen Jiabao administration begins to look toward the end of its term in fall 2012, the policy package of scientific developmentalism stands as the principal part of their legacy. Its success or failure will determine their ability to hand off power and wealth to their supporters and families, as well as their treatment by subsequent generations.

The Fifth Plenum, meeting from October 15 to 18, 2010, was an important step in the effort to establish continuity. Xi Jinping, Hu Jintao’s heir presumptive, was elevated to vice-chairman of the Military Commission, indicating that the succession plan was on track. Inevitably, the 12th Five-Year Plan is also part of this continuity project. The plan covers the last two years of the Hu-Wen administration and then extends three years beyond it (to the end of 2015). As could only be expected, the plan is a strong endorsement of the policy package of scientific developmentalism and all its component parts.

However, the urge to write continuity into the planning process faces unusually intense challenges right now. In response to the global financial crisis, the Chinese

government greatly stepped up its investment in the economy, beginning in fall 2008. The result was a flood of credit and a great increase in the number and scale of projects under construction. While the policy was quite successful in allowing China to sidestep the worst of the global crisis, it deferred many costs which must now be paid. Most immediately, the explosion of credit in 2009 created substantial inflationary pressures which became overt during the last quarter of 2010.¹ The result was that pressures to adjust policy became substantially more acute right at the time of the Fifth Plenum in October. While the Plenum itself ignored those pressures, economic management bodies did not have this luxury. The People's Bank of China raised interest rates, signaling a turn in monetary policy, on October 19, the day after the Plenum adjourned. Thus, from mid-October onward, there has been an implicit tension built into Chinese policy-making. To what extent will the need to fight inflation and rebalance the economy cause a retrenchment or reformulation of China's development policy? The Central Economic Work Conference, which convened December 11–12, provides the first concrete indication of how this process is playing out. Certainly, the Work Conference began to take some more realistic decisions designed to confront tradeoffs in policy. So far, however, it does not seem that policy has adequately acknowledged the limitations on what economic policy can achieve. In the following, we present a simplified account of the dilemma left by the October Fifth Plenum and the provisional responses to those dilemmas provided by the December Central Work Conference.

The Fifth Plenum of the 17th Party Congress

Chinese Communist Party plenums are now thoroughly scripted performances. The top ranks of the Party gather, listen to presentations and make perfunctory comments, pass prepared resolutions, and disperse. The utter lack of spontaneity is demonstrated as well by the fact that the plenums are now locked into a predictable cycle of content: a third plenum always addresses economic issues (recently 2003, 2008); a fourth plenum always deals with Party building (2004, 2009); and the fifth plenum discusses and gives guidance on the upcoming five-year plan (2005, 2010). There is simply not time in the four-day meeting to substantively change, or even critically assess, fundamental policies. This year's Fifth Plenum was no exception to this pattern.

Thus, when Wen Jiabao presented the draft "Party Suggestions on the 12th Five-Year Plan," it was the culmination of a prolonged process of consultation and consensus-building that began in May with the formation of a writing group under the State Council (operating as the Party group of the State Council). Control of the drafting process was passed back and forth between Wen and Hu Jintao, who presided over Politburo Standing Committee (PBSC) meetings on June 17 and July 15, and then a full Politburo meeting on July 22, to review and approve a draft. This draft was then sent out for comment for three weeks during August, to 120 organizations as well as to Central Committee members and some Party elders.² A new version was then drafted by the writing group under Wen Jiabao's direction, and then another PBSC meeting (September 9), followed by a full Politburo meeting (September 28), both chaired by Hu, approved the final draft. This was the draft presented at the Plenum by Wen for discussion and comment. On the evening of October 17, Hu Jintao presided over another PBSC meeting to review

suggestions from the Plenum, and a revised version was produced overnight. This was passed by the Plenum on the afternoon of October 18, and the actual document was released publicly 10 days later.³

The Party's "Suggestions" will be incorporated into the actual 12th Five-Year Plan, which is now being written and will be approved at the National People's Congress meeting in March 2011. The process of soliciting comment and revision will not cease between now and then. Indeed, China's National Development and Reform Commission (NDRC) is still accepting comments by mail or email; if you would like to send them a comment, they will be happy to receive it.

The actual "Suggestions" take a form pretty much what you'd expect from a document written by committee in a thoroughly political process. There are 56 items, organized into 12 large sections, covering virtually every aspect of social and economic development. Each item has a short title, and then two or three long, run-on sentences, consisting of strung-together slogans and objectives. All existing policies are acknowledged and all bases are covered. As we will discuss later, the basic policy orientation is very close to that of the 11th Five-Year Plan. However, this document is more vague and far flabbier than its predecessor. The 11th Five-Year Plan was organized around several core ideas. Each of these ideas made up a main section, and each section had a real point. At the time, I called it "arguably China's best plan to date."⁴ Nobody would ever say such a thing about the 12th Five-Year Plan (FYP). It breaks no new ground, and provides little concrete guidance. It is the economic testament of the Hu Jintao-Wen Jiabao administration, full of lovely objectives, all of which are by now all too familiar.

The Core Philosophy

The central concept of the 12th FYP is the need to "accelerate the transformation of the economic growth model," seen as the immediate task presented by the long-run concept of "scientific developmentalism." Both terms appear in the title of the first section. Their significance, in practice, is increasing domestic demand (instead of relying on exporting), accelerating the rate of productivity improvement (instead of relying on more and more material inputs into production), raising household income and improving consumption standards, and reducing the harmful environmental impact of growth. The plan has few "targets," but the "objectives" set forth in Item 4 include:

- Steady, relatively fast growth, with price stability, and an improved quality of growth and a reduction in the external surplus.
- The share of consumption in output should increase, and labor income should increase at least as fast as labor productivity; the share of services in production should increase.
- Energy consumption and carbon emission per unit of GDP should decline, and there should be a substantial reduction in pollution and substantial improvement in the natural environment.

- Major expansion of coverage of basic social services should occur, and educational levels improve.

Much later (Item 32), two concrete indicators of these objectives are provided: The share of household income in overall national income should increase and labor's share of total national income should increase. The measurable indicators attracted much of the press attention immediately after the Plenum, since they are new and quantifiable.⁵ The second section (Items 5–7) is entitled “uphold the strategy of expanding domestic demand, maintain the steady and relatively fast growth of the economy.” Thus, expansion of domestic demand is clearly the most prominent concept in the document. Overall, however, this second section is actually rather noncommittal, stating only that consumption, investments, and exports should grow together. Moreover, no indication is provided of how much household income or consumption should increase. In fact, there are many sections of the Plan that advocate a strong investment effort. Section 4 (Items 12–17), on modernization and competitiveness, makes clear that a sustained effort will be made to develop the so-called newly emerging strategic industries. These had already been the subject of a programmatic State Council document on October 10, which made clear that the government would step up fiscal, tax, and credit support for these industries.⁶ Stress on new investments in technology and acceleration of investment in national engineering mega-projects shows up in Item 27 or Section 7. Moreover, Item 7, on investment, calls for maintaining a rational growth of investment, and specifically says that during the beginning of the five year period, the (large number of) projects that were initiated during the (2009) stimulus program are to be completed and brought into play. There is no indication in these “Suggestions” that the need to increase consumption is leading the leadership to contemplate actually cutting back on investment in order to rebalance the economy.

The section on the external economy (Items 46–49) is similarly murky. It calls for a shift in opening strategy from “exporting and attracting foreign direct investment” to one of “exporting and importing; and sending out and bringing in direct investment,” and later for “pursuing [*cujin*] basic balance in the trade account.” But the section also calls for “maintaining the competitive advantage of existing exports while also creating new comparative advantage based on technology, brands, quality and service.” This is not exactly a prescription for radical rebalancing. In many respects, then, the “Suggestions” seem to promise something for everyone, without any attempt to resolve the inconsistencies.

Evaluation, Discussion, and Submerged Debate

In the Plan, there is little or no evidence of a political process that is actually making hard choices about priorities. This is perhaps understandable, given that the Party document is the outcome of a prolonged process of consensus-building. More striking is the astonishing absence of reflection as to why China's pattern of growth is so unbalanced, even five years after the very similar calls for more balanced growth in the 11th Five-Year Plan were made. The 12th Plan calls for an increase in the share of consumption in the economy, but the 11th Plan called for exactly the same thing, and it

hasn't happened. Instead, the share of consumption in the economy fell sharply between 2005 and 2010. Why? What will be different going forward? The current guidelines give absolutely no indication.

To be sure, one could argue that the rebalancing agenda was temporarily set back by the emergency need to increase government investment in the face of the 2008–2009 global financial crisis. The problem is that all of the national programs initiated at that time have been embraced by the leadership and are projected to go forward at similar or even increased levels. This is true both of the industrial policies—particularly those grouped under the “autonomous innovation” label—and the social policies, which expand outlays for health, education, and social security. If “scientific developmentalism” is the conceptual legacy of the Hu-Wen administration, this set of industrial and social policies is their concrete legacy. Of course, the Hu-Wen leadership will not abandon these policies, nor should they. But there is a danger that the scale of these policies will expand out of control. It is widely believed in China that new industrial policies have created new interest groups and strengthened existing ones with powerful stakes in continuing those policies. Thus, the links between the failure to carry out the “rebalancing agenda” and the overall philosophy of the 11th Five-Year Plan, on the one hand, and the ossifying system of state-linked interest groups, on the other, is in fact at the center of discussion of many in China these days. Indeed, there is a kind of submerged opposition stream that sees the frustration of the rebalancing agenda and of economic reform more generally as being the result of the increasing entrenchment of new interest groups.

This viewpoint has recently found expression in an article published in, of all places, the *People's Daily*. That article has some rather startling comments:

The extreme irrationality of the income distribution system has not only produced the peculiar phenomenon of a “strong country poor people,” it has also caused a whole series of important measures which are essential to the transformation of the development model—such as expanding domestic demand—to become empty gestures. . . . In this sense, we face a challenge today similar to that which we faced over thirty years ago at the beginning of reform: if we wish to continue to develop, we must get rid of defects in our system and institutions that have accumulated over a very long time, and we must confront some deeply rooted interest groups.⁷

Similar criticisms are made in a more technocratic and indirect manner by Nie Gaomin, head of the NDRC System Reform Institute, who was recently quoted as saying that inadequate domestic demand is intimately linked to the delays in reforming the labor structure, the urbanization process, the market for factors of production, and the income distribution system. Therefore, continuing reforms are essential to making the expansion of domestic demand and the transformation of the mode of development into a reality.⁸ These criticisms are widely accepted among many in China, and frustration with state-linked business interest groups is palpable.

Reasserting Continuity in Private Ownership

An immediate policy issue relating to the influence of entrenched state-linked interest groups is the treatment of purely private firms. During 2009, there was widespread anxiety in China that the regulatory protection offered to state firms, and their privileged access to resources, was causing the state to advance at the expense of the private sector (*guojin mintui*).⁹ Although the phenomenon was officially denied, many in China were concerned about it, including the NDRC, which advocated actions to protect private firms.¹⁰ Of particular concern was the fact that a document issued by the State Council back in 2005 upholding the rights of private enterprises to enter any sector not forbidden was ineffective and that there were numerous invisible “glass doors” that prevented private firms from entering. The original document took the form of “36 Articles.” These were, remarkably, the first clear assertion of anything like “rights” for private firms.¹¹ In July 2010, the State Council issued a “new” 36 articles, which laid out specifically the rights of private firms to invest in certain sectors. Authorization was given—or, rather, restated—for important sectors such as education and health, as well as infrastructure and finance.¹² The regulations plausibly encompass a slight expansion of rights for private investors, particularly in sectors like health and education where the state’s role has been expanding lately. Moreover, the regulations were accompanied by a detailed assignment of responsibility, such that each of the new articles is assigned a government agency to ensure implementation.¹³ Yet while the regulations are intended to protect the private sector, it is hard to avoid the feeling that they are profoundly misdirected and probably irrelevant. By attempting to specify more precisely the ways in which private investment is authorized, and by the strong emphasis on “guiding the healthy” development of private investment, the regulations end up giving the impression that private investment is merely tolerated in particular circumstances, precisely the mindset the initial 36 articles was intended to end once and for all. The current problem facing private enterprise in China is unfair competition from state firms in sectors in which private firms are already well established. These new 36 articles do nothing to help that situation. Instead, the approach to private business seems unsettlingly like the approach to rebalancing the economy: restate principles which haven’t been working, without addressing the reasons for failure. The new document does nothing to address the fundamental reason why the status of the private sector has remained precarious in the five years since the original document was issued.

Fighting Inflation

As seems to happen so often in China, external conditions were changing rapidly just as policy-makers were meeting to praise continuity. In truth, the Chinese central bank had long wanted to tighten monetary policy. They had warned repeatedly that prompt preemptive moves needed to be taken to minimize the hangover from the flood of liquidity in 2009. From early 2010, steps had been taken to tamp down the flood of credit, but these were efforts to end the extraordinary looseness of 2009, not in any sense a move to tight money.¹⁴ Bank reserve requirements were raised three times (in January, February, and May). These modest moves were combined with strenuous efforts to exert greater oversight over lending by individual bank branches and get a handle on

irregularities in lending, especially to local government funding platforms. When the PBC raised interest rates right after the Plenum adjourned, they were doing something policy-makers had been loath to allow.

However, the attention given to inflation ratcheted up when both the October and November inflation numbers came in higher than expected, at 4.4 percent and 5.1 percent, respectively, and breached the long-held 5 percent warning line. In this context, the top leadership fell into place behind the central bank's policy advocacy. The State Council issued regulations on inflation fighting on November 19.¹⁵ The Politburo met on December 3 to confirm a change in monetary policy stance to "prudent" (*shenshen*).¹⁶ Meanwhile, the central bank continued with its tightening measures, raising interest rates again on December 25, and ending the year with a record of six total increases in the reserve requirement ratio (two in November and one in December), plus two interest rate hikes. Thus, the period after the Fifth Plenum was marked by a steady increase in the sense of urgency about the need to fight inflation. Normally, one would expect this sense of urgency to lead policy-makers to embrace a degree of austerity, or at least focus on a more narrow range of policy objectives.¹⁷ Thus, as the National Economic Work Meeting convened on December 10–12, a crucial question was the extent to which they would make some hard choices, and focus policy priorities for 2011. In fact, they moved in that direction, but avoided making as many hard choices as possible.

Central Economic Work Conference

Inevitably, the Central Economic Work Conference ratified the shift to inflation-fighting as the highest priority of policy. This was the top headline from the meeting. Less prominently featured was the fact that monetary policy tightening was to be combined with a continued loose fiscal policy. The overall slogan "Active and sound; prudent and flexible" (*Jijiwenjian, Shenzhen Linghuo*) seems at first to be just a combination of opposites, a classic kind of contradictory slogan adopted by Chinese policy-makers when policies are changing rapidly. In fact, though, the slogan refers to a division between monetary and fiscal policy. Monetary policy is to be "sound and prudent," while fiscal policy can remain "active and flexible." Thus, increased fiscal outlays are seen as taking over some of the burden from overstretched banks.¹⁸ Three justifications for this expansionary fiscal stance are presented: First, global economic conditions are still quite uncertain, and so additional fiscal stimulus may be required; second, ambitious sectoral adjustment plans require funding; and third, incomplete investment projects from the 2009 stimulus plan require additional fiscal funds to complete. Jia Kang, from the Ministry of Finance, explains that the risk associated with fiscal expansion is controllable, because public debt levels are still low.¹⁹ Although the official budget will not be presented until the National People's Congress in March, projections are for overall spending of 9.79 trillion RMB, an increase of 10 percent from actual spending in 2010. With a relatively conservative revenue estimate, this yields a budget deficit of 900 billion RMB, about 2.1 percent of projected GDP. In fact, revenues in 2010 grew much more rapidly than budgeted, and the budgeted deficit of 2.8 percent of GDP has turned out in practice to be closer to 2.2 percent. 2011 merely continues approximately this fiscal position.

Much of the increment to fiscal outlays should come in the social realm. Budgetary outlays are projected to increase by about 890 billion RMB in 2011 over 2010. Of this increase, as much as half could go to social spending that directly increases consumption. The largest items of this type are increased education spending, increases in the government contribution for rural and urban cooperative health plans, increased public health outlays, and contributions to Social Security funds.²⁰ These big increases in social spending do not come from any new programs in 2011. Rather, the programs initiated in 2009 are becoming much more expensive, as standards are raised and funding commitments come due. In addition, the plan calls for the construction of 10 million units of public housing in 2011, up from 2010's plan figure of 5.8 million units. This will likely call for an increase in budgetary funding of about 75 billion RMB.²¹

Among fiscal priorities, those relating to changing the production structure are still substantial. By one account, fiscal outlays will strengthen energy and environmental protection, sophisticated agriculture, high-quality services, and (public) housing.²² The commitment to support "Strategic Emerging Industries" apparent in the Plan "Suggestions" is still very strong: NDRC and the Ministry of Finance are in negotiations to set up a special budgetary fund in support of these industries, and large numbers are being thrown around.²³ Indeed, there are fears that a new "feverish" surge of investment may ensue: the enthusiasm shown by local governments for strategic emerging industries is great, the first year of a new five-year plan often brings a surge of investment, and localities are still anxious to complete the projects started during the stimulus in 2009. The possibility of a large political business cycle looms. To lean against such an investment surge, the NDRC has recently declared that the growth of investment for 2011 should be controlled at around 20 percent, significantly below 2010's growth.²⁴

At the same time, the projected tightening of monetary policy is relatively modest. The central bank had been pushing for an overall loan increase quota for 2011 of around 6.5 trillion RMB, while the NDRC had been advocating 8 trillion. In the event, the provisional figure now before the State Council is 7.5 trillion, closer to the NDRC's figure and the same as the quota for 2010.²⁵ This would correspond to a growth rate of about 15 or 16 percent, hardly the degree of tightness that would be required to decisively reverse inflationary conditions. Also troubling is the fact that the government has instead enacted significant administrative measures to try to restrain inflation in the short term. The State Council directive of November 19 included greater supervision of market prices, exemption from some road tolls for agricultural products, temporary (through March 2011) subsidies, and exhortations toward price stability that in some cases have turned into de facto price freezes. These measures create new distortions in the economy. The most important example is coal, where government pressure to keep the price from rising has led many coal mines to refuse to sign new contracts at the old supply price. Meanwhile, the NDRC itself is caught between its desire to proceed with oil and gas price reforms—which would contribute to inflation—and its desire to head off inflationary pressures.²⁶

Conclusion

As China's inflationary challenge has grown, the Chinese leadership have so far declined to take really resolute steps to narrow their ambitious objectives, nor to really tackle inflationary pressures. Instead, China seems launched on an attempt to keep all aspects of the Hu-Wen agenda and legacy intact. This is perhaps not surprising. Not only are Hu Jintao and Wen Jiabao strongly identified with this economic agenda, at least some of their successors are as well. Li Keqiang, in particular, is closely involved with the policies of health care expansion and public housing. For example, he is head of the State Council Leadership Small Group on Health Care Reform.²⁷ However, China is in the midst of a protracted succession process, and two years is a long time to maintain an unchanged policy course, particularly in economic conditions as volatile as those confronting today's world.

Notes

¹ This is due to both domestic and international factors. Domestically, changes in money supply typically have their greatest impact on prices after a lag, which is often taken to be 12 to 18 months in a mature market economy, but may be shorter in China. In this sense, China's inflationary pressures were right on schedule for a monetary expansion that peaked in mid-2009. Internationally, global economic stabilization after mid-2010 has led to increasing Chinese exports and rising commodity prices. Add to this the impact of U.S. "QE2" (the second round of quantitative easing of monetary policy) and it is unsurprising that Chinese inflation would spike upward in the fourth quarter of 2010.

² Wan Wuyi, Qin Jie, Zhang Xudong, and Li Yajie,

“‘中共中央关于制定国民经济和社会发展第十二个五年规划的建议’诞生记” (A record of the birth of the “Communist Party Center suggestions on drawing up the 12th Five-Year Plan for National Economic and Social Development”), *Xinhua*, October 29, 2010, accessed at http://news.xinhuanet.com/politics/2010-10/29/c_13582460.htm. I am indebted to Bo Zhiyue for sharing this source with me. According to this source, at the Plenum, 360 changes were made in the draft, and 780 suggestions were adopted.

³ “中共中央关于制定国民经济和社会发展第十二个五年规划的建议” (Communist Party Center suggestions on drawing up the 12th Five-Year Plan for National Economic and Social Development), October 18, 2010, passed by the Fifth Plenum of the 17th Central Committee of the Chinese Communist Party. Accessed at http://news.xinhuanet.com/politics/2010-10/27/c_12708501.htm.

⁴ Barry Naughton, “The New Common Economic Program: China's Eleventh Five Year Plan and What It Means,” *China Leadership Monitor*, no. 16, Fall 2005.

⁵ For example, Qi Zhongxi, “解读十二‘坚持扩大内需战略’新内涵” (Explicating the new content “Maintain the strategy of expanding domestic demand” in the 12th FYP), *Xinhua*, October 29, 2010, accessed at http://news.xinhuanet.com/2010-10/29/c_12717370.htm.

⁶ State Council, “国务院关于加快培育和发展战略性新兴产业的决定” (Decision on accelerating the nurturance and development of newly emerging strategic industries), *Guofa*, no. 32, October 10, 2010, accessed at http://www.gov.cn/zwqk/2010-10/18/content_1724848.htm; see also the NDRC's quasi-official explication of the document, “‘国务院关于加快培育和发展战略性新兴产业的决定’解读” (Reading the State Council's decisions on nurturing newly emerging strategic industries), October 21, 2010, accessed at http://www.gov.cn/gzdt/2010-10/21/content_1727316.htm.

⁷ Cui Peng, “改革要破除积弊触动既得利益” (Reform has to get rid of system defects and confront interest groups), *People's Daily*, October 28, 2010, accessed at <http://news.sina.com.cn/c/2010-10-28/051921366636.shtml>.

⁸ Qi Zhongxi, “Explicating the new content” (see endnote 5).

⁹ Barry Naughton, “Loans, Firms, and Steel: Is the State Advancing at the Expense of the Private Sector?” *China Leadership Monitor*, no. 30, Fall 2009.

¹⁰ Zhang Xiangdong, Weng Shiyou, and Zhang Bin, “发改委酝酿出炉刺激民间投资20条” (The NDRC plans to issue 20 articles stimulating private investment), *Economic Observer*, June 13, 2009, accessed at <http://hi.baidu.com/gpkh/blog/item/aa65582395c3925b9822ed9b.html>.

¹¹ State Council, “关于鼓励支持和引导个体私营等非公有制经济发展的若干意见” (Several views on encouraging, supporting and guiding the non-public owned economy, including individual and private firms), *Guofa*, no. 3, February 25, 2005, accessed at <http://www.china.com.cn/chinese/PI-c/795128.htm>; for discussion, see Zhao Gang, “国务院发布非公经济36条 全国工商联力促落地” (The State Council promulgates 36 articles on the non-public economy; National Association of Industry and Commerce exerts itself to ensure implementation), *Zhongguo Jingyingbao*, March 12, 2005, accessed at <http://finance.sina.com.cn/g/20050312/09501424934.shtml>.

¹² State Council, “关于鼓励和引导民间投资健康发展的若干意见” (Several views on encouraging and guiding the healthy development of non-state investment), *Guofa*, no. 13, May 10, 2010, in Wei Chengwu, “国务院发布新“非公经济36条” 拓宽民间投资领域 (State Council issues a new “36 Articles on the non-state economy,” expanding the scope of civilian investment), *Economic Observer*, May 13, 2010, accessed at http://www.eeo.com.cn/Politics/beijing_news/2010/05/13/169939.shtml.

¹³ “国务院下发“新36条”实施办法与分工” (State Council promulgates implementing methods and division of responsibilities for the ‘New 36 Articles’), *21st-Century Economic Herald*, July 27, 2010, accessed at <http://www.21cbh.com/HTML/2010-7-27/0MMDAwMDE4ODg0Mg.html?source=hp&position=newscolumn>.

¹⁴ Barry Naughton, “The Turning Point: First Steps toward a Post-Crisis Economy,” *China Leadership Monitor*, no. 31, Winter 2010.

¹⁵ State Council, “国务院关于稳定消费价格总水平保障群众基本生活的通知” (Notification on stabilizing the overall level of consumer prices and protecting basic necessities of the masses), *Guofa*, no. 40, November 18, 2010, accessed at http://www.gov.cn/zwqk/2010-11/20/content_1749484.htm.

¹⁶ Sun Huixia, “2010 Central Economic Work Conference; China Prioritizes Anti-Inflation in 2011,” December 13, 2010, at <http://english.caing.com/2010-12-13/100206952.html>.

¹⁷ There are many other aspects to China’s inflation problem, of course, but these are primarily beyond the scope of the current discussion. Rapidly rising wages for unskilled workers are a new element in China’s economic environment, and will contribute to stronger inflationary pressures for the foreseeable future. Inflation in the past has made Chinese policy-makers more accepting of RMB appreciation, and this may be occurring now as well.

¹⁸ Deng Jiansheng, Xiong Jiang, Liu Xianyun, Lin Lipeng, and Jin Bo, “解读2011宏观经济政策及走向: 积极稳健 审慎灵活” (Reading Macroeconomic policy and direction in 2011: Active and stable, prudent and flexible), *People’s Daily*, December 13, 2010, accessed at <http://finance.people.com.cn/GB/13459419.html>; Meng Sishuo, “中央经济工作会议昨日闭幕” (The central economic work conference closed yesterday), *No. 1 Finance Daily*, December 13, 2010, accessed at <http://www.yicai.com/news/2010/12/625677.html>.

¹⁹ Meng Sishuo, “中央经济工作会议昨日闭幕.”

²⁰ Xi Si, “2011的中国账本” (China’s accounts in 2011), *Economic Observer*, January 1, 2011, accessed at http://www.eeo.com.cn/Politics/beijing_news/2011/01/01/190569.shtml.

²¹ Ibid. Yu Xiangming, “保障房建设: 各方合力 资金瓶颈有望破解” (“Public Housing: With all sides cooperating, there is hope that the funding bottleneck will be broken”), *Shanghai Securities News*, December 13, 2010 accessed at http://news.xinhuanet.com/house/2010-12/13/c_12872253.htm.

²² Zhou Yu, “中央经济工作会议定音 四大产业给力” (Economic work conference sets the theme; four large sectors will be strengthened), *Securities Times*, December 13, 2010, accessed at http://company.stcn.com/content/2010-12/13/content_1784011.htm.

²³ Zhang Xiangdong, “战略性新兴产业规划延迟至明年上半年出台” (The plan for the newly emerging strategic sectors will be delayed until the first half of next year), *Economic Observer*, December 23, 2010, accessed at http://www.eeo.com.cn/Politics/beijing_news/2010/12/23/189677.shtml.

²⁴ Zhang Xiangdong, “审慎开工 发改委调低2011年投资增速” (Prudent in starting projects, the NDRC lowers 2011 investment growth), *Economic Observer*, December 24, 2010, accessed at http://www.eeo.com.cn/Politics/beijing_news/2010/12/24/189739.shtml.

²⁵ This represents a small tightening from 2010’s actual lending, which overshot the quota promulgated at the beginning of the year. Sun Huixia, “2010 Central Economic Work Conference” (see note 16); Zhang

Xiangdong, “2011年新增信贷规模拟定为7.5万亿” (New lending quota for 2011 provisionally set at 7.5 trillion), *Economic Observer*, December 23, 2010, accessed at

http://www.eeo.com.cn/Politics/beijing_news/2010/12/23/189678.shtml; Zhang Yun,

“中央经济工作会议报告显示政策略微收紧” (Central economic work conference report reveals modest tightening in policy), *No. 1 Finance Daily*, December 14, 2010, accessed at

<http://www.yicai.com/news/2010/12/627478.html>.

²⁶ Qiang Lei, “发改委不应让油价飞” (NDRC shouldn’t let the price of petrol shoot up), *Economic Observer*, December 24, 2010, accessed at <http://www.eeo.com.cn/observer/Opinions/cyzs/2010/12/24/189821.shtml>.

²⁷ Xi Si, “医改渐入‘深水区’ 中央财政支出累计2490亿” (Health care reform is entering “deep water”; central budgetary outlays have reached 249 billion), *Economic Observer*, December 23, 2010, accessed at http://www.eeo.com.cn/Politics/beijing_news/2010/12/23/189686.shtml.