

Hunkering Down: The Wen Jiabao Administration and Macroeconomic Recontrol

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Introduction

On April 26, 2004, the Politburo of the Chinese Communist Party (CCP) convened and agreed to strengthen macroeconomic contractionary policies dramatically. A blizzard of meetings and activities ensued, which included the imposition of significant administrative controls over investment and land use. Within four days, the State Development and Reform Commission (SDRC)—the former State Planning Commission—issued an urgent directive ordering the suspension and reinspection of thousands of investment projects. These steps represent a dramatic reorientation of Chinese macroeconomic policy. They have a significant political impact, bringing new leaders into the core of the economic decision-making process and shifting overall economic policy in a slightly more conservative direction. Of course, these measures also have a very important economic impact. If they do not represent a step backward, they at least indicate that existing approaches to economic policy, those in place through the first year of the Wen administration, have failed to achieve their objectives. In this piece I first describe the most important policy measures instituted; then I trace these measures' political implications and conclude by discussing their economic implications.

Background

During its first year in power from March 2003 to March 2004, the Wen Jiabao administration had a relatively smooth experience in economic policymaking. Economic growth was strong and accelerating, powered by rapid export growth and the brisk development of new domestic markets. It is true that the severe acute respiratory syndrome (SARS) crisis thoroughly disrupted the economy and government in spring 2003, and worries about economic overheating have been present from the first day of the new administration. In addition, no Chinese government can afford to ignore the deep structural problems of unemployment and rural poverty—nor can it expect to resolve them. But the short-run experience of the Wen administration was still positive because of the overriding impact of the dramatic acceleration of the Chinese economy, particularly its spectacular performance in foreign trade. Critics of China's entry into the World Trade Organization (WTO) had predicted that it would lead to Chinese firms being swamped by foreign competition and a surge in unemployment. But as the proponents of WTO membership had predicted, quite the contrary has happened. Progressive opening and incremental privatization have led to a surge in domestic and foreign investment and an uptick in growth in many sectors. Most dramatic of all has been an explosion in electronics exports, the product of a new round of restructuring that has seen the manufacture of important new products relocate to the Chinese mainland.¹

Thus, when Vice Premier Wu Yi showed up to make a speech at the national work conference on promoting high-technology exports, the appearance had some of the characteristics of a victory lap. There was even more room for backward-looking self-congratulation than is normally the case at official meetings, and in this case it was largely well deserved.²

As a result, for more than a year the most important events in economic policymaking have been a mundane government reorganization and the methodical reconstruction of policy that clearly fits the personal preferences and work style of Premier Wen Jiabao. These cautious and measured steps are part of a market transition strategy that is bold in its larger contours and is transforming the operation of the Chinese economy. Government reorganization was designed and implemented with the goal of reducing the administrative authority of agencies while increasing their regulatory capabilities. The larger objective of reorganization was to create a smaller, more capable government, one more appropriate to a market economy. Our previous issues, *CLM* 6, 7, and 8, describe the main contours of this governmental reorganization and the main personalities emerging in the process, with Premier Wen Jiabao, of course, number one among them. *CLM* 10, in turn, described the way the new setup was being used methodically to develop new reform blueprints, most prominently in the financial sector. Indeed, as part of that process, an Investment Financing Reform Program was approved in principle by the State Council on December 31, 2003, with official promulgation of the final version slated for February 2004. The essence of this reform program was to reduce the number of government approvals necessary for company investment projects and to replace them with reporting and regulatory requirements.

In the event, though, the investment reform program has not been released, and all the careful, methodical plans were knocked thoroughly off track during April 2004.³ The problems of an overheated economy, recognized since spring 2003, became much more apparent during the first quarter of 2004. The need to correct overheating, and to “recontrol” (*tiaokong*) the macroeconomy, crowded other policies off stage after April 2004. Even more significantly, the instruments chosen to bear the brunt of macroeconomic recontrol were clearly administrative measures, familiar from the era of planned economies, that relate awkwardly to the market operations that now dominate the Chinese economy.

Events Narrative

Facing the problem of economic overheating, the People’s Bank of China (PBC, or Central Bank) began to tighten monetary policy as early as April 2003. However, these initial measures coincided almost exactly with the explosion of the SARS crisis and were weakly deployed.⁴ Firmer measures were adopted in September 2003 (see *CLM* 9), but these still amounted to a “tap on the brakes” rather than a full-scale effort to slow the economy. Since September 2003, the Central Bank has taken a number of steps to try to cool off the economy without destroying its recent vibrant growth. The deposit reserve ratio has been raised three times: each increase requires the banks to set aside a larger

proportion of their deposits for deposit with the Central Bank. Thus, each increase should slow the growth of bank lending. In addition, the Central Bank has also been selling securities to the commercial banks. These bank notes—generally for a term of one year—also soak up money from the commercial banks and reduce bank lending.⁵ These standard monetary policy measures were combined with special measures designed to restrain lending to the housing sector by increasing requirements for equity and imposing stricter administrative procedures.

By the end of the first quarter of 2004, it was clear that these measures were simply not enough. An April 9 meeting of the State Council Standing Committee reviewed the first-quarter data and decided in principle that macroeconomic control would have to be strengthened. Three types of information swayed policymakers: capital inflows, the pace of domestic expansion, and evidence of abuses.

- Large capital inflows, especially since late 2002, were the most immediate cause of excessive credit expansion in China. These inflows did not slow down during 2004. A rough measure indicates that \$37 billion in capital flowed into China during the first four months of 2004, not including foreign direct investment.⁶ Increased anxiety about capital inflows caused policymakers to abort a program floated in February to allow increased foreign-exchange flexibility, in response to fears that rewarding speculators would be politically damaging. Without the exchange-rate option, policymakers had to shift to other measures to cool the economy.
- Domestic expansion continued at an extremely rapid pace. Indeed, investment in steel and cement more than doubled in the first quarter of 2004, after already having doubled in 2003. The April consumer price index jumped enough to alarm policymakers, who were sensitive to signs that price pressures in the markets for energy and raw materials were pushing through into consumer prices.
- Finally, a scandal arrived to trigger more radical actions and recourse to administrative measures: the Tieben Steel mill project in Jiangsu revealed gross abuses of the regulatory process by local government, which worked aggressively with a private entrepreneur. The Changzhou city government had falsified financial accounts, pressured banks to make loans, and separated the project into multiple lower-value projects in order to be able to approve the investment amounts and requisition land on its own without higher-level oversight. Premier Wen Jiabao ordered an immediate, detailed investigation of the project during April.⁷

The news showed how inadequate past measures to cool off the economy had been. Anxieties were increasing. It was clear that the government faced an immediate choice: dramatically tighten monetary policy, or else take additional steps to strengthen the impact of monetary policy measures already implemented. The intractability of the problems identified a year or more earlier also showed that local governments were a big part of the problem. Local governments were actively engaged in circumventing restrictions on investment in real estate and industry. The city government of Changzhou had engaged in particularly egregious violations of procedure, but similar practices were going on around the country. Indeed, it is unlikely that the abuses at Tieben Steel came as a revelation to central government policymakers; rather, the center seized on a case of

serious misconduct, investigated it, and publicized it in order to demonstrate its resolve. More drastic action had clearly become necessary.

Imposing Recontrol

On April 26, a full Politburo meeting was convened to discuss the overall economic situation (see Lyman Miller's article in this issue of *CLM*). The Politburo meeting was immediately followed by activity on the part of all important economic management organs. On April 28, a State Council meeting was devoted entirely to the topic of macroeconomic "recontrol" (*tiaokong*: literally, adjustment and control). The meeting heard the report on the investigation of Tieben Steel that had been carried out by a joint team from the State Development and Reform Commission, the National Land and Resources Ministry, and the Ministry of Supervision, which confirmed the worst abuses and the responsibility of government.⁸ It was clear that all available political resources were being mustered to strengthen the degree of macroeconomic tightening. Wen Jiabao and Hu Jintao both made strong public comments describing the economy as overheated and acknowledging the need for more drastic action. Wen Jiabao had been to Jiangsu just before the State Council meeting; now, Hu Jintao went to Jiangsu for seven days to promote party-building. In fact, in five big meetings and in visits to 27 organizations in eight regions, Hu consistently stressed the need for discipline and for local units to fall in line behind central government policies.⁹ It is no accident that this message was given in Jiangsu, a province where explosive growth has occurred and where local governments have sufficient resources to go it alone, without central government support. New policies began to roll out immediately, and the clear shared characteristics of virtually all the new policies were the open use of direct administrative controls and the appeal to political discipline.

Just before the country began to shut down for the weeklong May 1 holiday, the China Banking Regulatory Commission (CBRC) issued an urgent directive to the joint-stock banks, telling them to suspend lending immediately in the run-up to the holiday.¹⁰ This was not a formal directive, and there has been no published document. Indeed, the CBRC even denied issuing such an order, subsequently claiming that merely an informal, nonbinding "window guidance" had been issued to the banks. Be that as it may, many bank heads certainly got the message that they should cease lending immediately. On April 30 the CBRC, in an attempt to clarify its intent, issued "seven measures" on strengthening risk management in lending, which in practice led to a new loan approval process that was much more cautious.

On the same day, April 30, the State Development and Reform Commission weighed in. The SDRC works continuously on the economy, identifying imbalances and problems and proposing measures and long-range objectives. Just 10 days earlier, on April 20, the SDRC had released its "Key Points for Economic Operations," which summarized the main orientations for its work during 2004 and laid out normal priorities and work schedules. Now, suddenly, the SDRC sent down an urgent message to all its subordinates, instructing them to closely read and vigorously implement the speech made

by SDRC Director Ma Kai to the State Council Office.¹¹ For the first time, the SDRC was directly instructing local agencies not to approve certain types of projects or projects in certain sectors.

The intensity of administrative intervention increased over the next two weeks. It culminated on May 14, when the SDRC posted on its web site a joint notice from the three most authoritative macroeconomic bodies in China: the SDRC itself, the Central Bank (PBC), and the CBRC. The document was titled “Further Strengthening Industrial and Credit Policy to Control Credit Risk in a Coordinated and Complementary Fashion,” and its contents reflect an ambition to impose systematic measures on the economy that is very characteristic of the former State Planning Commission.¹² Indeed, the SDRC is clearly the lead agency of the three bodies nominally responsible for this document. The notification directs local planning agencies to cancel the approval of certain types of investment projects and tells local lending agencies to stop giving such projects money. It reimposes administrative controls on the investment process, and overall the directive clearly crosses the line from so-called economic to administrative methods of managing the economy.¹³

All economic agencies have reshuffled their agendas to align themselves fully with reconrol, and the main political and administrative actors in the central government have all strived to demonstrate that they were pulling together. The CBRC shifted the topic of a long-planned May 13 work conference with the heads of the big commercial banks to focus on macroeconomic control and risk management, giving Liu Mingkang a chance to present a theoretical framework for reconrol.¹⁴ Outside reaction has been mixed at best. On April 27, during the crucial Politburo and Standing Committee meetings, Premier Wen Jiabao met with the head of Reuters and explained to him the seriousness of China’s overheating problem. The next day world stock markets slumped, in a wide-ranging slide that continued until May 17. This shift in world market sentiment was driven by a number of factors, including the war in Iraq and sky-high oil prices. But anxiety about China’s macroeconomic reconrol and the potential impact of this initiative on neighboring Asian economies were frequently cited as factors. It may have been the first time that world markets were significantly affected by a Chinese leader’s pronouncements on economic policy.

From past experience, there is not much doubt that the Chinese government, by imposing political discipline and deploying multiple administrative measures, can reduce investment quickly (the key to macroeconomic reconrol). However, there are many worries about the long-term impact of these policies. Will an overly rapid reduction in investment cause economic growth to decelerate sharply, leading to a so-called hard landing? Will an economic downturn cause a dramatic increase in bad loans and the deterioration of bank balance sheets? Over the longer term, anxieties focus on whether the imposition of administrative controls will cause a more profound retreat from marketization or a destabilizing “bounce back” if controls are ineffective and/or short-lived. Investment growth already showed some deceleration in April.

Political Issues and Power Relationships

Whatever the long-term economic impact, the policy shift of April–May 2004 has already caused a shift in the balance of power among administrative agencies and politicians. At least in the short run, some of the objectives of administrative restructuring have been frustrated. Instead of a clearer definition and separation of powers, we once again have multiple agencies with overlapping functions and policies. There is no good reason why a regulatory agency like the CBRC should be issuing orders to banks to stop all lending. There is likewise no point in changing the name of the State Planning Commission to the State Development and Reform Commission if that body continues to use the same old planning instruments.

At the top level, the increased authority of the SDRC involves a tilt toward a somewhat different kind of economic policymaker. A greater role is being played by economic policymakers who have backgrounds in the bureaucracy, are somewhat more attuned to political considerations, and are close to Jiang Zemin. An example is Vice Premier Zeng Peiyan, whose portfolio includes state-run industry, the State Asset Commission, and the SDRC, of which he himself is the former head. By contrast, a slightly less prominent role is being played by those technocrats who were most involved in the reform blueprints of the last year—working under Wen Jiabao—and who are most closely attuned to economic considerations. Zhou Xiaochuan, the head of the Central Bank, is an example of this group.

We should be careful not to make too much of this contrast. There is no good evidence of conflict that we can discern on the outside. Zeng Peiyan is an extremely capable policymaker, and all sides seem to strongly support China's recent dramatic shifts toward full market competition and the recognition of private business. Conversely, Zhou Xiaochuan, and indeed all of Wen Jiabao's policy team, have strong ties to Jiang Zemin as well. But there do seem to be differences of emphasis and in understanding of the market economy between these groups. Zeng Peiyan's job is to steer the market economy, and he seems to have adequate faith that the market can in fact be steered. More orthodox economists, both inside and outside the government, doubt that administrative interventions can accomplish very many worthy goals.

The appointment of Bo Xilai as minister of commerce (first announced in February 2004) should also be considered in this context. Bo Xilai is a controversial figure. Many give him high marks for his performance as mayor of Dalian (1992–2000). Foreign businesspeople found him direct and decisive and saw in him someone who got things done and spoke English to boot.¹⁵ He is press-savvy, to the point of manipulation. For example, he held a televised public question-and-answer session annually at Spring Festival, and he also patronized journalists who gave him good press. His tenure was accompanied by a significant upgrading of Dalian's infrastructure and environmental quality,¹⁶ and he facilitated a huge inflow of foreign investment, especially from Japan and South Korea. Since his promotion to governor of Liaoning at the end of 2000, he has presided over significant initiatives to reduce state control in industrial sectors with competitive market conditions, and there are some signs that Liaoning may be shrinking

the gap that caused the quality of its government services to lag far behind that of other coastal provinces.

On the other hand, resentments against Bo Xilai are also deep and long-standing: in 1997 during the 15th Party Congress, he was up for election as an alternate member of the Central Committee of the Chinese Communist Party. However, he received the second-smallest number of votes cast, and by the rules in force at that time failed to gain election. At the time, it seemed that his political career had stalled and that his ambitions had come to naught.¹⁷ As the son of Bo Yibo, one of China's revolutionary elders, Bo Xilai is sometimes derided as a "princeling," and his behavior during the Cultural Revolution is controversial to this day. These facts, along with his evident political ambition and thirst for publicity, might explain the setbacks he experienced in Beijing in the past. Indeed, it was reported that he had repeatedly clashed with Liaoning Party Secretary Wen Shizhen, a big personality who surely did not like to share the limelight with Bo. In light of this personality conflict, Bo's movement to the Ministry of Commerce may also have resolved a difficult situation in Liaoning.

Bo Xilai has also been accused of more serious misbehavior in two high-profile cases. The first case was the enormous corruption scandal in the Liaoning city of Shenyang, to which Bo Xilai was *not* directly linked (as mayor of Dalian), but from which he in fact benefited because he was appointed Liaoning governor in the scandal's wake. However, even though the truth behind the scandal is universally acknowledged, the journalist who blew the whistle, Jiang Weiping, is today in prison on trumped-up charges. Jiang's defenders blame Bo Xilai for this unjust imprisonment, possibly because Jiang Weiping had also accused Bo of protecting corrupt officials.¹⁸ The second case is that of Yang Rong, the former chair of Brilliance China Automotive, who was stripped of his ownership of the auto company and subsequently fled China. Yang has accused Bo Xilai of intervening in the Beijing court case to prevent Yang from defending his property, and he has sued Bo Xilai and the Liaoning provincial government in U.S. court.¹⁹

Whether or not he has skeletons in his closet, since 2000 Bo Xilai has advanced quickly, and he has now returned to Beijing. Although the appointment as minister of commerce is technically a lateral transfer, not a promotion, heading the Ministry of Commerce is in fact one of the four or five most important economic posts in Beijing, as it is a "superministry" that amalgamates the old Ministry of Foreign Trade, the Ministry of (Domestic) Commerce, and elements of the State Economic and Trade Commission. What cannot be doubted is that Bo Xilai is extremely close to Jiang Zemin. Bo's father, Bo Yibo, played a crucial role in helping Jiang Zemin fend off challenges at the 15th Party Congress in 1997. Clearly, Jiang owes Bo something, and it is difficult not to see Bo Xilai's appointment as minister of commerce as payback.

In the bigger picture, we see a very clear pattern. In the face of an external challenge—in this case, an economic challenge—we see the political leadership closing ranks, displaying a united front, and trying to demonstrate resolve in the face of a challenge. The closing of ranks accompanies a moderate but unambiguous shift to a

somewhat harder-line policy. Reformists and moderates give ground on their aspirations, in this case by accepting postponement of some tenets of their reform blueprint. Jiang Zemin benefits from the shift, shoring up his influence and promoting people close to him. It is striking that exactly this pattern is evident with respect to foreign policy as well, as recent shifts on Hong Kong and Taiwan have made clear. However, it is not clear (in either case) to what extent reformists have been compelled to cede ground, or to what extent they have chosen voluntarily to move to a more defensive position in response to a change in external conditions.

Economic Issues

Recent events in the economy reflect a reappearance of a type of political-economic cycle that was common in China during the 1980s. A phase of relaxation and decentralization—in this case associated with the political transition of 2002–3—is accompanied by a surge in investment and growth. Moreover, some of the most important actors in this cyclical investment surge are local officials, who have incentives dominated by political considerations and do not face hard budget constraints in the way that officials in private businesses would. In this cyclical pattern, economic overheating creates problems that in turn lead to a drive to recentralize and recontrol some parts of the economy, and this drive is accompanied by a shift to a more conservative policy stance. That is exactly the point in the cycle where we find ourselves—the point of inflection between overheating and recontrol. In the course of the cycle, ambitious reform blueprints are frequently proposed during the expansionary phases, only to be aborted during the subsequent recentralization phase. Through the cycles, progress in marketization is sustained but is marked by a “two steps forward, one step backward” pattern. All these features seem to be true in the current cycle as well.

China’s economy today has evolved a long way toward a market economy since the 1980s, however, and today’s cyclical patterns also differ in some important respects from their precursors. First, macroeconomic recontrol has come more promptly, before imbalances could directly affect the mass of the citizenry. Effective policy has been delayed almost a year, but it’s not too late to avoid a hard landing. Second, further reforms are driven by market needs and not just by blueprints drawn up by politicians. It is simply not feasible to suspend the ongoing process of economic and administrative reform. Indeed, despite the failure to publish the program for investment reforms mentioned previously, one of the planks of that program has been abruptly implemented. On May 17, 2004, the China Securities Regulatory Commission (CSRC) approved the establishment of the Small and Medium Enterprise Market—a NASDAQ-like market for small firms and start-ups—in Shenzhen. The establishment of a stock market for entrepreneurial start-ups has been on the policy agenda in China at least since 1999, but it has been stalled by the global technology bust and the problems in China’s existing stock markets. After some inconclusive murmurings earlier in the year, the new market was suddenly launched.²⁰ This is an important step that will give an additional channel, and a measure of flexibility, to China’s investment system.

A third difference from the 1980s comes in the rapidly increasing role of private business. Although local governments intervene in ways that distort market signals, local government intervention today often acts in concert with the needs of newly emerging private businesses. In this respect, Tieben Steel in Changzhou is representative. Local officials there bet on a private firm that they thought could establish itself in a market previously regarded as a protected monopoly for state-owned enterprises. They were willing to break every rule in the book to get that local firm established, regardless of ownership. In real estate markets, local governments contribute land and capital to favored developers, which are often private businesses. The one justification for administrative controls is that they may on occasion be necessary in order for the central government to gain more effective oversight over local governments that continue to flout the rules of the emerging market economy.

Trusting in Administrative Remedies

But with the dominance of the market economy, why are policymakers resorting to administrative measures when standard macroeconomic policy could be used to cool down the economy? The fundamental reason is the key role being played today by large capital inflows, along with the government's response to those inflows. Continuing massive inflows of capital have disrupted orderly monetary policy. Capital inflows add to the money supply, creating new deposits at the banks, allowing banks to loan more, and heating up the economy. The standard economic prescription in this case is to allow the currency to appreciate, in line with the capital inflows (which represent increased demand for the local currency, the Chinese yuan or *renminbi*, and are thus consistent with a higher "price" for the local currency). Currency appreciation is an automatic stabilizer. It "cools off" the economy by reducing demand for exports, which become more expensive, and it reduces inflationary pressure by making imports of raw materials and other goods cheaper. Moreover, appreciation will eventually curtail speculative capital inflows, since speculators never know how far an appreciation will go before it is reversed; these speculators thus have to reduce inflows prudently after a significant period of appreciation.

Given the benefits of appreciation of the yuan, it is not surprising that the Chinese government flirted with this measure during January and February 2004. However, now the government has again ruled out appreciation for the medium term. Many of the reasons are political: appreciation now would be seen as capitulation both to U.S. pressure and to speculators, who would see their speculation pay off immediately from the appreciation. But there are also important economic motives. Accepting currency fluctuation upward today implicitly means accepting fluctuation downward tomorrow if and when capital flows reverse. China's imports have been growing explosively in the last two years—faster than exports—and it is difficult to estimate how rapidly imports might grow with a stronger currency. A full discussion of the issues is beyond the scope of this report. The key point is that the Chinese government has determined to wait out the capital inflows and avoid currency appreciation for the foreseeable future.

Since the government is determined to deflect capital inflows, it follows that it can hardly make full use of increases in interest rates. The Central Bank fears that if it were to raise interest rates, it would actually give an additional incentive for speculators to move funds into Chinese currency, since interest rates in yuan would climb higher than U.S. dollar interest rates. Speculators could thus bet on a rising yuan without risk while enjoying higher interest rates. Moreover, higher interest rates could weaken China's fragile banks by forcing them to pay more for deposits and lowering the value of their extensive bond holdings. Thus, in a sense, the government has ruled out both currency appreciation and interest rate increases. Naturally, then, it is left with little besides administrative controls to shape economic outcomes.

In a broader sense, the government and the Central Bank are afraid of the undifferentiated impact of both currency appreciation and higher interest rates. This fear is what lies behind the ongoing (and rather tedious) debate about whether the economy is overheated in general or only in certain sectors. The capital inflows causing monetary imbalances have been concentrated in the booming coastal regions, which is where the symptoms of overheating are most pronounced. But the impact of currency appreciation or interest rate increases would be felt just as much in struggling rural and inland areas as in booming coastal areas. Policymakers are not prepared to see the impact of a general tightening on lagging sectors and regions.²¹ Instead, they tighten administrative controls to focus on specific sectors.

In the short run, administrative controls can slow investment and cool off the economy. But in the longer run, administrative measures cannot steer the economy or determine the proper balance among different economic sectors. Planners are simply not foresighted or nimble enough to respond to the rapidly changing demands of tomorrow's marketplace. Administrative controls cannot survive beyond six months without doing serious damage to the economy. Even then, clumsy application of administrative controls can do damage in an even shorter period. The dangers are many: dramatic deceleration of investment leading to a hard landing; bank failures caused by the souring of many recent loans, which were granted under unrealistically optimistic expectations; failure of the Central Bank to draw enough money out of circulation to rebalance the economy following administrative adjustment; etc. If planners are hunkering down, they had better stay limber, for China's economy grows and changes with breathtaking speed.

Notes

¹ The most important such product in the last year has been laptop computers, the export value of which quadrupled in 2003, reaching \$11.3 billion.

² Wu Yi, "Speech at the National Work Conference on Promoting Trade through Science and Technology," March 30, 2004, http://kjs.mofcom.gov.cn/article/200403/20040300202203_1.xml.

³ Tian Yi and Tan Ailing, "Jixia 'jingji yunxing yaodian' fagaiwei tiaokong 'chemashuai' guanxi" (The relationship between the different chess pieces in the urgent promulgation of "Key Points for Economic Operations" by the SDRC), *21 shiji jingji baodao*, May 24, 2004, 5.

⁴ The Central Bank began to sell notes to the commercial banks on April 29, 2003. These sales pull money out of circulation and reduce the funds available for lending. Xu Keqiang, "Yanghang zhenghuigou

zaichushou” (Central Bank repurchases resume), *21 shiji jingji baodao*, May 20, 2004, 18. Economist Fan Gang asserted at the time that the one silver lining to the dark cloud of SARS was that it slowed the economy dramatically and reduced the necessity for tough contractionary policies. As it turned out, the SARS impact was remarkably short-lived.

⁵ Xu Keqiang, “Yanghang zhenghuiguo zaichushou.” Also, the Central Bank restarted repurchase of Treasury bonds on May 13, 2004.

⁶ The calculation is the increase in foreign exchange reserves minus the sum of incoming foreign direct investment plus the trade surplus. Zhu Baoliang, “Touzi zengsu fanyuan; Hongguan tiaokong jinru guancha qi” (The investment growth rate is slowing; Macroadjustment enters the wait-and-see period), *Zhongguo jingyingbao*, May 24, 2004, sec. A, p. 14.

⁷ He Yuxin, “Tangled Story of Tieben,” *Caijing*, May 20, 2004,

<http://www.caijing.com.cn/english/2004/040520/040520tieben.htm>; Matt Pottinger, “The Phantom Steel Mill,” *Wall Street Journal*, May 18, 2004; and Tian Yi and Tan Ailing, “Jixia ‘jingji yunxing yaodian.’”

⁸ Pang Hu, “Hongguan tiaokong Wen Zongli de 60 tian” (Sixty days of macroeconomic control from Premier Wen), *Caijing shibao* (China business post), May 15–21, 2004, <http://www.caijingshibao.com/Mag/preview.aspx?ArtID=8619>.

⁹ Luo Bing, “Hu Jintao yanze zhuhou yangfeng yinwei” (Hu Jintao strongly upbraids local power holders for publicly following but secretly evading), *Dongxiang* (Hong Kong), May 2004, 7.

¹⁰ The joint-stock banks are those banks owned by other organizations and/or the public, not part of the traditional “big four” state-owned banks. They have been an increasingly important part of credit growth in recent years and accounted for about one-fourth of total credit growth in 2003.

¹¹ Tian Yi and Tan Ailing, “Jixia ‘jingji yunxing yaodian.’”

¹² State Development and Reform Commission, “Guanyu jinyibu jiaqiang chanye zhengce he xindai zhengce xietiao peihe kongzhi xindai fengxian youguan wenti de tongzhi,” <http://www.drc.gov.cn>.

¹³ Li Yaping, “Yankong xindai dataolun: Shichanghua haishi xingzhenghua?” (Strict control of lending: Is it marketization or administratization?), *21 shiji jingji baodao*, May 20, 2004, 18.

¹⁴ Han Ruiyun, “Yankong daikuan: Liu Mingkang pauchu ‘shida guanxi’” (Strictly control lending: Liu Mingkang throws out “10 relationships”), *21 shiji jingji baodao*, May 20, 2004, 18.

¹⁵ Dexter Roberts, “A Princeling Who Could Be Premier: Rising Star Bo Xilai Will Oversee the Country’s WTO Commitments,” *Business Week*, March 15, 2004.

¹⁶ In September 1999, Bo Xilai was awarded the U.N. Human Residence Prize in recognition of his contributions to housing construction and the city’s sustainable development. In the same year, in a ranking of Asia’s best cities by living environment, Dalian was rated “most improved.” David Hsieh, “The Green Revolution: In China’s Industrial North, Dalian Shows Cleaning Up the Environment Is Good for Business,” *Asiaweek* 25, no. 50 (December 17, 1999), <http://www.asiaweek.com/asiaweek/features/asiacities/ac1999/data/improved.dalian.html>.

¹⁷ For more on this episode, see Cheng Li, “China’s Northeast: From Largest Rust Belt to Fourth Economic Engine?” *China Leadership Monitor* 9 (winter 2004), and the sources cited there. See also Hannah Beech, “The Slippery Road to Stardom,” *Time*, October 25, 1999, and Lin Ling, “Bozai meijie: Bo Xilai de dangwu zhiji” (Right now: Bo Xilai’s pressing tasks), *Renminbao* (People’s paper), March 5, 2004, <http://renminbao.com/rmb/rmb/articles/2004/3/5/30202>.

¹⁸ John Pomfret, “One Corrupt City Reflects Scourge Plaguing China,” *Washington Post*, March 6, 2002.

¹⁹ Pamela Pun, “Liaoning Invested Nothing: Yang,” *The Standard* (Hong Kong), October 6, 2003, http://www.thestandard.com.hk/news_detail_frame.cfm?articleid=42301&intcatid=2. Bo Xilai is also named in a civil suit filed in the United States by Falun Gong, and papers were served on him during his visit to Washington, D.C., on April 22, 2004.

²⁰ Li Yuanli, “Zhongxiao qiye ban chutai muhou” (The backstage story of the birth of the Small and Medium Enterprise Market), *Zhongguo jingyingbao*, May 24, 2004, sec. A, p. 11, and Wang Tao, “Zhongxiao qiye ban guize: Zouyuan haishi zoujin?” (How far will the Small and Medium Enterprise Market go?), *21 shiji jingji baodao*, May 24, 2004, 13.

²¹ Note that if China had two currencies, one for coastal areas and one for inland areas, the economic problems would be easily resolved by an appreciation of the coastal currency only. This tactic would slow the overheated coastal economy and give inland producers a competitive advantage. However, because China has a single currency, this remedy is not available.