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Domestic Actors in Chinese Foreign Exchange Policy

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1 Contents

2	Introduction.....	2
3	Background and Literature Review	2
4	The Role of Business Actors in the Exchange Rate Policy	9
4.1	The Official Decision-Making Process	10
4.2	Business Actors and the Exchange Rate Policy in 2008.....	13
4.2.1	The Role of the Global Financial Crisis 2008 for the Decision-Making Process	14
4.2.2	Tracing the Pause in Renminbi Appreciation	15
5	Conclusion	19
6	References.....	21
7	Appendix.....	25
7.1	Abbreviations	25
7.2	Graph.....	25

2 Introduction

The currency controversy about the Chinese Renminbi (RMB) has been a popular topic in the media in the last years (Factiva, 2005-2010), and even though at first sight this is an economic disagreement, the currency dispute and China's reluctance to give in to demands for appreciation have to be considered in the broader context of the foreign relations of China and its trading partners. Against the background of China's economic and political rise to great power status, the question of the appropriate value of the RMB became central to Western and Chinese policymakers, scholars and journalists. The criticism on the level of the RMB focusses on accusations of currency manipulation; more specifically, it was suggested that China used an undervalued RMB to promote exports, thereby contributing to an unequal global trade balance.

However, as the literature review shows, the academic debate over the value of the RMB is neither impartial nor comprehensive. The current literature leaves many questions open, simplifies matters, is not value-free and, above all, disregards how comprehensive the decision-making process in China is. The major point of criticism in this paper is the treatment of China as a coherent unit that can freely decide and implement any decisions. Such an elitist understanding is not sufficient to analyse China's foreign policy making. The purpose of this paper is therefore to show that the establishment of the value of the RMB is more complex than portrayed by the West. It will analyse the actors constituting the Chinese foreign exchange rate policy, arguing that business actors became increasingly relevant between 2005 and 2008.

This paper consists of three main sections, the first section shedding light onto both background and relevant literature. The second section consists of two chapters on the official decision-making process as well as the impact of business actors on the exchange rate policy in 2008. Finally, in the last section, a conclusion will be provided.

3 Background and Literature Review

Since China devalued the RMB in 1994, the question of the appropriate value of the currency has been present in media, academia and politics. When China became a member of the WTO in 2001 and when China's exports surged at the expense of its imports, creating a trade surplus, the international community started to look increasingly critical on the value of the RMB and its role

in promoting Chinese exports. Many academic articles focus on the appropriate level of the RMB, the legal dimension or on offering policy suggestions for China and the US.

In 2005, the People's Republic of China announced a major shift in the country's exchange rate system, from a fixed exchange rate pegged to the dollar to a managed float regime with reference to a basket consisting of 11 currencies. The RMB was allowed to float under a band of originally 0.3% daily (Mercurio & Leung, 2009, p. 1261). Whereas a change in this band was usually announced on the internet page of the People's Bank of China (PBC), the weights of the respective currencies have never been published and are subject to fluctuation and most likely manipulation (Frankel, 2010, p. 52).

Between 2005 and 2013, the RMB appreciated by nearly 23%. As figure 1 in the appendix shows, between 2005 and 2008, the RMB rapidly appreciated by 15%, until the speed of appreciation slowed down after 2008 again. Between 2008 and 2010, the RMB appreciated by less than 3%. Between 2010 and 2012, the rate of RMB appreciation increased again and overall appreciated by 7%. Hence, there has been a significant pause of RMB appreciation between 2008 and 2010.

While 23% of appreciation could be considered a substantial appreciation, the mainstream literature on the RMB value does not come to this conclusion. As the following literature review will establish, the undervaluation of the RMB is a hotly debated topic and dominated by biased academics pursuing specific objectives.

The current literature on the RMB can be roughly divided into two categories, the first focusing on the RMB directly and the second focusing more broadly on decision-making within China. While literature particularly focusing on the RMB is mostly biased, a broader analysis of the decision-making in China has not yet analysed the emergence of business actors in the establishment of foreign economic policy.

Simply put, the currency dispute has two camps that either attack the level of the RMB or defend it. The majority of criticism on the Chinese currency policy argues that China manipulates the currency in order to support its exporters, making Chinese exports competitively cheap, increasing the trade disequilibrium with the US and thereby unemployment in the US. Most of these accounts suggest to respond to China's manipulation with sanctions or official appeals under China's obligations of the WTO or IMF (Bergsten, 2010; Eichengreen, 2004; Goldstein & Lardy, 2006; Goodfried & Prasad, 2008). However, neither is likely to be successful, as Mercurio and Leung

(2009) analyse. Furthermore, there is considerable disagreement on the level of undervaluation, the relation between exchange rates and trade disequilibrium or unemployment (Bowles & Wang, 2006).

The most striking problem with the current research on China's currency policy is however that neither camp pays much attention to the domestic situation of monetary policies. The authors arguing against China's currency policy fail to take into account that there is not "a" China that has "one" interest. They argue that they know what is best for China and that they know what is in the interest of the leaders and which objectives these leaders follow. Thus, when Goodfried and Prasad (2008, p. 84) state that "China has a better reason to adopt a more flexible exchange rate: It would be good for China", they deprive Chinese actors from making their own judgment as well as their own sovereign economic decision. Similarly, Bergsten's (2010, p. 11) observation that "appreciation of the renminbi at this time would in fact serve both the internal and external policy objectives of the Chinese authorities" assumes a deep knowledge of both the Chinese market as well as the objectives of the Chinese authorities. Especially the latter is highly questionable, because this group of scholars does not question their own assumption of what the Chinese leadership deems a relevant objective, as Eichengreen (2004, p. 2) illustrates as well: "There is no question that eventually China will want a more flexible exchange rate."

The reasons for these authors to simplify the complex Chinese situation and treat China as a unitary actor are diverse. Robert Cox's (1981) observation that "theory is always for someone and some purpose" gives the most crucial reason why these scholars' accounts are biased. Authors like Bergsten want to convince US policy makers to take action in order to enhance the US economic position on the global market. They tend to selectively read and interpret economic facts in a fashion beneficial to their agenda, in order to convince scholars and the general public that China's currency manipulation is inequitable; that China is not playing by the rules of the international order. Such a position however translates into a superficial and inadequate depiction of the Chinese reality. Coupled with a general distrust of a non-democratic regime, they reproduce a binary view of the West against China, which is a common problem with US literature on China. Furthermore, mainly (US-) economists with no specific education on China or knowledge of the language write on the RMB issue. Without Chinese language skills, it is very difficult to conduct comprehensive research. Their research tends to be informed by observable statistics and calculations and follows positivist approaches. Due to the fact that the Chinese domestic situation is complex, difficult to

take into account or even to comprehend, they disregard it in their research and focus only on observable factors, overall treating China as a unitary actor. One problem directly resulting from these simplistic assumptions of the Chinese domestic situation is the fact that the large number of US firms producing in China is mostly ignored. These firms share similar advantages and disadvantages from monetary policy as domestic firms: Both types profit from a competitively low exchange rate, and any increase in the value of the RMB might result in export-related difficulties, for which US authors seldom account. Moreover, authors like Bergsten (2010) also treat the US domestic situation as clearly observable and unitary. However, Yang, Yin, and He (2007, p. 128) illustrate that US multinational enterprises (MNEs) and US small and medium enterprises (SMEs) actually have different opinions on the currency issues, depending on whether or not they export from China. The most dominant criticism on the value of the RMB is hence very short-sighted and overly simplistic. This research will not delve deeper into either the US domestic situation or the situation of MNEs in China, but rather highlight how diverse the domestic decision-making dimension of monetary policy in China is.

In contrast to these critical authors, scholars arguing in favour of the Chinese exchange rate policy may show a better understanding of China's domestic situation, but their research also lacks comprehensiveness. First of all, their research is often on the defensive side and directed against (US-) criticism. The position of the US as the provider of the reserve currency and the power that comes along with it to force the burden of adjustment on other countries is for instance central to the analysis of Bowles and Wang (2006). Furthermore, authors dismiss the accusation that China is responsible for the domestic economic problems of the US, such as unemployment and fiscal deficits, since it would be "against common sense" (Huang, 2010, p. 23). Moreover, authors like Ha (2006) argue that the pressure of the US for China's currency appreciation is in essence caused by its determination to maintain its superpower status. Additionally, apart from a few exceptions, authors arguing in favour of the RMB level resemble the first group of scholars in that they treat China and its interests as unitary, obvious and observable, and rely heavily on the analysis of economic data. For instance, the article of Shen (2005) uses economic analysis to prove that the RMB exchange rate and the trade imbalance are not related. The articles by Ha (2006) and Zhao (2010) exemplify as well that a critical distance to the topic is not provided, since they repeatedly refer to "our country" when referring to China. Furthermore, they also tend to assume to know for

which reasons monetary policy is implemented. Zhao (2010) states that the exchange rate mechanism is supposed to address the problems of development and economic growth, but as the governor of the PBC, Zhao Xiaochuan, who is actually involved in the decision-making process, states, “monetary policy is not supposed to cure problems“(China Industrial News Information Centre, 2008). Zhao’s (2010) assumptions are hence simplifying the background and objectives of monetary policy as well, treating the objectives of the central leadership as clearly observable and unitary.

Hence, whether those economists are against or in favour of China’s exchange rate policy, the debate is politicized and not objective. In the end, both sides writing on the RMB exchange rate treat China as a unitary actor that can easily implement any decision it deems important, without inner struggles or bargaining involved. This research questions this conceptualization of China and illustrates that China is not a unitary actor.

Chinese area specialists have in the last year paid increased attention to China’s foreign policy and its formulation (Johnston & Ross, 2006; Lampton, 2001; Lanteigne, 2009; Rozman, 2013; Zeng, 2009). These works usually concentrate on the evolution of foreign policy in the course of the reform era, for instance the professionalization of politics in China or the change from personalized leadership under Mao Zedong and Deng Xiaoping to a more technocratic leadership by Jiang Zemin, Hu Jintao and Xi Jinping. Unlike the scholars who discuss the RMB’s value, most of these accounts do not treat China as a coherent unit.

However, due to the difficulty of studying a non-transparent regime, they mostly concentrate on the interests of core ministries and seldom look at the impact of business representatives on economic decision-making. One of the most comprehensive accounts on foreign policy decision-making, Lu (2000, p. 4), deliberately disregards economic decision-making because it is “such a complex and dynamic area of inquiry [...] that it is necessary to deal with the subject in a separate study.“ One useful account that sheds light onto the “process of decision-making behind China’s bilateral and multilateral trade disputes” is Zeng (2009, p. 2). This book and the case studies advanced in the chapters incorporate an analysis of the rise of protectionist forces and their impact on the formulation of foreign policy. The RMB dispute is not treated in detail, but the book finds that protectionist voices become more vocal and contribute to decision-making through policy suggestions and policy alternatives, but overall remain fragile because they are not institutionalized

(Zeng, 2009, p. 11). Similarly, Jiang's (2010) research on the decision-making process in China's advancement of Free Trade Agreements argues that China is not a coherent unit and that protectionist forces and liberalizing forces are bargaining and balancing each other in the decision-making process. Moreover, authors like Dickson (2007) analyse the emergence of the private sector in China and discuss whether the private sector might be a driver of democratization of the political system. Since the party is co-opting the private sector into the existing authoritarian system, creating "red capitalists", it has led some authors to conclude that the government has a "contract" with its citizens that will support the government as long as growth, stability and security is provided (Breslin, 2010, p. 202). However, what impact this position of the private business sector has on China's foreign policy has seldom been researched in greater detail or disregarded as being too limited. For instance, Pearson (2001, p. 352) contends that "no evidence [could be found] that private interests, including private business, labour groups, or consumers acting independent of the government, weighed in on the WTO issue in China." Similarly, Jiang (2010: 242) believes that even though the business sector becomes more vocal, it is not yet independent enough to have a real impact on the decision-making, because no independent labour union acts on its behalf.

There is one work that stands out in its attempt to provide a comprehensive account of the making of the exchange rate, namely Liew and Wu (2007). Most other literature which analyses the decision-making process of the exchange rate is either produced by the same authors or closely based upon their novel research (Liew, 2010; Yi, 2011). The book by Liew and Wu analyses the most relevant aspects of the exchange rate policy from planned economy until the adoption of a managed float in 2005, with a strong emphasis on governmental bodies and leadership backgrounds / preferences. Their research is valuable because it provides a good framework for conducting an analysis of exchange rate policy-making and offers deep insights into the official decision-making process. Even though it is pioneering, there remain two crucial problems.

First, Liew and Wu's (2007) understanding of power distribution and its analysis is too closely linked to observable effects and specific events, at the expense of attributing any influence of non-ministerial bodies to China's foreign policy. Different bodies are attributed different interests, based upon the structure and responsibilities they hold. Restructuring of ministries, as happened with the Ministry of Foreign Commerce in 2003 (MOFCOM) are interpreted as a change of their interests and respective powers (Liew & Wu, 2007, p. 202). The background of politicians involved

in the decision-making process is taken as an indicator for their interests. However, such a behavioural focus on observable factors with subjective interests seen as policy preferences which are eventually revealed through political participation is not comprehensive enough, because important factors outside of the inner circles of politics cannot be incorporated into the analysis. Second, Liew and Wu state that “the final decision [of the exchange rate] is definitive and does not offer ground for bargaining through implementation” (Liew & Wu, 2007, p. 145). This exclusion of those who are not part of the official decision-making process means that Liew and Wu cannot trace how and under which circumstances non-traditional actors such as business representatives might gain power. It will become evident in the course of this research that it is precisely in the policy implementation that new domestic actors find room for influencing government decisions.

As this literature review established, the current literature on the RMB, China’s foreign policy as well as the making of the exchange rate policy does not satisfy the needs of a comprehensive account on the decision-making process of economic issues such as the value of the RMB.

To fill the gap in the current literature, this research will show that China is, contrary to the common assumption, not a coherent unit implementing decisions. The time period on which the paper focuses is from 2005-2008. Frankel (2010, p. 53) states that by mid-2008, the currency basket returned to weighing the US-Dollar more than other currencies. The visible pause in the appreciation of the RMB by 2008 suggests that the government had interfered in the middle of 2008. This paper will argue that this is most likely the result of increased power of business representatives. More precisely, it will provide evidence for the likelihood that business representatives caused the government to stop the speed of RMB appreciation in 2008. In order to illustrate how this independent variable can be linked to the dependent variable, it will employ process tracing as a method. Process tracing is ideal because it identifies a causal chain that links independent and dependent variable (Checkel, 2008, p. 114) and divides the process “into smaller steps” so that “observable evidence for each step” (van Evera, 1997, p. 64) in the end leads to a plausible explanation of an outcome.

However, good process-tracing needs to also “consider the possibility of alternative processes that lead to the outcome in question” (George & Bennett, 2005, p. 290). This research will therefore discuss the role of the global financial crisis in 2008 as well, in order to check whether the pause in RMB appreciation can be solely explained by the severity of the crisis.

Even though process-tracing is the best method to object to the common western assumption of a unitary actor China, the current research is limited in that it provides suggestive evidence rather than hard facts for the influence of business representatives on the decision-making process. In order to develop this research further, interviews with top officials, business representatives and other officials would be necessary. However, because of time constraints, monetary constraints, language barriers and above all the unlikelihood that top officials would speak openly, this research can only compile suggestive evidence for the impact of business representatives. The final proof that business representative have a direct impact on the leadership will remain open for future research. Nonetheless, the revelations this research can uncover are worthwhile in themselves because they provide a more comprehensive understanding of Chinese politics than the majority of the literature does. As Trachtenberg (2006, p. 35) correctly notes: “Understanding [...] emerges as the central goal in its own right—as the end in itself, not as the means for getting at the mysterious and ultimately unreachable goal of the ‘truth.’”

The next chapters will look more closely at the intermediate steps between business leaders and the outcome of a pause in RMB appreciation and identify the conditions under which it has been possible for business representatives to affect the outcome of foreign economic policy. The sources the paper will access include secondary sources, but mainly reports by the involved entities, such as the PBC or the MOFCOM, but also documents retrieved from the “Factiva” database that allowed a detailed research of the media in China. This proved to be very helpful since Factiva allows to modify the search in great detail and offers access to many Chinese-language news agency reports and newspapers in which statements by governmental representatives are depicted.

4 The Role of Business Actors in the Exchange Rate Policy

When this paper talks about business actors, representatives or export-oriented companies, it mostly refers to SMEs. According to The International Business Newspaper (2008), the role of SMEs in China is increasingly important, since “SMEs account for 99.8% of the total number of enterprises, and more than 95% of the private sector enterprises are SMEs.” Furthermore, according to Zhao (2010), SMEs account for 68% of total export. Hence, SMEs are mostly private, numerous and export-oriented.

4.1 The Official Decision-Making Process

In order to look at the particular decision-making process in 2008, this section provides an overview of the formal process and the institutions that are involved.

The final decision in economic decision-making lies with the Politburo, more precisely with the members of the Politburo Standing Committee. While it is true that in the 2000s, a pluralization of decision-making has occurred and more actors and ministries became involved (Jakobson & Knox, 2010), the weight of particular politicians can still hinder or advance certain policies. For instance, according to Pearson (2001, p. 338), “China’s top leaders inserted themselves into the GATT/WTO admission process at decisive times and in ways that trumped the rest of the process.” Similarly, Jiang (2010, p. 243) argues that Zhu Rongji’s initiative for conducting free trade negotiations with ASEAN assured that the project advanced against domestic protectionist forces. Since the exchange rate policy has been at the centre of trade disputes with the US and other countries, decisions about the foreign exchange regime have a significant impact on China’s diplomatic relations. As a result, China’s top leaders naturally take a great interest and can in theory exert considerable personal influence on the outcome of exchange rate related decisions.

However, since there are only a few members of the Standing Committee, they cannot take control of the whole process, in particular not if bargaining and consensus building between different ministries is involved and required. This mediation and information collection role is attributed to leading small groups (LSGs) that are below the Politburo and the State Council (Liang, 2009, p. 24). They are the primary organ to coordinate information and policy recommendations of several other agencies; they hence keep the many loose threads in their hand and make the final decision. Leading members of the Politburo are usually in charge of these LSGs. In the case of the exchange rate policy, according to both Yi (2011) and Liew and Wu (2007), it is the Central Leading Group on Finance and Economics (CLGFE) that is the major organ to decide foreign exchange rate policy. Information on the CLGFE is very difficult to acquire because the CLGFE does not have an official webpage or list of members. This means that research on membership is mainly based on internet sources. According to Baidu (2014)¹, the actors that are represented in the CLGFE are the vice-premiers, the director of the National Development and Reform Commission (NDRC), the minister of finance and the central bank governor. There is however no information given anywhere whether

¹ Baidu (2014) was recently updated. Since it is no academic source, the retrieved information is not fully reliable.

the MOFCOM is represented in the CLGFE. That leading small groups are rather secretive in character and not transparent is well illustrated in the CLGFE. Even though the CLGFE employs, according to Liew and Wu (2007, p. 148), an office and a research office, it is not possible to locate or access their research papers. It is however possible to screen the media for information on what members of the CLGFE say and what their opinion on specific issues is.

If the CLGFE is responsible for making the final decision, it is the PBC which has to implement the policy. Yi (2011) and Liew and Wu (2007) repeatedly state that the PBC's main concern is to control domestic inflation and to remain sovereign in its monetary policy. According to Yi (2011, p. 175), the PBC has gained more bargaining power in the Hu-Wen administration and, because it has many affiliated research offices, acts as both policy advisor and decision-maker. Especially the dominant governor, Zhou Xiaochuan, figures prominently in media and research papers on the RMB more generally, also in English-language literature.

The MOFCOM on the other hand is the one ministry which does not appear to have a representative in the CLGFE, but a strong interest in the exchange rate policy. According to Liew and Wu (2007, p. 202), the MOFCOM does not play a great role in the currency process because it is a merger of the Ministry of Foreign Trade and Economic Cooperation (MOFTEC), the former Ministry of Commerce as well as elements of the State Economic and Trade Commission. The former MOFTEC had a great stake in the decision-making process and came closest to representing the export-industries, but since many new obligations were added in the course of the restructuring, Liew and Wu (2007:208) consider the influence of the MOFCOM to have decreased. Pearson (2010, p. 626) on the other hand sees the emergence of the MOFCOM as proof of the fine-tuning and pluralization of decision-making, since the bargaining and compromising within the MOFCOM before it voices its viewpoint must be quite comprehensive given its various departments. However, Pearson also states that the power of the MOFCOM has decreased vis-à-vis the emergence of the NDRC (Pearson, 2010, p. 627). Yi (2010: 171) on the other hand believes that the MOFCOM is a significant actor in the decision-making process and still mainly represents the interests of exporting companies. As can be seen, there is considerable disagreement about the role of the MOFCOM in the exchange-rate decision-making process. However, since the MOFCOM is the only ministry that has a stake in the currency rate but is not represented in the CLGFE, it seems likely that its possible influence is indeed not as great in contrast to other actors

involved in the official decision-making process. Hence, business representatives cannot fully rely on lobbying efforts of the MOFCOM.

When it was decided in 2005 to discontinue the dollar-peg, the decision was according to Yi (2011, p. 175) and Liew and Wu (2007, p. 209) the result of bargaining and consensus-building of the NDRC, the PBC and the MOFCOM. The decision to implement a currency basket under a trading band represented the overall shift of the economy away from “export- towards domestic demand-driven economic growth” (Liew & Wu, 2007, p. 209). The fact that the RMB was not allowed to freely float but rather fluctuate within a trading band is seen by both accounts as sign that the MOFCOM (Yi, 2011, p. 172) as well as the NDRC (Liew & Wu, 2007, p. 201) compromised with the PBC which preferred appreciation in order to keep inflation under control. Furthermore, in order to provide answers on the RMB exchange rate policy, the PBC offers a frequently-asked-questions catalogue on their webpage that includes explanations such as the timing to reform the exchange rate regime or the relation of RMB reform and exporting companies. Moreover, it is emphasized that the decision to establish a new currency regime required more than a year of careful consideration and was not a response to external (hence US-) pressure (People's Bank of China, 2008a). As Breslin (2010, p. 203) explains, the leadership has repeatedly been criticized for not being “forceful enough when it comes to promoting and defending China's interests”. The leading elite is hence under pressure, and any appearance of yielding to US-demands for appreciation could discredit their overall legitimization. Because of the politicized character of the RMB exchange rate reform, it is thus important that the leadership emphasizes its independence in monetary policy making, which is reflected in the provision of information about the decision as well as the emphasis on non-interference from foreign actors. In the end, the CLGFE’s decision over the exchange rate represents the different power distributions among those concerned and the consensus-building efforts that the new monetary policy in 2005 required. Eventually, the adoption of the currency basket in 2005 illustrates well that China is not acting as a unitary actor like the majority of literature on the RMB suggests.

The decision to de-peg the RMB in 2005 and allow its appreciation disadvantaged export-oriented companies significantly because they could no longer rely on a competitive exchange rate. However, these companies seem not to have had any real impact on the final decision in 2005 since the new exchange rate policy was adopted and not counterbalanced by other export-supporting

subsidies. Instead, export tax rebates had even be lowered for industries that required much energy, only produced low-value products and were polluting, in an effort to upgrade China's composition of export (Chen, 2011).

4.2 Business Actors and the Exchange Rate Policy in 2008

One of Liew and Wu's (2007, p. 145) major propositions is that in the establishment of the Chinese exchange rate, there is no room for post-decision bargaining, that only policy inputs, the processing and preliminary evaluation of alternative policies leading towards a major decision would matter. However, when analysing how the decision to pause the speed of appreciation in the middle of 2008 came into being, significant post-decision bargaining had occurred. Rather than introducing a new foreign exchange mechanism, a substantial pause of RMB appreciation had happened, which was most likely the result of successful post-decision bargaining over the value of the RMB. What had happened in between? How did this bargaining occur, and how can it be illustrated that it was most likely the private sector that influenced the decision of the CLGFE to pause the appreciation of the RMB?

The exact period to look at ranges from July 3, 2008 to July 25, 2008 (Naughton, 2008, p. 8). In this period, the central authorities undertook several trips to different provinces, conducted research, met and discussed to finally devise a new policy package. These meetings in the middle of 2008 had to reach a decision on how to respond to the global financial crisis, whether to stick to tight macroeconomic policies or to consider a relaxation (China News Service Hong Kong, 2008a). Eventually, the latter was decided, which included a substantial break in RMB appreciation, loosening of monetary policy and an increase of tax rebates for clothing and textile exports (Naughton, 2008). These measures were in sharp contrast to the monetary approach of the preceding years. First of all, since 2005, the RMB had considerably and gradually appreciated, whereas monetary policy had been increasingly tight in order to combat inflation, as Zhou Xiaochuan, the PBC governor stated a few months earlier (China Industrial News Information Centre, 2008). Moreover, the tax rebate system had in the previous years also been substantially reformed in order to transform the composition of exports towards more value-added products (Chen, 2011). Hence, the decision in August 2008 to increase the tax rebates for spinning and weaving companies, from 11% to 13% for the first time in three years (Ministry of Commerce, 2008), was a considerable revision of the original economic strategy as well. As can be seen, not

only the decision to pause the appreciation of the RMB but also the general economic strategy was amended and revised in the middle of 2008.

4.2.1 The Role of the Global Financial Crisis 2008 for the Decision-Making Process

As George and Bennett (2005, p. 290) argue, process-tracing also requires the analysis of alternative explanations to the outcome under investigation. Before delving deeper into the exact decision-making process of July, it is hence reasonable to first consider the role of the global financial crisis of 2008 and whether it was the severity of the crisis or export-oriented companies that influenced the government to change monetary policy. This is eventually a question of whether the financial crisis in itself was severe enough so that the government had no choice than to support export-oriented companies or whether one could rather consider it to be a trigger that provided the necessary urgency for the companies' appeals. Furthermore, it is also a question of how active or passive export-oriented companies have been involved in the preceding months.

The financial crisis had, according to a report of the PBC, led to a significant drop of international demand, to unemployment and increased downward pressure on the Chinese economy; the loosening of monetary policy was hence directed at companies which were in distress (People's Bank of China, 2008b). However, this does not mean that only due to the financial crisis export-oriented companies faced difficulties. Indeed, the director of the office of the CLGFE, Liu He, explains that the external danger was the trigger to many internal problems (China News Service Hong Kong, 2008c), which suggests that problems already existed before, but did not feature prominently. According to Overholt (2013, p. 217), financial distress in the form of rising inflation and bankruptcy had preceded the impact of the financial global crisis. The Ministry of Commerce (2008) furthermore mentions that already prior to the crisis, the increases in labour wages, tightened monetary policy and RMB appreciation made it difficult for spinning and weaving companies to produce, calculating that they suffered from a 30% increase in production costs. Moreover, according to another report, private companies had much greater problems to access tax rebates and were further disadvantaged. Problems hence already existed before the crisis.

Furthermore, export-oriented companies have not been passively waiting for the government's decision on how to cope with the economic and financial problems. According to The Economic Observer (2008), the China Association of Small and Medium enterprises (CASME) had repeatedly appealed to various ministries for better access to funding in the preceding months, and

Xinhua Agency Service (2008a) remarked in April 2008 that the pressure of the export-oriented industry was rapidly growing.

Moreover, in the middle of 2008, the government had alternatives to a pause in RMB appreciation. First of all, it was a fundamental decision between continued tight monetary policy and relaxation. Second, the scale of relaxation and support for companies in distress could also be significantly varied. For instance, from the measures adopted, it could have been enough to make access to credits for SMEs easier and to help them bridge the difficult times through an increase in export tax rebates. However, it was decided that a pause in RMB appreciation was also necessary, even though these measures contradicted the long-term objectives of preventing the economy from overheating that had been the major reason to de-peg the RMB from the US-Dollar in 2005. According to Overholt (2013, p. 224), there are several severe problems resulting from the pause in RMB appreciation. First of all, keeping the exchange rate stable means that many US dollars had to be purchased, which further increased the foreign exchange reserves. Since at one point the RMB will need to appreciate, these reserves are prone to be worth less in the future and are hence not necessarily the best choice. Furthermore, the pause in RMB appreciation exacerbates inflation and cancels the opportunity to use the interest rate to fight it because monetary policy loses its independence. Last, the pause makes a change from an export-oriented towards domestic demand-oriented economy much more difficult. Hence, the CLGFE's decision to pause the RMB's appreciation results in severe problems as well, and the CLGFE must have been aware of this but nonetheless decided to pursue such a change in monetary policy.

Eventually, the government had to react to the financial crisis, but the manner in which it did underlines the relevance of business representatives exerting pressure on them to implement a decision that advantages them. If the support to export-oriented companies would have been less comprehensive, one might believe that it was solely a governmental decision irrespective of the companies' lobbying. However, the adopted measures were substantial, had severe long-term effects and were preceded by a long period of lobbying, which suggests that the influence of export-oriented companies was relevant in the decision-making process.

4.2.2 Tracing the Pause in Renminbi Appreciation

From July 3, 2008 until July 25, 2008, the alteration of monetary policy and pause of the RMB appreciation was decided. This period can further be divided into smaller parts. From July 3 to July 8, prominent members of the top leadership visited several provinces to personally investigate the

situation of companies. These top leaders were Hu Jintao, Wen Jiabao, Wang Qishan, Xi Jinping and Li Keqiang. Both Wen Jiabao and Wang Qishan are important members of the CLGFE. The second part of the decision-making process were discussions to hear the opinions from regional leaders, economic experts as well as people from the corporate world, lasting from July 8- July 11 (Xinhua Agency Service, 2008e). The next relevant meetings ranged from July 15 to July 16, and were two consecutive half-day executive meetings to discuss the economic situation. Furthermore, on July 21, more meetings were held with non-party personages, hence representatives of for instance the democratic parties or independent commentators in general. The final meeting was the Politburo meeting on July 25. At this meeting, the general direction of macroeconomic policy was publicly announced. A stable and rapid economic development should be maintained, while controlling for rising prices and inflation, overall strengthening and improving macroeconomic control (China News Service Hong Kong, 2008b). Even though this sounds like a continuity of the former monetary direction, it is according to Naughton (2008, p. 8) a moderate relaxation of monetary policy.

From these five different steps that led to the relaxation of monetary policy, it is clearly the first round in which the impact and influence of business representatives features clearest. Several Chinese articles state that the tours of the top leadership to different provinces was unprecedented and unexpected (China News Service Hong Kong, 2008a; Hong Kong Economic Times, 2008b). Furthermore, these tours were preceded by extensive research since June 13, 2008, in which particular attention had been given to the effect of RMB appreciation on companies (China News Service Hong Kong, 2008a). Since export-oriented companies struggled, among other things, from the fast RMB appreciation, the effect of the fast RMB appreciation was one of the reasons for the leadership to personally inspect the economic conditions of companies in several coastal export-oriented provinces. These tours illustrate the importance given to both regional governments and export-oriented companies. Furthermore, since according to The Economic Observer (2008), SMEs had repeatedly turned to ministries for support in the preceding months, those trips were most likely at least partially initiated by direct appeals of SMEs. Hence, particular attention has been given to the difficulties SMEs face, which is also reflected in governmental official's statements. Wen Jiabao for instance on his trip to Guangdong officially acknowledged the problems of exporting SMEs (Xinhua Agency Service, 2008d). Similarly, Li Keqiang's trip to Zhejiang investigated how private enterprises are faring, and as a result from this, he promised to provide

support and also be aware of declining exports (Hong Kong Economic Times, 2008b). Wang Qishan also immediately gave his support for a tire-producing company that encountered difficulties due to foreign exchange settlements (Xinhua Agency Service, 2008b).

Where does this attention to SMEs come from? The major reason for this support and attention is most likely the result of the China Association of Small and Medium Sized Enterprises (CASME). When the currency basket was established in 2005, there was no organization in China through which SMEs could organize themselves and effectively lobby for their interests. With the establishment of CASME in 2006, SMEs gained a better organizing platform. First of all, CASME is an important information provider for SMEs. New policies and their relevance for SMEs are explained, and important announcements of other ministries such as the MOFCOM or the General Administration of Customs are compiled on one comprehensive and extensive webpage, making it easy for managers of SMEs to access them. There are also multiple events organized where the managements of SMEs can meet and discuss about problems they encounter. Furthermore, several lectures per year on various topics, such as energy saving, are sponsored by CASME. Second, through CASME, SMEs speak with one voice which increases their bargaining power. According to CASME's web page, CASME is the bridge between government and SMEs (China Association of Small and Medium Enterprises, 2014). Representatives of CASME feature prominently in the press and express their opinions on the economy clearly. For instance, according to an article by Xinhua based on several interviews, the situation for SMEs is very bitter and many enterprises had to close in the preceding months. As Sun Xiuchun, secretary general of CASME clearly voiced: "It is not a matter of development, but of survival". In the same article, other respondents to the interviews state that the appreciation should stop before it goes too far and that tax relaxing policies should be adopted (Xinhua Agency Service, 2008c). While it is not directly indicated that CASME representatives met any governmental officials, it is striking that these interviews were published on July 15, in the middle of the decision- making process. Thus, the bargaining position of SMEs is much better compared to any earlier instance of exchange rate policy making.

According to Xinhua Agency Service (2008e), business representatives were also present at the second round of meetings from July 8-11. However, whereas the opinion of both regional leaders and scholars was made public, the opinion of business representatives is unfortunately not monitored, nor is it said who has been present in the first place. For all of the following meetings, little information is generally given about who exactly has been consulted and which opinion they

might have voiced. However, the impact of export-oriented companies in the initial period is highly probable. Business representatives personally lead top leadership members through factories and explain which problems are most pressing and how they believe the situation could be eased. Furthermore, Wang Qishan, secretary general of the CLGFE, gained influence since his appointment in early 2008 in economic decision-making and is according to Naughton (2008, p. 8) more market-oriented, more devoted to private enterprise promotion and less engaged in easing social problems resulting from liberalization than for instance Wen Jiabao. His stance towards RMB appreciation is hence very interesting, because he is on the one hand more willing to support the private sector but on the other hand also less prone to intervene because of social problems. That his willingness to intervene and support the private sector, even though this is in contrast to a market-driven economy, increased significantly can be taken as an illustration of how meetings with business representatives can influence the mind-set of politicians. In May 2008, Wang Qishan still had said that the current course of tight monetary policy is appropriate (Finet News Services Limited, 2008), but in July, during his trip to Shandong, he stated that even though tight monetary policy still needs to be pursued, there also needs to be a distinction in the treatment of companies, and that some require shelter for the current situation but also overall pressure to improve their competitiveness (Hong Kong Economic Times, 2008a). This statement offers two interpretations. First, it might be that it was the trip itself that convinced him that private companies required extensive support. It could however also be the case that Wang reached this position already before he went on the inspection tour and used the tour in order to officially acclaim his position. To clarify his position shortly before the tour would require interviewing him or someone of his entourage. Anyway, SMEs found a powerful ally in Wang Qishan. Since other top economic leaders could also be personally convinced on their respective trips to other provinces, it is likely that different personal channels to top officials in the end resulted in a comprehensive support package directed at SMEs, which ultimately included a pause in RMB appreciation.

The decision-making process in the middle of 2008 is more personalized around top politicians than the official procedure would suggest, but at the same time leaves much more space for new actors such as representatives of SMEs, non-party representatives and scholars. In contrast to this, in 2005, when the currency basket was introduced, these voices had less space and core bodies, such as the NDRC or the PBC, had a strong impact on the decision-making process. No particular

indication that either PBC, NDRC or MOFCOM featured prominently in the process was found. Throughout all the process, export-oriented companies most likely took part in the discussions and could bargain for more support. Eventually, without the establishment of CASME, the bargaining power of SMEs would have been lower. Instead of appealing to the MOFCOM and hoping for the MOFCOM to put forward their interests, as has happened in 2005, albeit unsuccessfully, they constitute a better organized entity in 2008 with increased bargaining power. In contrast to the analysis of Jiang (2010) and Zeng (2009), this research found considerable suggestive evidence that the private business sector developed a better bargaining basis in the years after 2005, resulting from both the establishment of CASME and the financial crisis. While it is not possible in this research to ultimately prove that the business sector did influence the relevant politicians, it is most likely that post-decision bargaining resulting in an alteration of monetary policy and pause in RMB appreciation in 2008 had occurred.

5 Conclusion

In contrast to the treatment of China as a unitary actor which is common among western scholars like Bergsten (2010) and Goldstein and Lardy (2006), this research illustrated how diversified and comprehensive economic decision-making in China is. The myth of China as one ruling elite that can easily implement any decision without compromising or bargaining involved was demystified. Rather than being a coherent unit, China's economic decision-making process involves a considerable amount of bargaining and consensus-building before a final decision is made, and monetary policy is a trade-off process rather than an elitist decision. For anyone dealing with China, whether scholar, policy maker or business leader, this is an important revelation. In addressing issues of dispute, one need to consider many more actors than a few years earlier, and the currency issue is by far not as simplistic as the US literature suggests. Overly simplistic arguments are not likely to be successful, since they cannot be directed at those who are actually concerned in China. Moreover, if those writers wish to successfully move their government to accuse China of currency manipulation and take further steps, a more comprehensive look at the reality of the international economy and economic interdependence would be required. US MNEs producing in China are for instance equally hit by any US decision on how to fare with the currency dispute, and it might actually be the case that these MNEs align themselves with Chinese SMEs and try to exert influence on the Chinese government, a topic which would require further research. This thesis provided

some insights into how complicated, varied and comprehensive the decision-making process is. Those involved in the currency dispute should hence pay closer attention to the many different actors and interests involved in the process if they wish to negotiate successfully.

This research established suggestive evidence for the increased influence of business representatives on decision-making, but there is plenty of scope for future research. Interviews with officials and business representatives would most likely underpin the argument of this thesis and offer new revelations. Additionally, the nature of “influence” would still require research. How do corruption, favours or the “unwritten” contract that Breslin (2010) suggested relate to the influence of the business sector? Furthermore, the emergence of CASME as an organization that represents SMEs would be a worthwhile topic for research. Eventually, this research illustrated that the Chinese business sector is a lively and increasingly powerful group of domestic actors in China’s exchange rate policy.

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7 Appendix

7.1 Abbreviations

Central Leading Group on Finance and Economics	CLGFE
China Association of Small and Medium Enterprises	CASME
International Monetary Fund	IMF
Leading Small Groups	LSG
Ministry of Commerce	MOFCOM
Ministry of Foreign Trade and Economic Cooperation	MOFTEC
Multinational Enterprise	MNE
National Development and Reform Commission	NDRC
People's Bank of China	PBC
Renminbi	RMB
Small and medium enterprise	SME
World Trade Organization	WTO

7.2 Graph

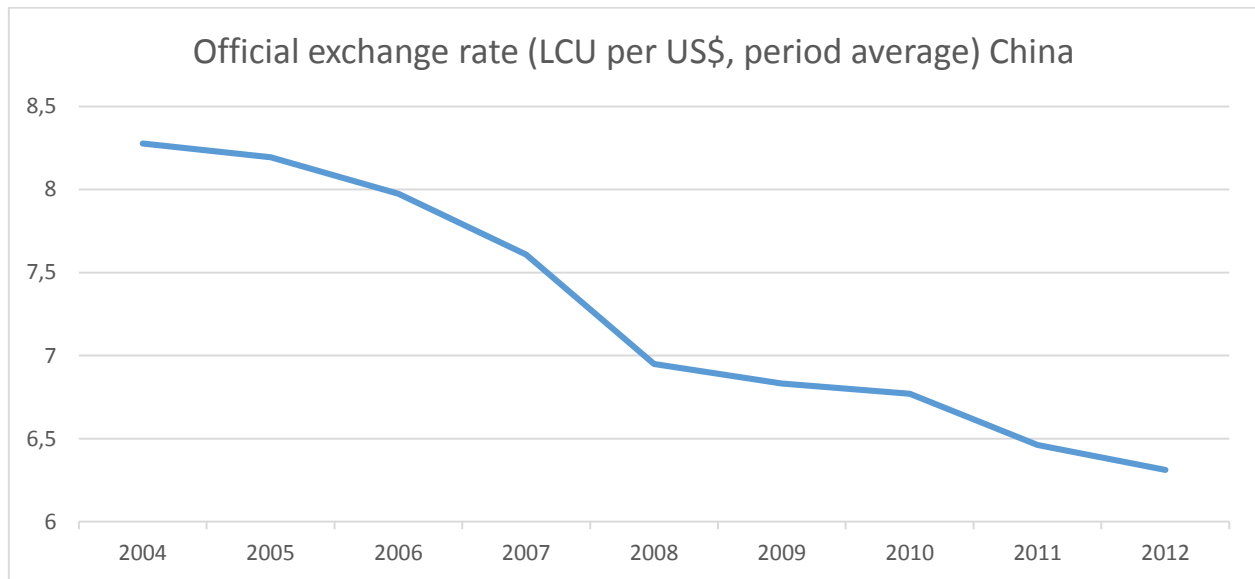


Figure 1 The World Data Bank (2014)