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China in 2018

Presidents, Politics, and Power

Abstract

President Xi Jinping dominated the Chinese stage during 2018, continuing to consolidate his power as the CCP sought to reassert its primacy. China flexed its muscles as a great power in a pitch for global leadership. Xi pushed constantly to portray China as the promoter of an open global economy, even as his own continued to slow incrementally amid the widening trade war with the US.

Keywords: China, great power, Xi Jinping, corruption, trade war, North Korea

It might seem a bit odd to start an analysis of China in 2018 by referring back to how China was being viewed in the pages of this journal before President Xi Jinping’s ascension to power in 2013. However, making this short journey is illuminating and sets the context for the study of China’s (domestic) politics today. Then, Hu Jintao and Wen Jiabao seemed to see the solution to the various problems facing the leadership—including questions about the legitimacy of one-party rule itself—in opening up the political sphere. Hu seemed to want to create a listening, responsive, transparent, predictable, and legally bound party. As recently as 2012, Yongnian Zheng correctly pointed to the “unusually active” promotion of different ideas by various groups, including proponents of new forms of democratic socialism.1 How things have changed.

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SAME OLD CHINA, SAME OLD PROBLEMS

Well, some things have changed, at least. In some respects, much that was done and said in 2018 gave a sense of déjà vu, and many of the problems Hu and Wen were struggling to resolve remain very much alive today. For example, the formal adoption by the National People’s Congress of the previously announced National Supervisory Commission, with greater powers to investigate a broader range of personnel than the previous Ministry of Supervision, suggests that the long-standing challenge of dealing with corruption remains unfinished, even if the anticorruption campaign has also morphed into a means of ensuring wider compliance and control.² Premier Li Keqiang’s “Report on the Work of the Government,” delivered to the National People’s Congress in March, also highlighted a number of continuities. To be sure, this was primarily an exercise in lauding the achievements of the past five years, and emphasizing the importance of the leadership of Xi Jinping in those successes. Supported by the release of Amazing China, a documentary lauding the party’s achievements and hard work on behalf of the Chinese people over the previous five years, the overall message was one of success and the transition to a new era of greatness.

Nevertheless, the report also highlighted a number of challenges that have been on successive premiers’ lists for years: residual poverty, environmental degradation, and the need to create new innovation-based drivers of growth.³ Dealing with vulnerabilities in the financial system also remains an ongoing and key concern, with 2018 seeing (at various times) a focus on state-owned enterprise debt, local government debt (and the way that provincial bonds were being used), the collapse of investment schemes, the need for better regulation of the shadow banking sector, the risk of asset bubbles bursting, and the very much related issue of the record increase in household debt (for which the eye-watering, almost incredible cost of housing relative to wages bears at least some responsibility). And it is not just the debt itself that is seen


³. Li also presented a picture of an ongoing process of opening markets, reducing regulation, and allowing the private sector and the market to flourish—though this is not a story of reform over the previous five years that every external observer would recognize. For the full report, see Li Keqiang, “Report on the Work of the Government: Delivered at the First Session of the 13th National People’s Congress of the People’s Republic of China on March 5, 2018,” <http://online.wsj .com/public/resources/documents/NPC2018_GovtWorkReport_English.pdf>. 
as a problem; many of the solutions to cutting debt now and reducing the
dependence on debt-driven growth in the future would slow growth and
could have destabilizing consequences. So, like their predecessors, Xi and his
team have to balance the longer-term desire to bring about a pretty substan-
tial shift and create what they see as a more sustainable economic structure,
with more short-term considerations of what might lead to social problems
and instability (and calculations of how capable they are of dealing with
them). And as we shall see, changes in the international environment have
not made this balancing any easier. The result, according to the China
Dashboard, is “second thoughts about the balance between reform and
avoiding pain,” with the “meaningful reform” that was promised in the first
year of Xi’s rule still failing to materialize in most economic areas. 4

The year 2018 also saw another example of the sort of health scare that has
been blamed for undermining popular confidence in governance and regula-
tory structures in the past, this time to do with faulty vaccines. And although
there might have been increasing international interest throughout the year in
what official Chinese discourses argue are not internment camps but rather
“free vocational training through vocational education institutions” in
Xinjiang, 5 analyses in previous years’ pages of this journal show that this is
far from a new issue or agenda.

NEW POLITICS IN A NEW ERA

But Chinese politics has clearly moved a long way since 2012, with 2018
arguably displaying five key differences from previous eras. First, as already
noted, there has been a shift in emphasis in the message that high-profile
events are meant to transmit to the people. The idea remains of supporting
the party to get through the challenges it still faces. But there is now
considerably more emphasis on supporting the party because of what it has
already achieved—or perhaps more correctly, this specific manifestation of
the party, under Xi. Second, Xi’s concern about the role, sustainability, and

summer-2018/page/overview>.

5. Interview with Shohrat Zakir, chair of the government of Xinjiang Uygur Autonomous
.htm>. The Guardian carried a number of reports on Xinjiang throughout 2018, which are collected
at <https://www.theguardian.com/world/xinjiang>.
even purpose of single-party rule seem to go further than the previous and residual (and admittedly still crucial) focus on corruption. There were also fundamental problems relating to a lack of common purpose, unity, solidarity, cohesion, and leadership. Third, in addition to this potential crisis of the party, Xi also seemed to identify a crisis of and in society itself—a society that was losing (or had even lost) its moral and ethical core and lacked a sense of direction, cohesiveness, purpose, and leadership. As Xi put it in his speech to the 19th Party Congress, the party needs to “inspire the people to embrace shared ideals, convictions, values, and moral standards.” And of course the former (problems in the party) is seen as a key cause of the latter (problems in society).

Fourth, as Murray Scot Tanner argued in his review of 2015, Xi’s understanding of the best way to find solutions to these and other problems has fundamentally changed. Rather than opening up the political process and political debate, Xi has tried to close and control it. Fifth and finally, although the shift to a more activist Chinese foreign policy preceded Xi’s assumption of power, there has been a clear and significant new shift in tone and emphasis. Xi is now very happy to assert his country’s great-power status, to annunciate and promote its global goals, and to make a pitch for global leadership in some areas, at a time when other more established Great Powers seem to be retreating from some of their previous leadership roles. All five of these changes had profound impacts on the trajectory of China’s domestic politics and international interactions in 2018.

In terms of the domestic agenda, the emphasis remains on reasserting control—the party’s control over society, and Xi’s personal control over both the party and the country as a whole. In this respect it would have been hard for 2018 to match the significance of the previous year, which culminated (politically if not temporally) in the reformulation of the party’s own constitution at the 19th Party Congress to include “Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era.” Indeed, the significance of 2017 continued to reverberate, with studying the 19th Party Congress

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becoming a major pastime in 2018. It will take time for the other major changes at the congress to crystallize into actual change; changing the primary contradiction, which is meant to be the starting point of all party work, is a good case in point. The last time it was changed (from fighting class struggle to fighting underdevelopment, under Deng Xiaoping), it paved the way for a radical shift in priorities and policies that until then would have been all but unthinkable. Unless changing it again is simply a way to show that Xi has the power to do it, we might suspect that the new focus on fighting “unbalanced and inadequate development” to help fulfill the people’s “ever-growing needs for a better life” will be used to force some groups and people to do things that they are not currently inclined to do, or to stop doing things that currently benefit them.

And yet the (people’s) congress of March 2018 was arguably as significant as the (party) congress of 2017. Most headlines focused on the decision to abolish the two-term limit for the Chinese presidency, a limit that was previously formally restricted by the state constitution, rather than the informal “norm” of two terms that applies to the party leader (or, as we might find in 2022, applied, in the past tense). Some observers expressed surprise that Xi had chosen to change a legally binding limit to stay in a position that had traditionally been a largely titular head-of-state role in China, with the premier holding the real authority in the state system, and the individual who held the presidency holding real power through concurrently being the party’s general secretary. But in Xi’s China, it makes sense. This is not a “division of labor” leadership as in the Hu-Wen era, or even the way Zhu Rongji was responsible for economic management while Jiang Zemin led the party. This is not the Xi–Li era but the Xi era, and just because the presidency did not result in primacy over the premier in the past doesn’t mean that it can never do. Moreover, by diplomatic convention, it is the head of state, not the party leader, who gets to go to major international events and to visit and host other heads of state. It is “President Xi” who is the global statesman on the global stage, a role that he seems rather comfortable with and indeed keen to expand.

But while many writers focused on the prospect of Xi’s lifetime leadership of China, a range of other changes were announced or formalized that are likely to have fundamental long-term consequences. In terms of personnel, the long-time governor of the People’s Bank of China, Zhou Xiaochuan, retired, and Wang Qishan was appointed vice president and expected to
focus on the not insignificant task of managing China–US relations, a task that became even more significant and difficult as the year progressed. Notably, Wang had not been reappointed to the Politburo the previous November, which would have broken norms over age restrictions, though he is thought to be still attending Politburo meetings without the power to vote, thus somewhat blurring the distinction between respecting conventions and breaking them. Liu He was named vice premier and placed in charge of the new(ish) Financial Stability and Development Committee (established the previous year), giving him significant personal power over macroeconomic policy.

When it comes to institutional arrangements, the changes announced or formalized at the National People’s Congress were in many ways more significant for the long run than the question of who is running what. We have already noted that the new Supervisory Commission came on stream with significant new powers. But this was just one small part of a major and comprehensive reorganization of ministries, commissions, and regulatory authorities and responsibilities that has effectively redrawn the map of how central governance and administration works in China. The extent of the changes makes them impossible to outline in detail here. What we can say is that the overall agenda seems to be to reduce overlapping jurisdictions in some areas, and to streamline the government policymaking process by combining a large number of different agencies into a smaller number of new ones, which should reduce the potential for conflicting goals to stymie reform objectives. For example, the new Ministry of National Resources now has authority for work that was previously split between eight different institutions, and the Ministry of Emergency Management takes up the work of 13 different actors. The residual state planning agency, the National Development and Reform Commission, seems to have been somewhat diminished in status, with some of its areas of authority transferred to the new ministries. There also appears to be an absorption of some state roles by party organizations, or agencies that blur the relationship between the two. It is wrong to say that the party-state is back, because it never fully went away, but party agencies, committees, and secretaries seem to have more power and

8. Some of the old agencies remain as subordinate entities in the new ministries. A comprehensive chart showing how the old have been transformed into the new can be found at <https://yiqinfu.github.io/posts/state-council-reform/>. 
to be taken more seriously as powerful actors today than was always the case in the past.

**POLITICS AND ECONOMICS**

However, in terms of economic change, the movement was not all one way (toward greater state control). The year also saw changes in foreign investment regulations to allow greater foreign participation and/or ownership in a number of sectors (mining; agriculture; automobiles, shipping and aviation; finance and insurance; and infrastructure). Moreover, not only do local governments remain major determinants of what happens in China, but the importance of their ability to do what works locally in light of local conditions has been reaffirmed, even as central reforms have been taking place.

Does this all add up to a contradictory strategy? Not if you put aside dichotomous understandings of state versus market and the idea that economic reform takes place on a linear trajectory from one to the other. If the idea is to achieve a set of objectives, then some of these might be best attained by the market and/or foreign investors, while others are best done in the state (or state-related) sector. The central state remains the main definer and regulator of these goals, but there is considerable autonomy at the local level to decide how best to attain local objectives, which should aggregate into national goals. The problem for central policymakers is that these local actors don’t always have objectives or methods that do indeed add up to a coherent overall national position. Neither do nonstate actors or the market always do the job they are meant or expected to do. When necessary, the state can and does step in to restrict what can and can’t be done—as it did, for example, when Chinese investors didn’t all invest where the state wanted them to in 2016. So nonstate market actors are free to pursue their own individual and commercial objectives, but only as long as these contribute to the attainment of overall national goals. If and when they don’t, the market is deemed to have failed—not market failure as understood in Western capitalist economies, but within the logic of the Chinese national project.

**POLITICS AND SOCIETY**

Below the elite/administrative level, perhaps the best example of how the control agenda is playing out is in the new regulations for microblog service
providers, which mandate them to “play an active role in promoting economic development and serving the public, promote socialist core values, disseminate advanced culture, [and] adhere to correct public opinion orientation.” More generally, the state continues to develop new ways of collecting and using data to support its objectives—a project so wide-ranging that we will soon need a new concept to replace “big data” in the Chinese case—“supermassive data,” perhaps. As Lotus Ruan puts it, “If data is the new oil, China is oil super-rich. Data is the essential ingredient for artificial intelligence . . . and is underpinning a wide-ranging revolution.” But alongside these new techniques, more tried and trusted mechanisms are also very much in play, with Wang Huning charged with promoting and constructing a new “spiritual civilization” to provide a new moral core for Chinese society, one that draws on both China’s revolutionary spirit and its traditional culture to provide a new set of socialist values that will unite the population behind common goals, aspirations, and dreams.

Not surprisingly, the Chinese media also devote enormous space and time to not just reporting Xi’s major speeches and interventions, but typically also reproducing them in full. And there were a lot of them in 2018: at the National People’s Congress in March, at the Bo’ao Forum for Asia on Hainan Island in April, at the Qingdao Summit of the Shanghai Cooperation Organization in June, at the BRICS Business Forum and Summit in South Africa in July, at the Beijing Summit of the Forum on China-Africa Cooperation (FOCAC) in September, at the Shanghai International Import Expo in November, and on the 40th anniversary of the start of economic reform in December. Despite the combined length of all these, and at the risk of oversimplification, we can perhaps distill the overall message in them down to four keywords: confidence, difference, leadership, and destiny. Confidence in the economic and political structures or models that have delivered Chinese successes. Difference both in terms of the difference between these successful Chinese models and discredited and failing Western ones, and also in terms of how China will act compared to previous great


powers. Leadership in the form of the pivotal role of the party (and Xi’s leadership of it) in delivering Chinese successes. And destiny, for China to return to its rightful place at the center stage of global politics and to provide new forms of leadership for the world—though here we might instead use the oxymoronic concept of a “contingent destiny,” as it is inevitable only if party leadership is maintained.

CHINA AND THE WORLD

That said, this message is not just intended for an internal audience, and when Xi Jinping talks at key international events, or international leaders are invited to Beijing to attend conferences and summits, there is obviously an outward-facing agenda and target audience. For example, the FOCAC summit in Beijing was a key means of interacting with African leaders, and promoting to them (and to those in the rest of the world that were watching) Chinese plans for future collaborations, and a platform for announcing new aid and investment projects. Xi also used every opportunity to push the idea of China as the defender of multilateralism and the promoter of an open global economy, at a time when the US was turning inward and promoting protectionism. When you add on Xi’s affirmation of China’s readiness to take a leadership role in reforming global governance at the party’s own Foreign Affairs Work Conference in June, then, as Elizabeth Economy argues, Xi Jinping in 2018 effectively “proclaimed that China has both the intent and the capability to reshape the international order.”

This new(ish) proactive global leadership agenda has seen the continued active promotion of the idea of a “community with shared destiny for mankind” (renlei mingyun gongtongti) as an alternative to what is typically described as the Cold War–style, confrontational international order favored and promoted by Western Great Powers (and particularly the US). This concept is very much associated with the personal thinking and preferences of Xi Jinping. So too is the Belt and Road Initiative. This transcontinental project continued to be promoted both at home and overseas, though with signs of a more moderate tone toward the end of the year. Such tempering may well be related to a string of stories in 2018 pointing to pushback from

a number of actual and potential recipients of Chinese investment, either from concern over the economic terms of projects and the prospect of becoming dependent on debt to China, or from fear of growing Chinese political influence (or both). The concerted effort, at the FOCAC summit, to discount the idea that China is a neocolonial power also suggests the importance the Chinese leadership places on maintaining a positive international reputation—perhaps amid rumbles of discontent from its neighbors.

Concerns about growing Chinese political influence also seemed to climb to a new level in 2018 in Australia, New Zealand, the US, and Europe. In the US Congress, a bill designed to require China’s US-based Confucius Institutes to register as foreign agents was introduced on June 4. Confucius Institutes are partnerships between a Chinese and a foreign institution (typically, but not always, universities) designed to promote and expand the teaching of Chinese language and culture overseas. They are also part of a larger Chinese project to insert Chinese voices into debates over the consequences of China’s rise in other countries, and to tell positive stories about China. While there has long been some anxiety over the rules and regulations that guide them—for example, over who can and cannot be employed in them—concern has grown that Confucius Institutes are trying to more broadly influence what can and can’t be said about China in the universities that host them, either through outright controls and bans, or through the intangible inculcation of a culture of self-censorship among those who research or teach China-related issues. Add these together and they suggest that life as a great power with articulated leadership and reform ambitions is likely to result in ever-growing scrutiny of how these ambitions are being pursued, with consequences not always in China’s favor.

China’s leadership credentials and skills were tested in more tangible ways over security concerns on the Korean Peninsula. Throughout 2017, there had been considerable pressure on China to use its power over North Korea to make it stop testing nuclear and ballistic weapons. A standard Chinese response was first that this was primarily a Korea–US issue, and second, that sanctions did not work. Kim Jong-un’s apparent lack of desire for strong links with the leadership in Beijing was also often cited as a third reason for China’s relative lack of influence. The meeting between Kim and President Trump in Singapore in June 2018 seemed to suggest that the first of these arguments was indeed true, and that this was an issue to be resolved by Washington–Pyongyang diplomacy. Yet the Singapore summit took place
after Kim had made his first trip to Beijing as North Korean leader to meet with Xi in March, quickly followed by a second meeting in Dalian in May. Kim returned to China a week after the June summit with Trump, for his third meeting with Xi in four months. Reports suggested that China had significantly cut its exports to North Korea prior to the first of these meetings, perhaps exceeding the reductions stipulated in official UN sanctions. Clearly, US policy will be a major determinant of what happens to the Koreas in the future. But there can be little doubt that China will also have a significant role to play—and indeed has played a substantial role already, irrespective of what ultimately happens.

If Trump loomed large in the Sino–Korean–US triangular relationship, he loomed even larger in the bilateral one, and despite his previously professed friendship with Xi, 2018 might eventually be remembered as the year that a new era of US–China competition started. There had been long-standing concern in a number of Western countries about the lack of reciprocity in trade and investment relations with China. The expansion of Chinese merger-and-acquisition activity in Western economies (particularly the very rapid growth of 2016), combined with the Made in China 2025 strategy designed to upgrade China’s technological and economic base, had only served to increase concern that China might be gaining control of strategic economic resources and sectors in other countries. There were further concerns that China was repatriating foreign technology and expertise (and brand names) back to China while continuing to restrict access to its own market. Despite Xi’s repeated commitment to an open global trading system, some liberalization in some Chinese sectors during 2018, and the massive Import Expo showcase in Shanghai in November, the preferred Chinese narrative of Chinese openness is not finding as much purchase outside China as its architects would like.

While this concern was voiced in a number of European capitals in 2018, the idea of losing out to China on an uneven playing field has been articulated more loudly and for a longer period in the US. It was part of Trump’s touted justification for an America First economic strategy during his presidential campaign. And to the surprise of many—including some in China—this

rhetoric became policy with the imposition of two rounds of tariffs on a range of Chinese imports in July and September. The tariffs generated a reciprocal Chinese response, complaints to the WTO, and the search for alliances that might offset the impact or prompt a rethink in the US.

Within China, the need to counteract the economic impact further complicated the problem of finding a balance between maintaining growth and shifting the basis of the economic model. The trade war also seemed to puncture some of the confidence about the robustness of China’s successes. This led to something of a step back from what was getting close to becoming a triumphalist political atmosphere, with a number of China’s very prominent online debaters openly criticizing those who had asserted, on microblogging sites and other online discussion forums, that China would soon surpass the US (or already had) as the number-one global power.

Moreover, the way that Trump used an address to the UN General Assembly in September to accuse China of meddling in US politics suggested that this new emphasis on competition was about more than just economics. And if Vice President Mike Pence’s speech to the Hudson Institute in October, which was heavily critical of China’s domestic political repression, military modernization, and economic strategy and goals, wasn’t the announcement of a new policy of competition and confrontation, it certainly gave that impression. So too did the arrest of a senior Chinese business executive in Canada in December (Meng Wanzhou, of the Huawei telecommunications company) on charges laid in the US that she had breached sanctions on Iraq, and what looked very much like the subsequent retaliatory detention of three Canadian citizens in China, one of whom was facing a death sentence at the time of this writing.

GOING FORWARD

December 2018 marked 40 years since the start of the reform-and-opening policy that transformed China from its Maoist past into what it has

13. In addition to economic rationales, the tariffs were a response to Chinese purchases of Russian jets and equipment that were subject to US sanctions. The South China Morning Post has a special online collection of its articles on the “US-China trade war” at <https://www.scmp.com/topics/us-china-trade-war>.
become today. But you don’t need to go back to 1978 to see how much China has changed. In terms of China’s global economic position and power, 2008 will do. In terms of domestic polity and politics, you don’t have to go back even that far. The immediate direction of economic change in China remains unclear; it has been made even more opaque as the leadership tries to deal with the consequences of the trade war. A major puzzle remains: how to lower debt, manage financial risk, deflate potential bubbles, and reduce overcapacity without reducing growth to levels that begin to generate discontent—and without damaging the personal fortunes of tens of millions of Chinese homeowners and investors. In this respect at least, the challenges facing the leadership in 2019 are not dissimilar to those that have been facing successive Chinese leaders for the past four decades.

But what has changed, and changed considerably, is China’s place in the world. China is now a major global power, if not yet the major global power, with clearly announced ambitions to lead reform of global governance and increase what it calls its “discursive power”—its ability to shape the understandings, definitions, and norms that are the starting point for many international interactions. These ambitions have not been universally welcomed. One thing four decades of historical perspective provides is the knowledge that what appears at the time to be a sea change can ultimately turn out to be just a blip. Given the vagaries of the current era of US politics, the Sino–US competition of 2018 could conceivably turn out to be a blip as attentions turn elsewhere. But the signs are that we could well be in for a prolonged period of intensifying competition across a range of different issue areas. Even if it does turn out to be a blip, one of the lessons of 2018 is that life as a great power brings its own complications and challenges, which are unlikely to become any easier to resolve in 2019.

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UPDATE

Although many countries would be more than happy to record a growth rate of 6.5% (and it is the target for the year as a whole), when China hit that figure in the third quarter of 2018, it was the lowest quarterly rate since China and the world were recovering from the global financial crisis in
It also represented a small but steady drop over the course of the year from 6.8% and 6.7% in the first and second quarter, respectively. The reliability of Chinese statistics has been questioned for many years, and the real figure could be much lower. But even if we stick with the official figures, growth is clearly slowing, which is not surprising given the attempt to reduce the level of debt in the economy, and to reduce the reliance on investment as a driver of growth, and the onset of the trade war with the US, with both the producer and the consumer price indices turning negative in November. While investment in fixed assets was 5.9% up on the previous year (for the first 11 months), this marks a slowdown in the rate of growth, from 7.2% at the same stage in 2017.

The trade war had a big impact on the structure of Chinese trade. In the first half of the year, exports grew by 12.8% and imports by 19.9%, resulting in a decrease in the overall trade surplus. But in the final quarter, the asymmetry in growth rates flipped, and the surplus began to grow again. Most notably, exports to the US continued to grow despite the announcement of the tariffs, resulting in new record monthly trade surpluses—US$ 35.6 billion by November—and a 16.8% increase in the overall surplus in the first 11 months of 2018 (over the same period in 2017). It’s possible that this was a result of exporters trying to get their goods to the US before tariffs began to hit in the new year (or new ones were announced)—assuming that the 90-day truce to try and negotiate a deal announced when Trump met Xi at the G20 meeting in Buenos Aires does not result in a resolution before then. Inward investment also increased, by 6.5% in the first 10 months, to over US$ 107 billion in October. However, the general trend in the economy as a whole, of greater issues as the year progressed, was repeated here as well, with the monthly growth rate slowing, before registering a rather dramatic 27% year-on-year reduction in November. Outward investment also increased, up 5% in total by September, and by 12% in Belt and Road countries. One result of these overseas projects is that China now has 996,000 workers employed in other countries. The policy of controlling types of overseas investments continued in 2018, with the Ministry of Commerce reporting no new investment projects at all in sports, entertainment, and real estate.