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***International Trade Relations  
between China, Europe and Italy***

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*“China is a sleeping giant. Let her sleep, for when she wakes she will move the world”*

***Napoleone Bonaparte - 1816***

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# **1. Historical Introduction**

Between 1949 until late 1978, China was a republic founded on a Soviet Style, meaning with a centrally planned economy. After Mao Tse Tung died in 1978, with Deng Xiaoping the economy has been gradually transformed. It moved towards a more market-oriented mixed economy under one-party rule.

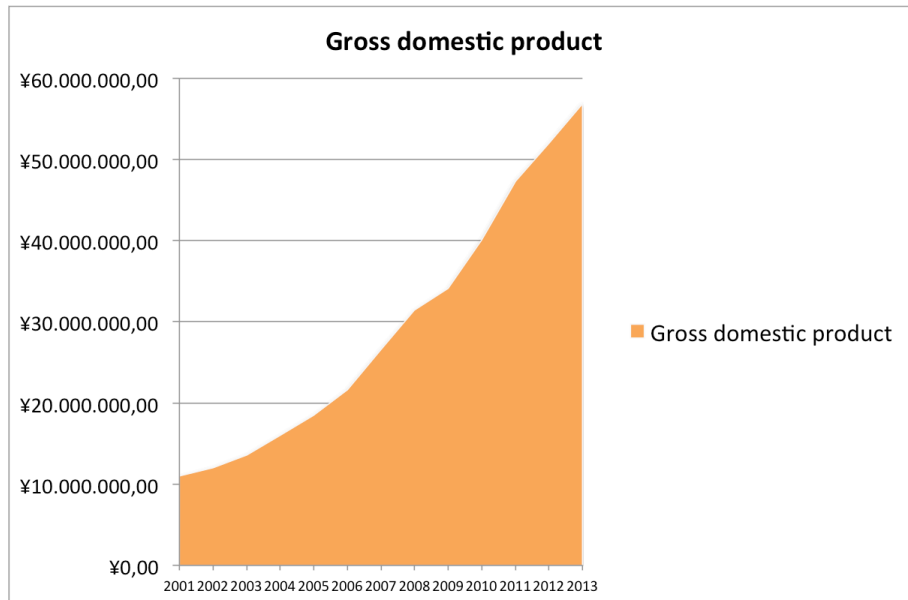
Due to the openness, foreign trade became a new major focus, leading to the creation of Special Economic Zones (henceforth SEZs). SEZs are driven by special flexible measures from the government, and the economic management system they utilize is more attractive to do business than in the rest of China, they are situated in mainland China.

On the other hand, agricultural collectivization was dismantled and farmlands privatized. Even if in the last decades the private enterprise sector expanded enormously – almost 30 million private businesses have been recorded in 2008-, the state still dominates in strategic sectors, for instance energy production and heavy industries.

In 1978 China foreign trade and investment began to rise.

Sure enough, according to the International monetary fund (henceforth IMF), China's annual average Gross Domestic Product (GDP) growth between 2001 and 2010 reached 10.5

**Table 1. The growth of the GDP over the years**



Source : own elaboration on <http://stats.oecd.org> (2015)

On the score of the reforms occurred in China's foreign trade soars from \$21 billion in 1978, when China was a marginal player in global trade, to more than \$1.1 trillion in 2004, when China became the world's third largest trading economy (National Bureau of Statistics 2005, p. 161; World Trade Organization 2005, p. 16).

One point that needs to be mentioned is that, in 2000, the United States Congress approved "permanent normal trade relations" with China, allowing Chinese exports the same low tariffs of others countries.

In effect, nowadays, China has a significant trade surplus with the United States.

When China became a member of the World trade organization on December 11th 2001, the agreement opened up important components of the service sector of the Chinese economy. With this "contract" the structure of China's exports has changed dramatically.

China is today one of the major producers and exporters of electronic and information technology products such as consumer electronics, office equipment and computers, and communications equipment.

The main benefit of this growth is certainly that it has allowed hundreds of millions of people to leave poverty. Moreover, it has helped improve health, education, and other social standards. From an overall prospective on behalf of international organization, the social welfare has increased noticeably.

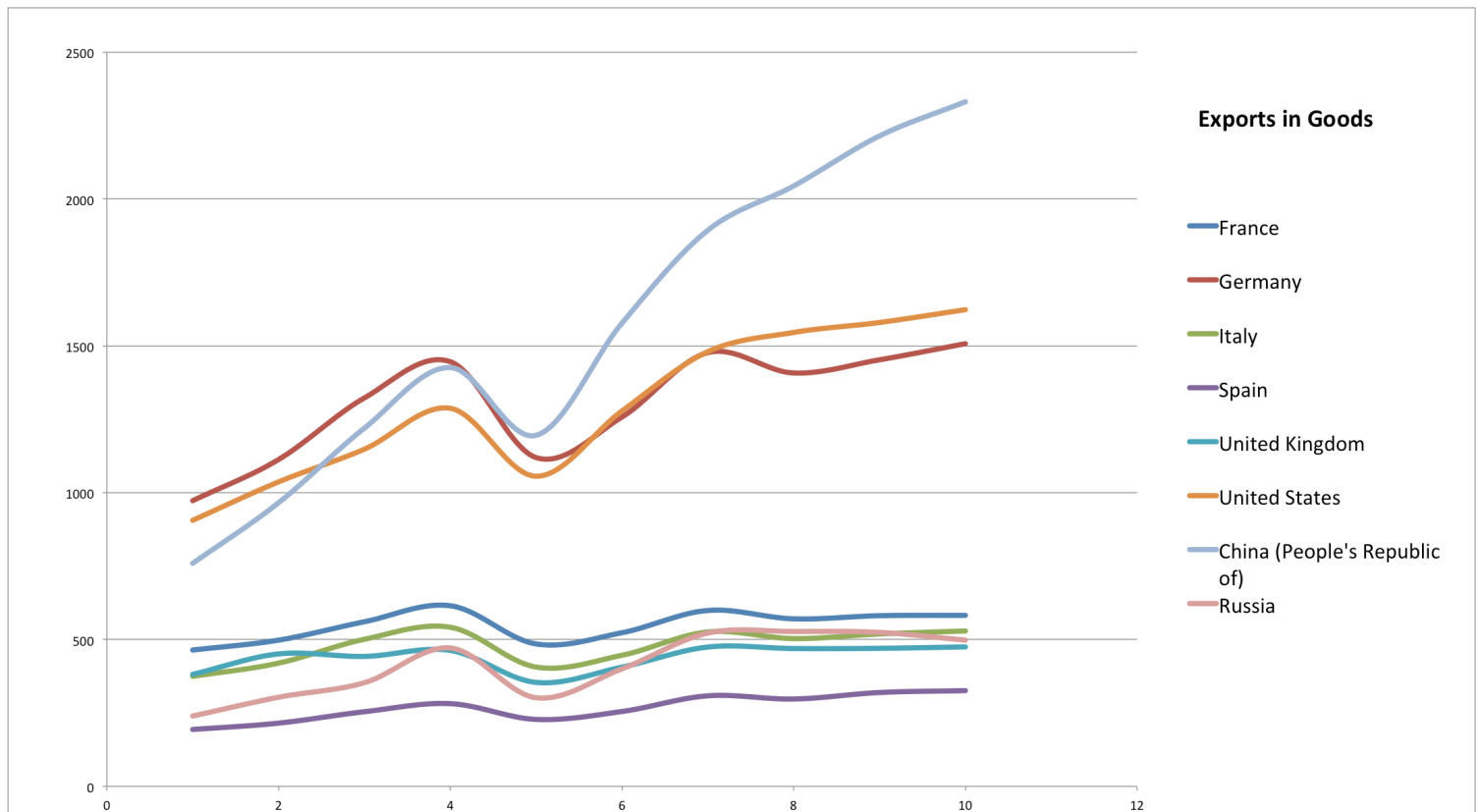
## **2. China's patterns of trade (World and Europe)**

### **2.1 The trade relations between China and the rest of the World**

Even before the WTO accession in 2001, China achieved a greater level of openness to foreign trade in manufactures thanks to the SEZs that made the market more free market oriented. Consequently the agreement signed in 2001 has furthered helped China's economy to become one of the most open of any large developing country.

In this period of time, Chinese openness to trade and investments yielded important benefits to China and her trading partners. Besides, the fast growth that occurred in China has reached the point in which every kind of internal development has a global impact.

**Table 2. The level of exports in goods of different countries**



Source: Own elaboration from OECD <http://stats.oecd.org>

- The first Chinese openness to foreign trade

Before 1978, in a context of a planned economy, the Ministry of foreign trade used to control foreign trade corporations. The latter were responsible for carrying out the import and export plans, but “neither exports nor imports were sensitive to exchange rates and relative prices.” (Lardy 1994).

Sure enough, as shown by Lardy, the volume of Chinese trade towards the world trade, decreased sharply from 1.5 percent in 1953 to 0.6 percent in 1977.



After 1978, several reforms to change the market occurred, but the progress wasn't straightforward. In fact, the government over-taxed imports on most goods and therefore restricted trade in a wide range of commodities.

Notwithstanding these obstacles to trade, in 1979 there was a rapid expansion in domestic firms that were granted trading rights, despite the government's action to restrict the right to engage in foreign trade.

As a matter of fact, this has not been a simple process.

According to Lardy's study (1994), tariff revenues peaked in the 1980s at about 16 percent of import values and fell steadily thereafter, reaching a low of about 3 percent by 1994.

The increase in imports has continued to be quite rapid since the WTO accession but at some point they slowed down due to the unsustainable investments boom subside. Moreover, there has been excess in demand for foreign currency because of changes in foreign exchange rate and tax policy. As a matter of fact, before 1978 the Chinese communist regime maintained an overvalued exchange rate to subsidize the import of capital goods that couldn't be produced domestically.

Between 1995 and 2005 the government fixed the exchange rate at Renminbi (RMB) 8.3 to the dollar. The IMF estimates that Chinese currency lost about 70 percent of its value against the dollar in real terms over that period. Lardy stated that: the system of indirect taxes in the 1980s was complex and a refund program for exporters was correspondingly difficult to administer effectively.

- Foreign Direct Investment prior to 2001<sup>1</sup>

As mentioned previously, the success of foreign direct investment occurred thanks to the “special economic zones” established in 1979, when a new law was passed. Until that period a number of severe restrictions on FDI remained in place. Only when the policies changed, firms could exploit preferential tax and administrative treatment. Moreover, the government granted to the companies an unusually free help in their operations. Feenstra (1998,6) defined the so-called “22 regulations” the next major regulatory change in FDI approved in 1986. These regulations entailed tighter controls on the remittance of profit in foreign currencies. Moreover it designs two projects of foreign investments:

1. export oriented projects (exporting fifty percent or more of their production value);
2. technologically advanced projects (through the use of ‘advanced’ technology domestic production capacity increase).

An approval process for foreign direct investment projects was established by the regulators, and it remained in place until WTO accession, albeit with some modifications. FDI reached the peak in the 1990s, when China was in the middle of an economic expansion. Due to the Asian crisis in 1997 the domestic demand, export growth dramatically decreased and a domestic price deflation occurred. A dramatic slowdown hit the economy, and consequently the levels of the foreign direct investment started to fall, until the Chinese government decided to negotiate the terms for WTO accession.

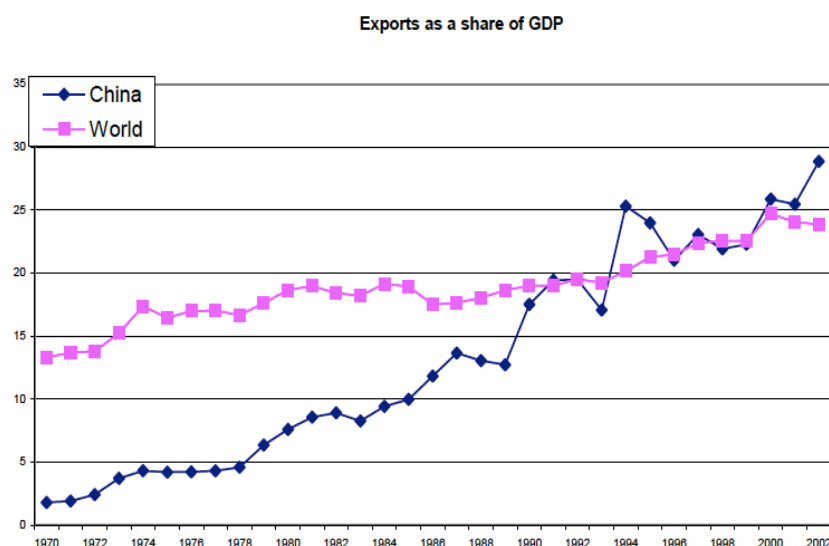
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<sup>1</sup>liberalization of Foreign Direct Investment

According to this, foreign firms restarted to expand their ability to operate in China. This led to a strong expansion of export and the FDIs were fostered by a pickup in demand growth. In order to improve domestic demand the government used different fiscal stimuli. Sure enough, the interest rates were cut several times in order to expand the leasings by state banks.

After the Asian crisis, the austerity regime was abandoned. Over the years, the level of the competition in Chinese product markets increased dramatically, thanks to the openness to trade and FDI. Therefore, strategies of promotion and protection gave a shape to the industrial structure. China, at a certain point, decided to follow the pathway of unilateral liberalization, in order to gain credibility with its negotiating partners. Some results are shown by the graph below: the share of exports in GDP from China rose from almost zero in 1960 and reached almost 30 percent in 2002. This is one of the largest increases that have taken place in the world.

**Table 3.**



Source: World Development Indicators Database

- China's openness to liberalization

Even before becoming part of the WTO China agreed to be bound by obligations such as the WTO Agreement on Sanitary standards and limitations on agricultural subsidies.

Furthermore, the country signed a contract in which Chinese trading partners were allowed to impose restrictions on Chinese exports.

Concerning FDI in manufacturing industries, there has been a big effort to restructure them within the WTO accession. The Chinese government engineered a dramatic decline in State Owned Enterprises (SOE), therefore manufacturing employment and creating an improvement in profitability. This brought to an intensive increase in Chinese imports in the recent years leading China to influence the East Asian regional economy and, indeed, the global economy.

Regarding the service sector, just before the WTO accession 150 banks operated in more than 23 cities. (Lardy 2002). After 2001, with the liberalization, China allowed for the presence of other 31 foreign banks. The Chinese market opened their boundaries in the banking, insurance, securities sectors and other financial services.

Moreover, China agreed to embrace principles such as transparent licensing, cost-based pricing, and the right to interconnection, in order to ease foreign investment restrictions in telecommunication.

- China's impact on other countries' economy

The Chinese boom occurred in the years after 1978 has influenced several economies of different countries. For instance, the Japanese economy

awaked after a period of recession. Beyond Japan, also East and Southeast Asia experienced an economic expansion in 2003 and 2004. Moreover, Japanese, Taiwanese, Hong Kong, and Korean companies in China's export affected China's exchange rate regime.

It wasn't only these countries that exploited Chinese power to revitalize their economies, but also the US used China to increase their exports. In this way, China became the 6<sup>th</sup> largest foreign market for US. The Latter, so far, sees China as its main source of imports such as electronics products and information technology hardware.

China during these years has played an important role in financing the US deficit buying debt securities. Due to this, Asian currencies have been subjected to an inevitable appreciation, even if they resisted because “ the longer a currency's undervaluation encourages an overexpansion of the export sector, the greater the power of the lobbying groups that would seek to halt or limit adjustment become, and the more economically costly that adjustment becomes” ( Lardy, 2006)

- *The importance of foreign firms*

The success of consumer electronics during the 1990s satisfied China's expectations. The country has made a jump in productivity to achieve results in consumer electronics. Indeed, China had the ability to move away from being a simple assembler of components and it moved up along the supply chain where the assembly is undertaken.

Huchet describes China's policies as of the mid-1990s as follows: "China's technological acquisition strategy is clear: It allows foreign firms access to the domestic market in exchange for technology transfer through joint production or joint ventures" (Huchet, 1997, p. 270).

With the creation of the SEZs, China granted to foreign companies to operate with good infrastructure. On behalf of the Chinese market, foreign investors are the crucial producers of technology and furthermore, they are able to dominate exports.

On the other hand, China has been forced to develop its domestic capabilities in order to ensure that technology transfer would take place and strong domestic players would emerge.

Due to the large size of their economy, there has been a development of the policy environment, which brought China to produce a complex set of consumer electronics product. The government intervention was relevant as it used the internal market in order to persuade foreign investors into joint venture with domestic producers.

- *The quality of Chinese exports*

The quality of Chinese exports has had a relevant influence on China's economy growth.

The fact that the quality increased overtime had a positive effect upon the competitiveness of China's exports. Sure enough, this country is one of the countries with the highest average quality of China's exports to EU markets.

After the 1990s, with respect to others countries such as NMS<sup>2</sup>, Asian countries or Latin America, China's was 4<sup>th</sup> in the ranking of quality distribution after Japan, US, EU and NIEs<sup>3</sup>.

By the time, China's export quality overpassed also the NIEs.

Thanks to one database on industrial firms in China, Xu and Lu (2009) also came to the conclusion that: export sophistication of industries is positively related to the share of wholly foreign owned enterprises and the share of processing exports in a given industry. <sup>4</sup>

## **2.2 The trade relations between China and Europe**

- **The EU Trade Policy Towards China**

The current EU-China trade relations are still ruled by a treaty of 1985 when China's economy was still centrally planned.

After the WTO accession, Europe and China implemented the European Union trade policy towards China, which was designed years before.

China's tariff liberalization has been a very quick process. China cut its average tariff from 60 percent to less than 10 percent between 1985 and 2006. On the contrary, Europe took twice more time to achieve the same result.

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<sup>2</sup> New Member States

<sup>3</sup> New Industrialized Economies such as Africa, North America, South America, Europe and Asia.

<sup>4</sup> European central bank - Is china climbing up the ladder?

This brought some zones of China to become very developed. There are different provinces in China so called the “three Chinas”. The richest Chinese provinces enjoy a Gross Domestic Product per capita higher than the GDP per capita of numerous EU Member States.

These areas are developing products and services similar to those consumed in Europe but at a lower cost. Consequently, European export to these Chinese provinces will be much lower.

The other Chinese provinces are still lagging behind and they are defined as “least-developed” economies.

Some of the European Member States between 2000 and 2006 have been successful in improving their export-import relationship with China. Indeed their export growth rates to China have been higher than their import growth rates from China.

The market economy status, that China gained with the WTO accession, gave to the Chinese firms the same legal treatment than the one granted to almost all the WTO Members.

In 2006 Europe was about to improve the negotiations with China and in September of the same year they signed a treaty on a Partnership and Cooperation Agreement (PCA). To reach such an agreement, China had to meet some of the European requests, such as stronger intellectual property rights, lower non-tariff barriers, lower restrictions on investments and more open services and government procurement.

With the request to strengthen the IPRs, European rules were often perceived as detrimental for both Chinese consumers and producers, as the former might be hit by the IPRs, since the producers have to charge higher prices.



China's outward foreign direct investments are increasing over time and this could have a negative effect on the European outward FDI. The principal rule of the FDI is that they can contribute to increase the quality and the demand of the products and the employment of a local economy (in this case China's economy), especially thanks to the productivity spillovers created by FDI.

On the other hand, inward foreign direct investments in China's industrial sectors creates China's labor-intensive industrial exports which, joint with a very high Chinese domestic saving rate, generate massive reserves of foreign currencies that were largely invested in liquid assets. However, since a few years, Chinese reserves are increasingly invested in assets. The latter is something that can be converted in cash in a short time, with little or no loss in value. For example: accounts receivable, demand and time deposit, gilt edged securities but in some countries precious metals are also an asset.

- *The three conditions*

According to Messerlin and Wang ( February 20 2008) EU trade policy towards China should fulfill three conditions:

1. First of all, it should keep a clear economic focus. Political goals should be the task of the Europeans at large (governments and civil society) not only of the EU trade negotiators.
2. The behind-the-border agenda involves deeply the EU Member States. Hence, the current EU negotiating machinery that relies largely on the Commission is inefficient, and increasingly

frustrates EU Member States as well as EU trading partners. It should be improved by allowing a direct participation of the EU Member States' negotiators.

3. The EU should combine its actions towards China with other players in the world. The key benefit from involving medium-size countries – from Australia to Korea to Chile, for instance – is that these countries are often among the best ones in domestic governance.

### **3. Italy as a partner of Chinese Trade**

#### ***3.1 Historical introduction***

The trade relations between Italy and China started with the accession to the WTO for China. The main difference between the two countries is that China is the world's largest fast growing country, while Italy is the eighth economy globally in ranking. Obviously one reason that explains this point needs to be mentioned. China is much larger in terms of dimension than Italy. In fact, China is made up by 1,357 billion of citizens, while Italy counts 59,83 million. Nonetheless, both countries show unusual similar features in some economic aspects. For instance, they are both specialized in industrial and manufacturing sectors, indeed these industrial segments are central for both countries.

According to this, bilateral economic relations are subject to changes due to the deep consequences of these similarities between the two countries. Notwithstanding these similarities, it seems that Italian businesses are exploiting the opportunities that the Chinese market itself offers. The

main opportunity for Italian companies, medium and small enterprises, is to lower the production in order to have reduced costs and increased profits.

However, in China there are institutional, cultural, and economic impediments that prevent Italian businesses from succeeding. Concerning the Institutional difficulties they consist in forms of nontariff barriers. Furthermore, there are strong obstacles for Italian and European partners to deal with Chinese counterparts due to the regulated and impenetrable financial market and a particularly complex legal system.

Due to the Tiananmen incident in 1989, there has been a freeze of the relations between China and Italy. However, later on Italy started to see China as a strategic partner for its business. In fact, in 1991 the two countries were about to open negotiations when economic and political imbalances in Italy didn't allow it.

Only one manufacturing Italian company FIAT occupied an important position in China's automobile sector, selling a couple of thousand vehicles in the country.

Despite all of the above, over the years Italy's relations with China have grown more vigorous. China is also increasing its investments in Italy, especially in the country's medium size enterprises.

With the entry into the WTO, China was a milestone for global trade. Bilateral trade between Italy and China jumped from 9.41 of Euro billion in 2000 to 39.57 billion of Euro in 2011. (Prodi, 2013) <sup>5</sup>

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<sup>5</sup> Economic Relations between Italy and China - *Giorgio Prodi*

Italian companies started to invest in China during the 2000s for instance in machinery producers gaining satisfactory results. Consequently, the recent years have been extremely profitable for all the luxury industries. On the basis of the FMI data, it seems that the relations between Italy and China look promising.

### **3.2 China exports to Italy**

- *What are the risks for the Italian model from the trade integration with China?*

China's model of specialization appears strongly similar to the Italian model. On the basis of the theory of Heckscher-Ohlin-Samuelson, countries specialize in the production of goods that make an intensive use of the most abundant factors in the country.

As a consequence, their international specialization depends on their factorial endowment, but also from the international competitive integration.

Italy reacted to the competition of emergent countries by accentuating the quality of their exports and outsourcing some phases of the productive process. In this way, companies would differentiate their product from the one of their competitors in terms of innovation, quality, and design, with the aim of guaranteeing a level of protection from the competitive prices. This Italian specialization would appear to be the reason for its recent decrease of shares on global exports.

Italy is one of the countries that invests the least abroad: from 1991 to

2002 they only invested 90 billion of dollars, compared to the 550 of Germany and 450 of France. Therefore, it is unlikely that the loss of shares depends mainly on the productive outsourcing.

To measure the effective level of Chinese competitive pressure, it is useful to take into account the manufacturing import of 29 countries adherent to the OCSE from Italy, China and Spain, during the time period from 1991 to 2001.

During the last decade, international commerce has strongly increased its value and in percentage of the PIL. Italy reinforced its own openness with respect to other countries abroad: in 2002 exchanges reached 57,8% of the PIL constant price. Italy is mainly specialized in traditional sectors such as textile, footwear, clothing, furniture and plumbing.

Developed countries – with a high level of capital and technology – attempt to specialize themselves in types of production with a high content in technology, thanks to their activity in research and development.

The differentiation implies that competition is based not only on the price of the goods, but also on the other features of single products, diminishing the importance of having a non-qualified and low-cost labor. According to this, if high quality goods require either an advanced technology or human capital, the countries which have a particular strength in either of these two categories, will export a majority goods with high quality and import goods with lower quality.

It seems that Italy has an intermediate position amongst the developed countries, from which it imports goods of high quality, and amongst the developing countries, to which it exports high quality goods. Regarding

the traditional sectors, the ones on which the Italian model is founded, Italy seems to be exporting high quality goods toward some of the developed countries too.

- *Italy China Spain: the overlap*

In recent years China has increased its international specialization in the sectors in which Italy and Spain were already specialized. Therefore, this suggests a potential competitive pressure for Italian and Spanish commodities. However, in order to have competition, it is necessary that both countries export the same product in the same market and that they have a comparable level in terms of quality.

Consequently, to verify if China and Italy and Spain are in direct competition it is necessary to consider the differences in the quality of the product. A high overlap of the Chinese integration will produce a risk for the Spanish and Italian goods. To measure if this competition is effective, Abd-El-Rahman (1986) and Freudenberg e Müller (1992), have developed a methodology based on an overlap index of trade flows of two countries and on an index of quantitative differentiation.

The index of trade overlap is given by the ratio between the total value of imports from Italy, which have an important overlap with the ones in China, and the total value of the imports from Italy.

**Table 4. Commercial Overlap between Italian and Chinese commodities**

	Sovrapposizione Commerciale		Sovrapposizione Commerciale al netto dei vantaggi qualitativi	
	1991	2001	1991	2001
<b>Manifatturiero</b>	<b>18,0%</b>	<b>38,4%</b>	<b>3,5%</b>	<b>9,9%</b>
Prodotti in Pelle	3,0%	10,3%	0,5%	0,5%
Prodotti in Legno e Sughero	41,7%	39,5%	5,4%	18,2%
Tessile e Abbigliamento	40,8%	58,0%	2,2%	9,7%
Calzature	28,4%	81,3%	6,1%	11,9%
Manufatti non metallici	13,9%	29,3%	3,5%	8,4%
Produzioni Navali	3,3%	6,7%	0,4%	2,8%
Aredamento e Idraulica	12,6%	53,4%	2,5%	8,5%
Giocattoli, articoli plastici, da ufficio e vari	60,2%	74,3%	36,8%	35,9%
<b>Intensivi in Lavoro non qualificato</b>	<b>31,5%</b>	<b>53,6%</b>	<b>5,4%</b>	<b>11,4%</b>
Oli essenziali, e prodotti per la concia e la colorazione	7,1%	12,3%	2,4%	7,2%
Prodotti in Gomma e plastica	5,5%	20,8%	2,8%	7,9%
Manufatti metallici e non metallici	17,0%	35,9%	3,9%	11,5%
Radio, televisioni e apparecchi per la riproduzione dei suoni	68,7%	42,7%	4,1%	23,3%
Elettrodomestici	14,3%	38,2%	4,3%	15,3%
Mezzi stradali e ferroviari	3,9%	9,0%	0,1%	0,8%
Orologi, stampati opere d'arte e d'antiquariato, gioielleria e strumenti musicali	10,9%	62,7%	2,3%	14,8%
<b>Intensivi in Capitale Umano</b>	<b>10,7%</b>	<b>26,3%</b>	<b>2,3%</b>	<b>7,9%</b>
Prodotti chimici, plastici e fertilizzanti	11,0%	28,2%	4,6%	9,8%
Prodotti Farmaceutici	17,6%	12,7%	2,6%	3,4%
Macchine di generazione di potenza	10,9%	37,3%	5,8%	9,2%
Macchine non elettriche	4,9%	29,4%	0,5%	6,8%
Macchinari elettronici, da telecomunicazione e da ufficio	12,6%	68,4%	0,8%	14,7%
Macchine elettriche	26,0%	64,4%	10,3%	31,7%
Aeroplani	2,9%	41,8%	2,6%	7,9%
Apparecchi fotografici, ottici e cinematografici	14,4%	62,7%	2,9%	15,3%
<b>Intensivi in Tecnologia</b>	<b>9,8%</b>	<b>36,6%</b>	<b>2,5%</b>	<b>10,3%</b>

Fonte: elaborazione su dati OCSE

The graph shows us that the divide between the overlap values net and gross of the quality is major in the Italian case for all of the three sectors. In conclusion, Chinese competition is significant for Italy both for intensive sector in non-qualified labor and intensive sector of human capital. As the graph shows, it seems that the two sectors of intensive specialization in technology - such as pharmaceutical products and electric cars, are less exposed to this competition.

Nevertheless, China is acquiring a relevant role in all the sectors of high technology in which Italy doesn't appear, like electronic products or telecommunication. The worries are mitigated by the fact that there isn't

an effective overlapping at product level and the quality of Italian commodities appears superior in the sectors in which Italy is specialized.

- *Implication of political economy*

It appears as if the Chinese specialization is closest to the Italian specialization, even more than the Spanish one. Nevertheless, for both Italy and Spain, the risk of an effective competitive Chinese pressure is present.

However, quality still protects Italian commodities, but a regular improvement of these goods is required, to maintain this protection.

In this context, it is essential to increase the investments in innovation, research and development.

Therefore, a valorization of the research sectors in which Italy is equipped with human capital and technology, could favor both the competitiveness and the emergence of new companies, as a ‘spin-off’ of the research activity. Thus, this will help to shift the Italian specialization towards sectors with a higher content of knowledge.

- *The amount of exports that affected Italian economy*

Over the period 2000-2008 Italy was affected by the export competition from China. Due to this, Italian price strategies have been subjected to a relevant exchange. Nonetheless Italy attempted with all its strengths to introduce a specific strategy to face Chinese competition.

The strategy that Italian companies applied in order to improve the trade



balance and challenge the Chinese competition involve two kinds of sectors: the traditional sectors and the high-tech ones. Concerning the traditional sectors, Italy kept its original specialization in these sectors and increased the quality of its low-tech and labor-intensive products. On the other hand, for the high-tech sectors it has established a price-based strategy in order to diminish Chinese competitive pressure. This strategy has been applied only in those sectors where Italy does not hold a comparative advantage.

However, even if the Chinese competition is upgrading and this affected different developed countries, the prices of exported product, probably due to the lower quality of its goods and the cheap cost of the labor, remain lower.

According to the facts mentioned above, there has been an interesting debate concerning whether China's exports growth in the world economy has decreased the prices in the manufacturing sector of other countries, in line with the so-called 'fallacy of composition' hypothesis (Faini, 1990). This hypothesis is based on the view that, as developing countries enter international markets they might face insufficient and/or highly elastic demand and start a 'race to the bottom' driving prices of exports downward (Mayer, 2003).

What is important to understand is if the developed countries in order to hit the competitive pressure from China, have undertaken a competition based on prices or if they have increased the quality of their exports product.

There are two answers for this debate: the first has been answered by Bugamelli (2010), who asserts that the competitive pressure by Chinese

exports in the domestic market has contributed to reduce prices of Italian companies.

On the opposite side, in the international markets, Italy has upgraded its exports, particularly in traditional sectors, to protect its market shares from international competition (Lanza and Quintieri, 2007).

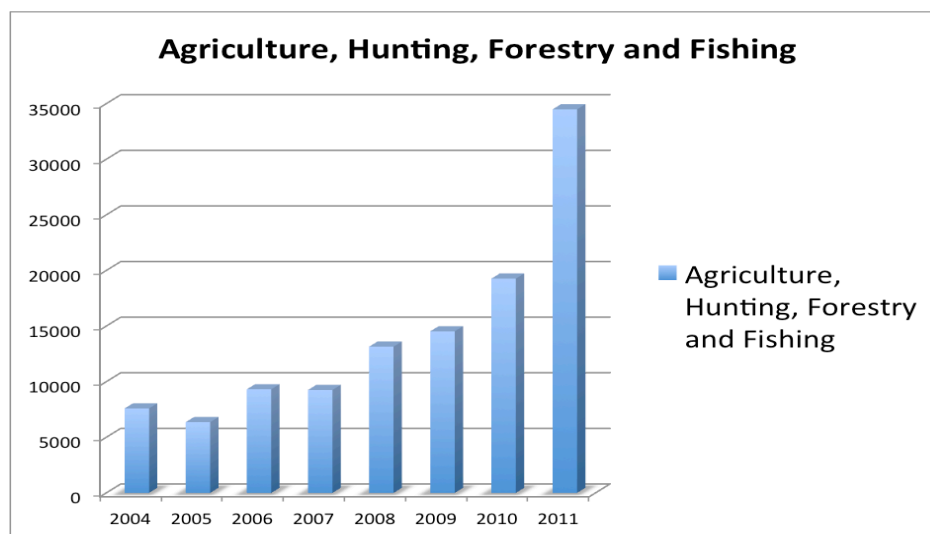
In conclusion, it is important to mention that the competition from China in both domestic and in foreign markets makes Italian workers more skilled and competitive.

### **3.3 Italy exports to China**

In 2014 Italy has been the first one in the European Market who has invested in the Chinese Market.

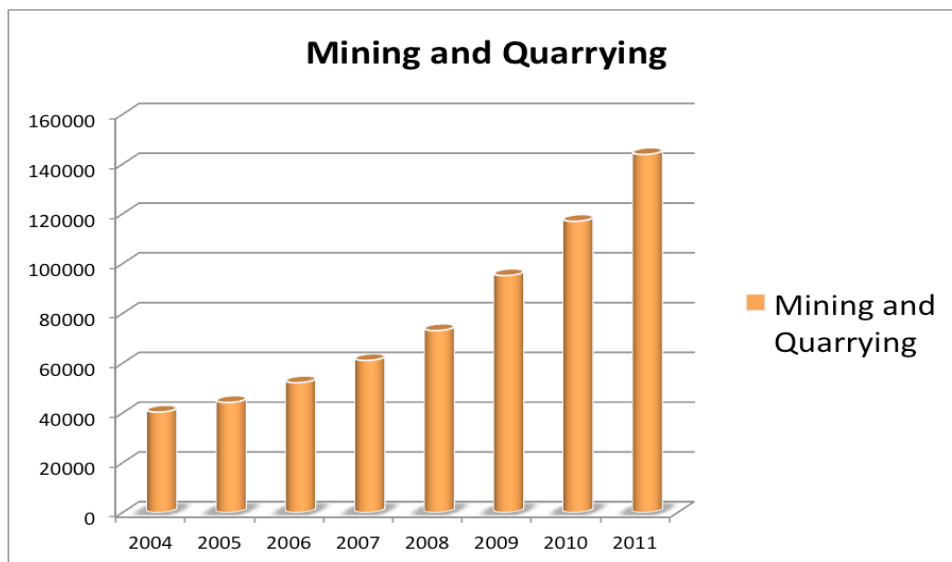
Here are some graphs showing how different Italian sectors invested in China **between 2004 and 2011**.

**Table 5. Italian exports to China in Agriculture**



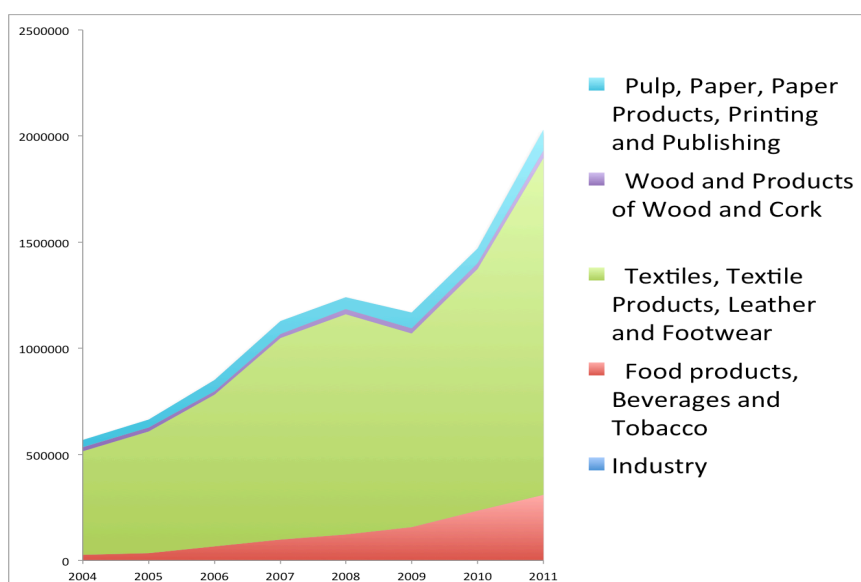
*As we can see from the graph the growth of exports, from Italy toward China, in agriculture hunting and fishing hasn't been steady over the years. In 2005, 2007 and 2009 exportations towards China decrease slightly reaching the peak in 2011*

**Table 6. Italian exports to China in Mining and Quarrying**



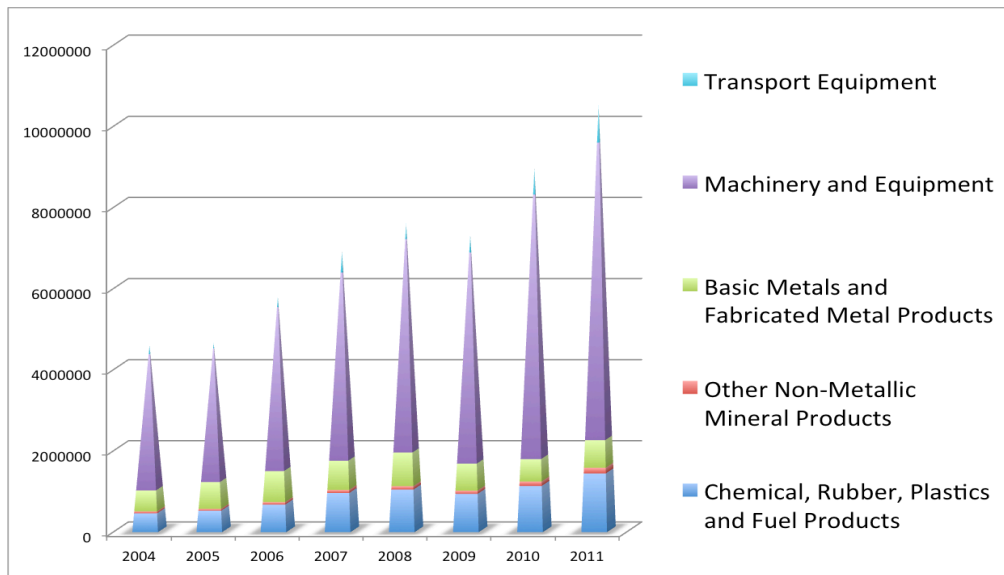
*On the other hand the exports of mining and quarrying rose steadily between 2004 and 2011.*

**Table 7. Italian exports to China in Manufacturer Sector**

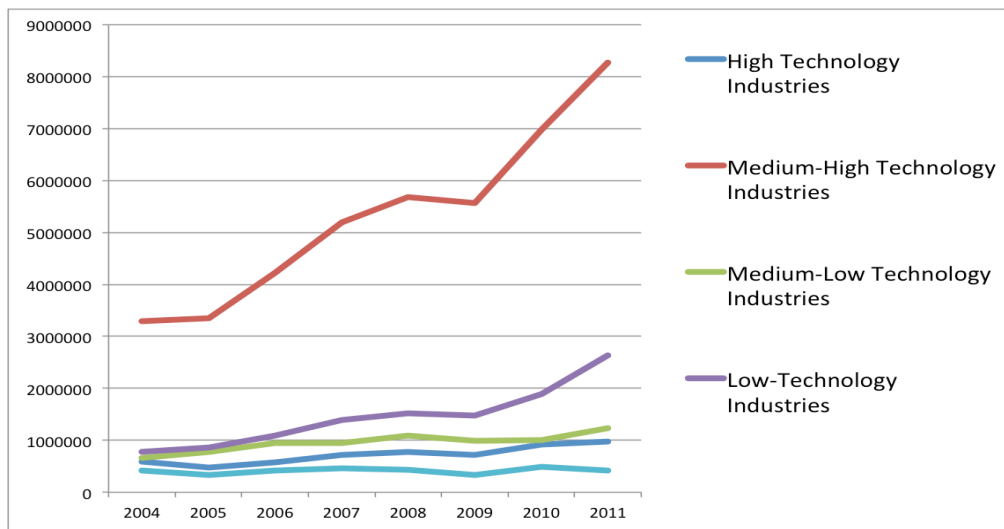


*The graph above compares the growth of exports of different goods of the Italian manufacturer sector. One thing that clearly stands out is that Industry sector in Italy has improved its exports with a rapid progression especially from 2009 to 2011.*

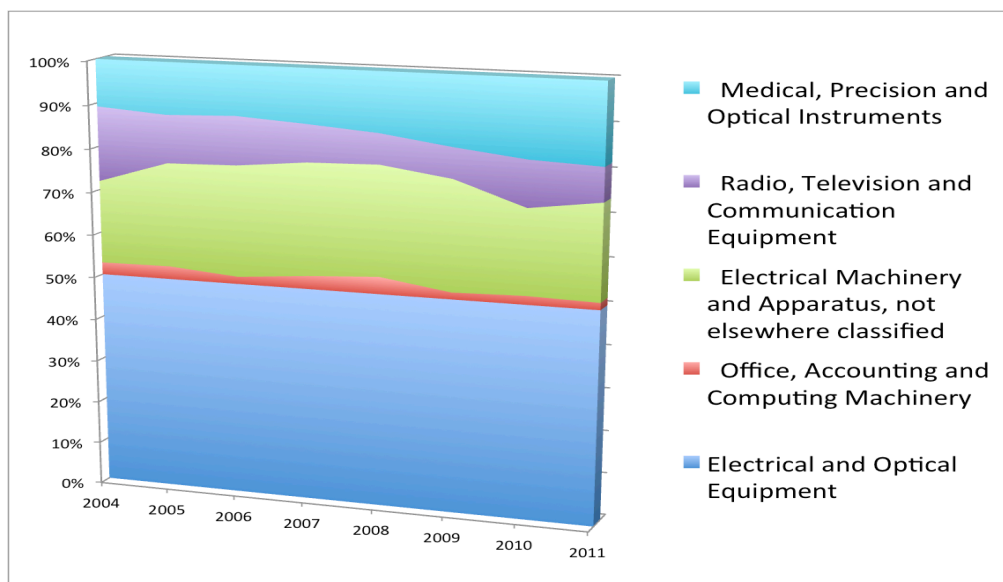
**Table 8. Italian exports to China in Equipment**



**Table 9. Italian exports to China in Technology**

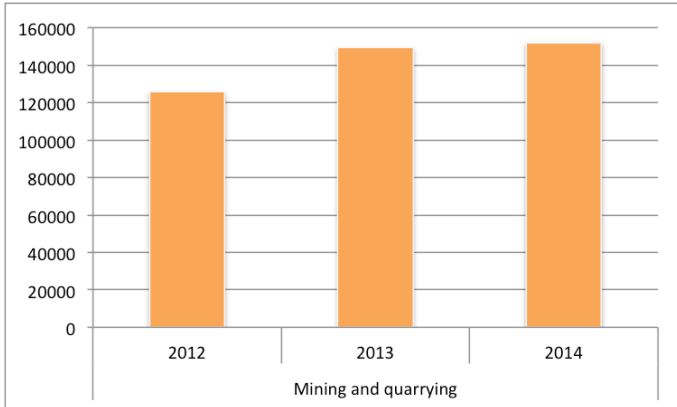


**Table 10. Italian exports to China in Electronic**

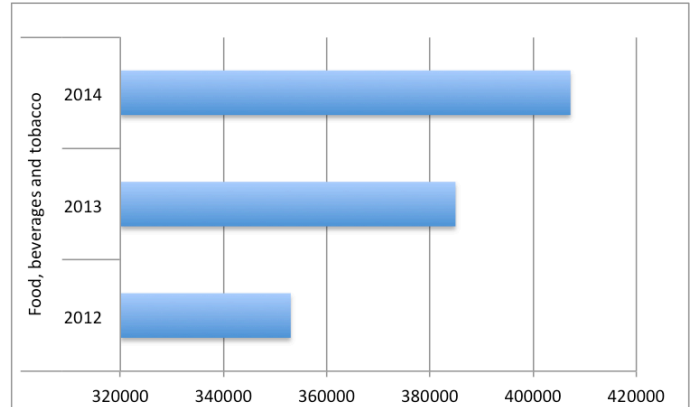


## *Highlights on exports between 2012 and 2014*

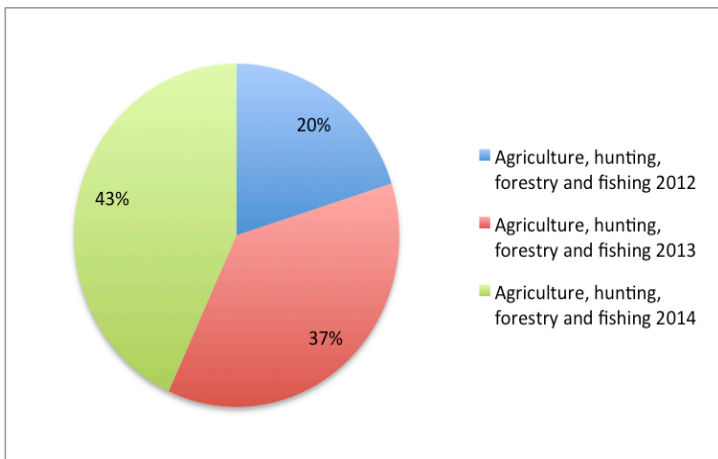
**Table 11. Italian exports to China in Mining and Quarrying**



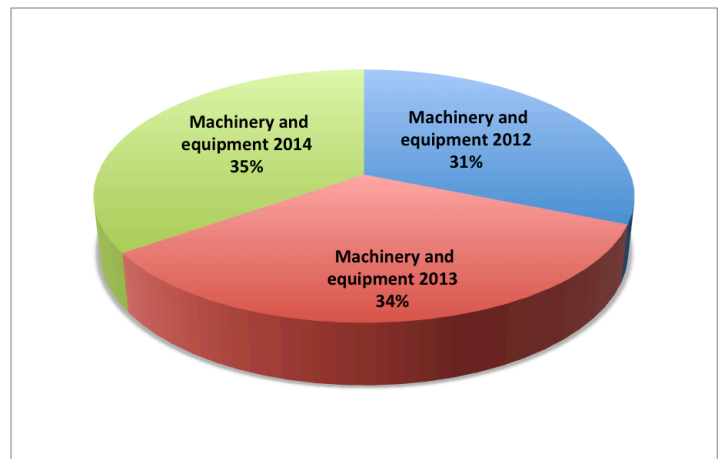
**Table 12. Italian exports to China in Food, Beverages and Tobacco**



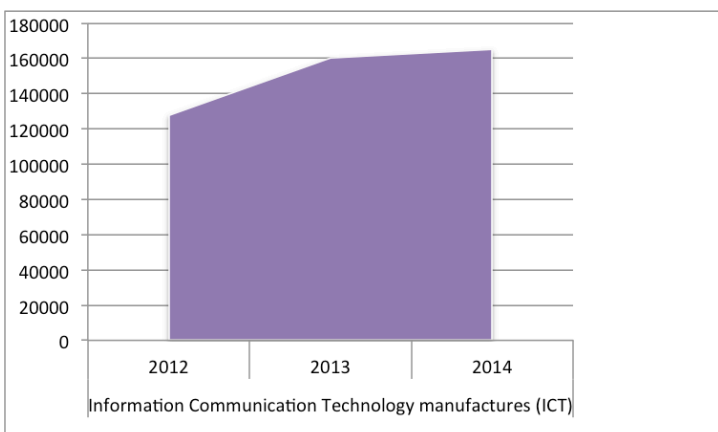
**Table 13. Italian exports to China in Agriculture**



**Table 14. Italian Exports to China in Machinery and Equipment**



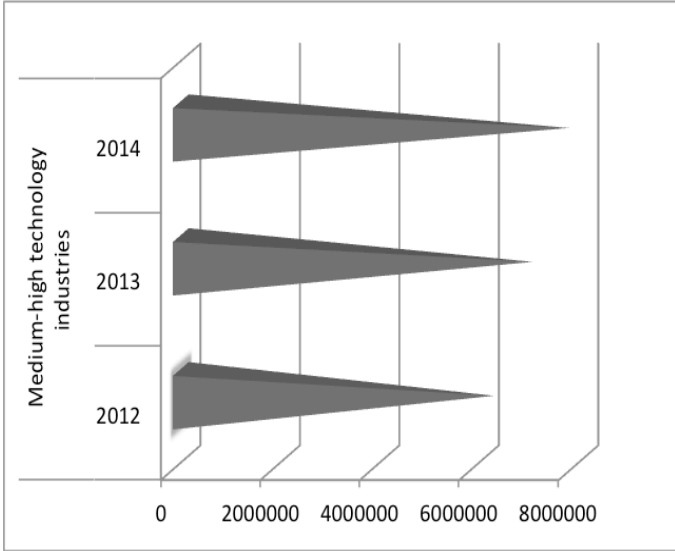
**Table 15. Italian exports to China in ITC**



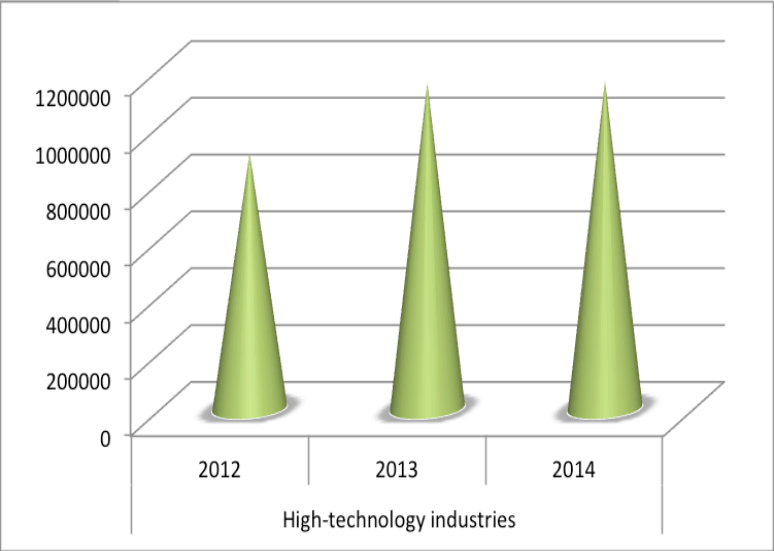
**Table 16. Italian exports to China in Wood**



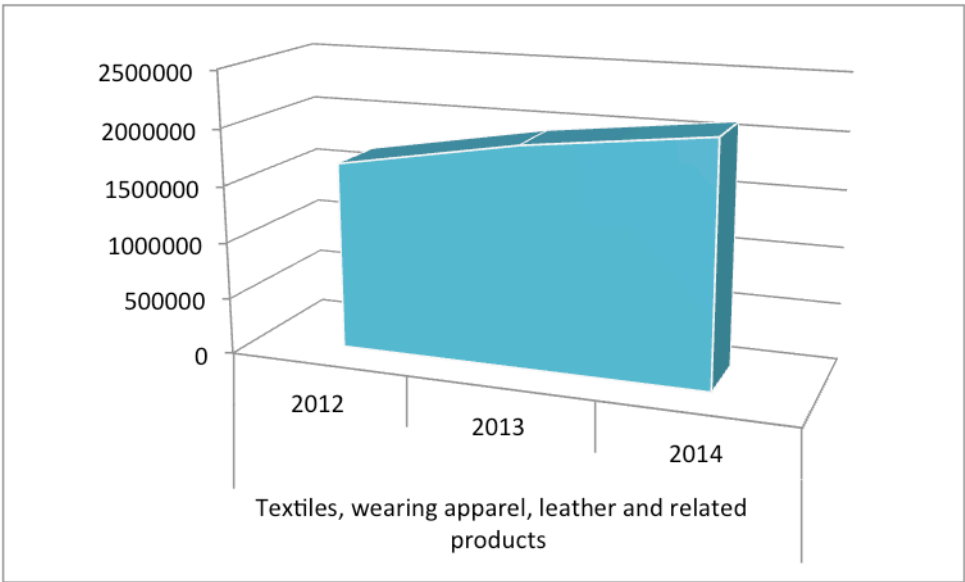
**Table 17. Italian exports to China in Medium High Technology**



**Table 18. Italian exports to China in High Technology**



**Table 19. Italian exports in Manufacturer sector**



Source: own elaboration on: <http://stats.oecd.org> (2015)

The data shows that, between 2012 and 2014, the export of each Italian sector to China (from mining and quarrying to manufacturing) underwent a steady growth in 2014. This is due (as mentioned previously) to the investments that allowed China to become more innovative and allowed them to have a higher level of production. Likewise, the low labor costs allowed this country to export without any limits, even if the level of quality of exported products is not yet as high as its competitors in advanced economies. The forecast for the future, according to many scholars, is that China will maintain its importance in the global economy, and will act as a leader in pioneering what the future of exporting will look like.

## **Conclusions**

Last year's results of the first trimester registered a slowing down of the Chinese Economy, but the Financial Times illustrated that by the end of 2014 China had overpassed the USA as the first economy in the world.

China became such a developed country thanks also to the power of its own Political Economy. Given a gaze to the role that Xi Jinping has been playing so far, it's possible to note that it has been decisive and essential. As some have noted, Xi is not a manager, rather he is a business politician and diplomatic man. He has been defined as a transformational leader who is modernizing the national and global identity of China.

From a foreign policy point of view, Xi has demonstrated to be a key player, after he visited all the countries in the world (excepted Antarctic) in one year, and he strengthened two trade agreements with advanced economies such as Switzerland .

In the meantime he launched a strategic plan to counter-balance the USA, and also promoted a treaty for the regulation of investments between UE and China, as well as signing a global commercial pact with the nearby Asian Countries.

More specifically, in this thesis I showed that China's growing economic power has also provided a new type of incentive for Italy to continue using their skills and know-how, in order to innovate and continue to be a relevant player in the world-trade stage.



At the question: “Is it true that if a country arrange of a consistent middle class would grew better and rapidly?” Given the present study, I personally think that this kind of consumer will change the economic power configuration on the planet.

In the equation of world growth, in the last century and at the beginning of the XXI, American and European consumers represented the demand side, and countries with a low–medium income (above all Asian countries) represented the supply side, whereas today the new consumers come from India and China. These countries moved from simply being producers, to consumers. They are the new kings and queens of the global economy.

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## **Riassunto**

Fino al 1978 la Cina è stata una repubblica socialista caratterizzata da un'economia chiusa e pianificata, ma a partire dalla morte di Mao l'economia è andata incontro a processi di rinnovamento in senso di una maggiore apertura commerciale, che ha consentito una crescita della quantità di investimenti dalla Cina e verso la Cina.

Nel 2001, quando è entrata a far parte del WTO, da stato marginale è assunta a terza potenza globale a livello economico. (National Bureau of Statistics 2005, p. 161; World Trade Organization 2005, p. 16). Il maggior beneficio di questa crescita fuor d'ogni dubbio risiede nell'aver permesso a milioni di persone di aumentare la qualità di vita.

In quegli anni, si verificò una rapida espansione delle aziende domestiche dovuta alle garanzie offerte ai cittadini in termini di diritti economici. Nonostante il governo abbia imposto delle restrizioni per favorire il commercio estero, le importazioni non sono andate incontro ad una diminuzione consistente.

Con la creazione delle SEZ nel 1979, gli investimenti diretti esteri sono aumentati, benché fossero state previste restrizioni rigide.

Nel 1986 grazie alla legge cosiddetta "22 regulations" (Feenstra 1998, 6) il governo ha assicurato alle aziende un aiuto sostanzioso nelle loro operazioni di investimenti.

Nel 2000 la Cina ha cominciato a firmare accordi con altri paesi per incrementare le relazioni commerciali, fra cui spicca il "permanent

normal trade relations" approvato dal Congresso degli Stati Uniti, per estendere alle esportazioni cinesi le stesse tariffe ridotte già in vigore per altri paesi.

Con l'ingresso nel WTO, la Cina ha dovuto implementare gli investimenti esteri nel settore manifatturiero. Questo ha portato negli ultimi anni a un aumento delle importazioni, consentendo alla Cina di influenzare l'economia globale.

Aziende giapponesi, asiatiche, coreane e taiwanesi hanno sfruttato il potere d'acquisto cinese per rivitalizzare le loro economie quando nel 2003 erano in fase di recessione. Anche gli Usa hanno beneficiato della Cina per incrementare le loro esportazioni, nonostante sia essa stessa a finanziare il debito pubblico americano, diventando così la principale fonte d'importazioni per i paesi esteri.

Grazie alle enormi dimensioni dell'economia cinese, la politica ambientale è andata incontro ad un poderoso sviluppo, che ha portato la Cina a produrre un vasto assortimento di beni di consumo e di prodotti elettronici. L'intervento del governo è stato rilevante anche perché ha usato il mercato interno per persuadere gli investitori esteri a creare *joint venture* con produttori domestici.

La competitività della Cina ha raggiunto livelli considerevoli grazie alla qualità delle esportazioni che di anno in anno migliorano e influenzano positivamente la bilancia dei pagamenti.

Dal canto loro i rapporti fra l'Europa e la Cina sono ancora regolati da un trattato firmato nel 1985 quando quest'ultima era ancora un'economia

pianificata. Dopo il 2001 l'Europa ha tuttavia deciso di implementare la politica commerciale verso la Cina, consentendo ad alcune zone di divenire molto sviluppate. Necessario è infatti ricordare come alcune province cinesi vantano un PIL pro capite maggiore rispetto a quello di alcuni Stati membri dell'Unione Europea, giacché molti imprenditori si sono specializzati nella fornitura a prezzi esigui di beni e servizi sostituibili con quelli consumati in Europa. Per tale motivo le esportazioni europee verso queste province si sono ridotte.

Altri stati dell'Unione Europea sono invece riusciti a migliorare il loro import-export con la Cina, raggiungendo un livello di esportazioni maggiore di quello delle importazioni, e quindi migliorando la bilancia dei pagamenti.

Nel 2006 l'Europa e la Cina hanno firmato un trattato di "Partnership and Cooperation Agreement (PCA)". La Cina ha dovuto accondiscendere ad alcune richieste europee, come il rafforzamento dei diritti di proprietà intellettuale o la diminuzione delle restrizioni sugli investimenti.

Secondo Messerlin e Wang (2008) la politica europea nei confronti della Cina, oltre che concentrarsi sugli obiettivi politici, dovrebbe permettere agli Stati membri (governo e società civile), di sedere accanto ai partner commerciali per concertare una linea comune.

Nel 2001 l'Italia e la Cina hanno iniziato a collaborare a livello di scambi commerciali. I due paesi, sotto l'aspetto economico hanno alcune caratteristiche simili: entrambe sono specializzate nel settore industriale e manifatturiero. Nonostante queste somiglianze, sembra che il mercato italiano stia sfruttando le opportunità che il mercato cinese offre. Infatti,

la principale opportunità per le aziende italiane, piccole e medie imprese, è quella di abbassare la produzione in modo da avere costi ridotti e aumentare i profitti.

D'altro canto in Cina esistono impedimenti a livello istituzionale, come il complesso sistema legale e l'impenetrabile mercato finanziario, che costituiscono un oggettivo ostacolo al successo del business europeo e italiano.

Benché siano occorsi alcuni incidenti che hanno congelato per un periodo le relazioni economiche fra i due paesi (Tienanmen 1989), Italia e Cina sono comunque riuscite a mantenere delle relazioni stabili, continuando a rafforzarle di anno in anno. Gli imprenditori mandarini non hanno mai cessato di investire nelle medie imprese italiane.

Più oltre occorre ribadire come il modello di specializzazione cinese e quello italiano siano molti simili: secondo la teoria di Hecksher-Ohlin-Samuelson i paesi si specializzano nella produzione di beni che portano ad un intensivo uso dei fattori disponibili nel paese. Di conseguenza la specializzazione internazionale dipende dalle dotazioni in termini di fattori di produzione del paese, ma anche dall'integrazione economica internazionale.

L'Italia ha reagito alla competitività aumentando la qualità delle esportazioni e delocalizzando alcune aree del processo produttivo. L'obiettivo delle aziende competitive contro la Cina è di accrescere l'innovazione, la qualità e lo stile dei prodotti in maniera tale da garantire un livello maggiore di protezione dalla competizione di prezzo.

I paesi più sviluppati, dotati di buona tecnologia e di un adeguato capitale umano, tentano di specializzarsi soprattutto in produzioni con alto livello di tecnologia, grazie alle attività di ricerca e sviluppo che mettono in atto.

La differenza implica che la competizione è basata non solo sul prezzo, ma anche sulle caratteristiche del singolo prodotto.

In questo caso se i prodotti di alta qualità richiedono una tecnologia avanzata e un capitale umano avanzato, allora i paesi che detengono una certa forza in entrambe le categorie, esporteranno maggiormente prodotti di alta qualità e importeranno prodotti di bassa qualità.

L'Italia dovrebbe situarsi in una posizione intermedia tra i paesi sviluppati: essa esporta e importa beni di alta qualità. Si avvisa però il rischio di un'effettiva pressione concorrenziale cinese.

La qualità continua a rendere appetibili le merci italiane; nondimeno è indispensabile una innovazione continua, giacché il vantaggio comparato in questi settori può essere mantenuto solo in presenza di un forte vantaggio qualitativo.

E' pertanto indispensabile per l'Italia aumentare la quota di investimenti destinata alla ricerca e allo sviluppo.

Per far fronte alla competizione cinese, l'Italia ha dovuto cambiare la strategia di prezzo in due importanti settori: quello tradizionale e quello di alta tecnologia. I paesi più sviluppati, per parte loro, hanno da un lato accresciuto la qualità dei loro prodotti e hanno dall'altro ridotto i prezzi.

In ogni caso la competizione cinese arreca vantaggi all'Italia e agli altri paesi, proprio perché questi ultimi sono spinti a migliorare e velocizzare



la produzione e ad assumere lavoratori più qualificati.

Analizzando invece i diversi settori che esportano prodotti dall'Italia verso la Cina, tra il 2004 e il 2011, abbiamo visto come per esempio il settore manifatturiero ( Table 7.) abbia avuto una crescita progressiva di anno in anno, mentre nel settore dell'elettronica la crescita di esportazioni non sia stata costante. ( Table 10.)

Anche nel settore dell'agricoltura, della caccia e della pesca, le esportazioni non sono cresciute così rapidamente, ma anzi caratterizzata da leggeri cambiamenti di rotta.

Al contrario negli ultimi tre anni l'Italia ha riscontrato un grande successo nelle esportazioni di cibo, bevande e tabacco ( Table 12.) e nei prodotti agricoli. Allo stesso modo il settore della comunicazione informatica ha subito un aumento di esportazioni consistente verso la Cina tra il 2012 e il 2014 (Table 15.)

Nel 2014 il Financial Times ha affermato che la Cina è la prima potenza economica nel mondo sorpassando definitivamente gli Stati Uniti.

La Cina ad ogni buon conto ha raggiunto i ragguardevoli livelli odierni anche grazie alla forza della politica economica messa in atto dal governo. Il presidente della Repubblica Popolare Cinese Xi Jinping ha rivestito un ruolo determinante nel modernizzare l'identità della Cina. Suoi meriti sono sicuramente quelli di aver firmato trattati bilaterali con paesi ad economie avanzate ed aver varato un piano strategico di contro-bilanciamento con gli USA. Parimenti nei confronti dell'Unione Europea ha promosso un trattato per la regolazione degli investimenti fra i due paesi.

In questa tesi ho voluto mostrare come la Cina abbia consentito all'Italia di sviluppare nuovi tipi d'incentivi, incentivandola ad accrescere le proprie competenze, ma consentendole al tempo di mantenere uno status-quo considerevole all'interno delle economie mondiali.

La classe sociale cinese è assolutamente consistente e questo porta il paese ad avere una crescita economica rapida e costante. Se all'inizio del XXI secolo i principali consumatori erano Americani e Europei, oggi la domanda di beni proviene in maggior parte dall'India e dalla Cina.