



*Dipartimento di Scienze Politiche*

*Cattedra International Public Policies*

## TITOLO

**China and the WTO: Economic and Social development.**

*An analysis of the agricultural sector and the Hukou system*

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## **Abstract**

The following dissertation proposes an analysis of China's process of openness to West and how the country adapted to the new Western standards.

To promote an analysis of the effects brought by the process of economic openness and international engagement, the following thesis will begin from the late 1970s, when Deng Xiaoping initiated the famous period of reforms. New policies which affected all the economy, starting from the agricultural sector, industrial sector and finally the services sector.

Following the process of reforms, the focus of the dissertation will be shift on the WTO accession process, which is considered as one of longest and most arduous negotiation ever experienced by the GATT/WTO After fifteen years of negotiations, China was admitted in the World Trade Organization in 2001.

The effects brought by the WTO in the Chinese economy and society constitute the main focus of this thesis; the economic effects on some sectors will be analysed, the social implication will be also analysed. Furthermore, the future commitments of the Chinese Government as regards some domestic challenges constitute the final part of this thesis.

The dissertation will be sustained by the bibliography and references, which include the use of Official Document, Academic Reports, Newspapers and Working Papers. Furthermore, the thesis will be supported by the application of the hegemonic stability theory, the approach of neo-realist as Gilpin will be used.

## **Abbreviations and Acronyms**

EU: European Union

FAO: Food and Agriculture Organization of the United Nations

FDI: Foreign Direct Investment

GATT: General Agreement on Trade and Tariff

GDP: Gross Domestic Product

HDI: Human Development Index

HRS: Household Responsibility System

HST: Hegemonic Stability Theory

IMF: International Monetary Fund

MFA: Ministry of Foreign Affairs

MFN: Most Favoured Nation

MOA: Ministry of Agriculture.

NBS: National Bureau of Statistics

PRC: People's Republic of China

SDPC: State Development and Planning Committee

SEZ: Special Economic Zone

TRIPS: Trade Related Aspects of Intellectual Property Rights

TRM: Transitional Review Mechanism

TRQs: Tariff – rate Quotas

TVEs: Township and Village Enterprises

U.S: United States

UN: United Nations

UNDAF: United Nations Development Assistance Framework

UNDP: United Nations Development Programme

WB: World Bank

WTO: World Trade Organization

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## Introduction

China is today considered as the direct competitor to U.S., in terms of economic and political power. Economically and socially speaking, the path undertaken by Deng Xiaoping in 1978 shaped a new China, powerful and influent in the international system.

According to the World Bank, even if the sustained economic growth has lifted hundreds of millions of people out of poverty (more than 800 million), China still remains a developing country with many people still living below the nations' official poverty level<sup>1</sup>. The World Bank considers China as a developing country because of the *per capita income* which is still a fraction of that in advanced countries. Furthermore, as reported by China's current poverty standard (*per capita* rural net income of RMB 2,300 per year in 2010 constant prices), there were fifty-five million poor in rural areas in 2015. Policy adjustments are required in order for China's growth to be sustainable. China's 12th Five-Year-Plan (2011-2015) and the newly approved 13th Five-Year-Plan (2016-2020) address these issues. The two plans both highlight the development of services and measures to address environmental and social imbalances, to expand social protection, to improve access to education and healthcare. The annual growth target in the 12th Five-Year Plan was 7 percent and the growth target in the 13th Five-Year Plan is 6.5 Percent, which reflect the rebalancing of the economy and the focus on the quality of growth in accordance with the goal of achieving a "moderately prosperous society" by 2020 (World Bank, 2017).

However, China could not have achieved these outcomes if it had not embarked on a path of market's opening as it did after the death of Chairman Mao Zedong, with the leadership of Deng Xiaoping and his idea of "*socialism with Chinese characteristics*" (中国特色社会主义 - *Zhōngguó tè sè shèhuìzhǔyì*). In less than thirty years, China changed and what contributed to the success of these reforms was the modality of implementation which was used: Gradualism and not a shock therapy.

It is important to understand, what a "socialism with Chinese characteristics" is; according to Professor Liu Jianwu from the Hunan University of Science and Technology, the idea of Deng Xiaoping differs from the socialism proposed by Marx and Engels, or from the socialism of the Soviet Model, it diverges also from the "*Surmounting Stage*" socialism in past China. It is different from the model proposed by Marx and Engels because it was not born after an experience with capitalism but on the basis of backward economy and culture. Moreover, in the Party's official narrative, Socialism with Chinese characteristics is *Marxism-Leninism* adapted to Chinese's conditions and a product of the so-called *scientific socialism*. The Theory pledged that China was in the "primary stage of

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<sup>1</sup> For more information From the World Bank: <http://www.worldbank.org/en/country/china/overview>



socialism” because of its relatively low level of material wealth, hence it was mandatory engaging in economic growth to be able to pursue a more egalitarian form of socialism, which in turn would lead to a communist society described in Marxist orthodoxy. In the discussion of the theoretical development of the “socialism with Chinese characteristics”, we cannot avoid mentioning that this theory has been further developed after the death of Deng Xiaoping. Theories like: *Jiang Zemin’s The Three Represents*, *Hu Jintao’s Scientific Outlook on Development* and *Xi Jinping Thought on Socialism with Characteristic in a New Era*, are clearly the heirs of the Deng’s Ideology. These theories have in some ways revised *Dengist* interpretations of the term, and in other ways have expanded them<sup>2</sup>.

Thus, it was and still is (even with some differences) an ideology used to promote the Chinese Development.

As regards, the reforms’ period, it may be divided into three phases: from 1978 to 1984; from 1984 to 1993 and from 1993 to 2005.

The process of Chinese openness toward the West began at the end of the 1970s, with the Reforms’ project initiated by Deng Xiaoping. The project involved a re-build of the entire economy: from the agricultural sector to the Services sectors. The first sector involved in the project was the primary; China, historically speaking has been a rural country with the majority the population living in the country-side. The changes promoted by Beijing caused a dramatic growth of the economy and ameliorated the living conditions of the population. Here some landmarks dates: In 1979, the government started the so-called “household- responsibility system” in the countryside, giving some farmers ownership of their product for the first time ( the discussion on this reform can be found in Chapter 2); in 1980, Shenzhen is made the first “special economic zone” (SEZ) to experiment with more flexible market policies and in a matter of years transformed from a fishing village into a manufacturing and shipping powerhouse; in 1992, Deng Xiaoping tours southern China to press for faster economic reforms and quell the influence of Party conservatives opposed to market liberalization, this tour produces a wave of market growth and some political relaxation; in 1996,

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<sup>2</sup> For further information about these theories: Lewis, John W.; Xue Litai (2003). "[Social Change and Political Reform in China: Meeting the Challenge of Success](#) *The China Quarterly* (176): 926–942. [doi:10.1017/S0305741003000559](#)

J.Fewsmith, “Promoting the Scientific Development Concept”, *China Leadership monitor No.11*.  
Phillips, Tom (27 October 2017). "[Xi Jinping Thought to be taught in China's universities](#)". [The Guardian](#)

China allows the yuan to be convertible on the current account, enabling the free flow of money for imports and exports; in 2001, China joins the World Trade Organization.

China's accession to the WTO constitutes an important part of the process of Chinese development. It is considered as the second part of the reforms' project began by Deng Xiaoping. Moreover, it shows the Chinese new course in terms of economy but also politics and international relations.

The Chinese admission in the WTO is considered as the longest and most arduous accession negotiation of the GATT/WTO history. China obtained the Membership after fifteen years of negotiations, from 1986 to 2001.

It is considered as a unique event, due to the difficulty to finalize an agreement among the country and the WTO's Members.

Furthermore, is unique because China was one of the original contracting parties to the GATT in 1948 but decided to withdraw (even if no official statement is present) few years later due to political problems. As a matter of fact, the readmission process began just in July 1986, when an official statement from the Chinese government was delivered to the Director General of the GATT.

The accession process commences with the submission of a formal written request of accession by the applicant government. This request is considered by the General Council which establish a Working party to examine the accession request and to submit the findings of the Working Party to the General Council for the approval; the Working party is open to all GATT/WTO'S Members.

A working party to examine China's status was established in March 1987 and was chaired by Ambassador Pierre Louis Girard of Switzerland.

According to the admission procedure of the GATT/WTO, the applicant government present a memorandum covering all aspects of its trade and legal regime to the Working Party. This memorandum constitutes the basis for the Working Party work. After examining all aspect of the existing trade and all the legal regimes of the applicant, the negotiations could begin. Multilateral and Bilateral Negotiations which all the Member of the Organization. the result of the Bilateral negotiations is consolidated into a document which is part of the final "accession package". In fact, the accession package consists of three documents which represent the result of the multilateral and bilateral negotiations. Just after the approval of the Accession package and once obtained the General Council of Ministerial Conference's approval, the applicant can sign the Protocol of Accession stating that it accepts the approved "accession package" subject to ratification in its national parliament.

All these passages in the case of China took fifteen years to be completed. Many problems arose even during the Bilateral Negotiations, not all the WTO's Members agreed on China's accession request.

Countries like: Mexico, El Salvador but also the U.S and some countries of the European Union had some perplexities about the possible consequences that the Chinese Membership could have caused to their economy. Notwithstanding, only one country refused to approve China's membership: El Salvador.

Contrariwise, the other countries who expressed some concern, at the end approved the membership but, on some condition, which are clearly stated in China's Protocol of Accession. Another important reason why China delayed joining the World Trade Organization were some political turmoil. Domestic or international, some events caused frictions among China and other Countries, which caused even the stop of the negotiations for a period. Finally, the 11<sup>th</sup> December 2001, China became the 143<sup>rd</sup> Member of the World Trade Organization (the discussion of China's admission in the WTO can be found in Chapter 1).

Once in the WTO, a Transitional Review Mechanism was established to review China's compliance with the Agreement. No particular problems were highlighted during the process of domestic adaptation to the WTO commitments. This because, China was almost ready to implement the commitments even before the formal accession, in fact in order to reach the criteria requested by the WTO China had to promote a new series of domestic policies (the analysis of China's internal adaptation to the WTO commitment can be found in Chapter 2).

The impact of the WTO in China brought an overall dramatic economic growth, but not all the sectors enjoyed the same beneficial effects, not in the short-run at least.

One of the most sensitive sectors, which was one of the causes of the long negotiations and frictions among China and the WTO was the agriculture. As stated before, the agricultural sector has always been important for the Chinese economy, a sector which was took into serious consideration by the government. After the admission to the WTO, China began to promote the industrial sector more than the agriculture this caused not only a rise of the unemployment, thus an unbalanced economic growth. Increased regional inequalities and the divide among rural and urban regions are just two of the consequences of the industrialization of the country.

There are many studies conducted by Political experts and economists about the effects of WTO in China, many of them published even before the admission. The majority of these studies agreed on one point: the WTO jeopardize some economic sectors and foster inequality in term of income among the population, this is why it is mandatory for the central government to promote policies to fight this trend (the effects of the WTO will be analyzed in Chapter 3).

Linked to the discussion about the agriculture and the unemployment is the Hukou system. The household-registration system can be described as a second “passport” for the Chinese population. Is a Family registration program, which regulates the population distribution and the rural-to-urban migration. Thus, labor-mobility is deep influenced by this “domestic passport”. The modern Hukou system was formalized as a permanent program in the 1950s.

The system was created to promote social, political, and economic stability. As stated above, China’s economy was essentially agrarian during the early days of the People’s republic of China. Hence, in order to boost the industrial sector, the government prioritized heavy industry. However, to finance this project the central government had to underpriced agricultural products and overpriced industrial products, to create an unequal exchange among the two sectors. To maintain this imbalance, the government created a system which restricted the free flow of resources, in particular labor between industry and agriculture, and between city and countryside. Every citizen became categorized as either rural or urban. The restriction in this field has been relaxed during the decades, many reforms were enacted. However, many reforms were enacted at a local level and to nationally, this caused a differentiation of the *Hukou* criteria across China.

In 2001 after China joined the World Trade Organization, the *Hukou* system experienced another form of liberalization. Even if, leaded to job losses in the agricultural sector, it galvanized the labor-intensive-sector (textile and clothing) causing an increase of labor demand. This is why some requirement as the documentation and the quotas for the rural-to-urban conversion were relaxed.

Despite the relaxation of the requirement, the system still exist but some new policies to deal with it are pending.

Therefore, the process of economic and political openness began by China in the late 1970s which culminated in 2001 with its accession to WTO, changed the country from an internal and external point of view. From an external point of view, China turned from an isolated and closed country to one of the World’s superpower in term of GDP and in terms of political influence. It is committed to many projects involving international cooperation and security, it is one of the top-player in the international relations of this century.

From a domestic point of view, there still some challenges with which China has to deal. Even if China has been able to fight poverty with outstanding results, there are still thirty million people who live in poverty. Moreover, the dramatic economic growth in the industrial and services sectors has increased the interregional inequalities. There is still a huge divide in terms of per capita income among inland and coastal regions. Hence, there are some problems that need to be solved (the effects of Chinese economic openness are underlined in Chapter 3).

This thesis proposes an analysis of China's openness process with a focus on the pros and cons beginning from Deng Xiaoping's leadership, passing from the accession to the WTO, to Nowadays. Furthermore, by the application of the stability theory we will try to understand if China is really ready to be the next hegemon and thus, surpass the U.S.

Before engaging in the discussion about the Chinese economic openness, the next section will provide an overview about the Hegemonic Stability Theory.

### **Introduction: China as the new Hegemon?**

China is the home of one the world's oldest civilizations, from 1949 with the establishment of the People's Republic of China is ruled by the Communist Party. This country is the world's most populous and is considered the second-largest by land mass. According to the World Bank data, the population of China was in 2016: 1,379 billion and it is expected to grow in the following years. As regards the economy, from the data provided by the IMF, WB and the UN, China is the second world's economy after the US, with a GDP of 11,937,562<sup>3</sup>. Moreover, on a *per capita income* basis, China ranked 71<sup>st</sup> by GDP (nominal) and 78<sup>th</sup> by GDP (PPP) *per capita* in 2016, according to the International Monetary Fund.

This country has been one of the world's fastest-growing major economies since former leader Deng Xiaoping installed reforms in 1978. In less than thirty years China moved from a central planned to a market-based economy. The rapid economic development poses several domestic challenges, including: balancing population growth with its natural resources, and growing income inequality.

The process of globalization is not a new phenomenon, throughout the past centuries has brought changes in our world. Throughout the process, the countries involved have experienced thanks to process of economic and social openness an impressive development. In the history of international relations and political science we have seen how economic power and the political one is linked, they are both cause and consequence of the other. This powerful "duo" has been studied by many scholars; in fact, many studies are been conducted on this matter.

The purpose of this dissertation is to propose the case of China by analyzing the economic and social effects of its process of globalization, in particular its economic and social path after the economic overture of the late 70s and the decision to join the GATT/WTO. The following analysis will be

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<sup>3</sup> Data from "World Economic Outlook Database". International Monetary Fund. 24 October 2017.

supported by the Hegemonic Stability Theory (HST) in order to give a theoretical answer to the behavior of China in the last forty years. Furthermore, this year China is celebrating the 40<sup>th</sup> anniversary of its new economic and social path (1978 – 2018), proposed by Deng Xiaoping, thus this is a good opportunity to study what the country achieved and how its political status changed. Moreover, the ambitious project of “no poverty by 2030” together with “Made in China 2025” and of course the OBOR project, are the consequences of China’s new economic and political influence, it is undoubtedly interesting to see how and why such big goals have been put in the agenda. In this context we will not try to answer the question: Will China surpass (in terms of power) the U.S?

Despite this is a “problem” which affect contemporary scholars, the purpose of this dissertation is to show why this question has been put on the table, what has been the path carried out by the PRC to reach this point, where its economy it’s the 2<sup>nd</sup> largest economy of the world and its political power and influence became a threat for the “ancient” powers such as the U.S or the European Union. In order to adapt the HST to our case study, we should explain in brief what the theory states.

### **Hegemonic stability theory: assumptions and main implications**

The HST is a theory of international relations belonging to the research fields of: political science, economics and history. The core idea behind this theory indicates that the international system is more likely to remain stable when a single nation-state is the dominant world power or the “hegemon” (Joshua S. Goldstein, 2005). Following this idea, when a dominant power exercises leadership (which can be displayed by several means: diplomacy, coercion or persuasion), it is deploying its “preponderance of power” (Joshua S. Goldstein, 2005). The preponderance of power can be defined as hegemony, in fact it refers to a nation-state’s ability to (quoting Goldstein) “*single – handedly dominate the rules and arrangements... (of) international political and economic relations*”.

The research on hegemony can be divided into two school of thoughts: the realist and the systemic school. The main expert of this theory from the realist side are: Robert Keohane who first used the name of “*theory of hegemonic stability*” and A.F.K Organski who developed the “*Power Transition theory*”. By contrast, from the systemic school the main authors are: George Modelski who espoused the “*Long Cycle Theory*” and Immanuel Wallerstein with his “*World System Theory*” (Gilpin, 1987, p.86).

Notwithstanding, Keohane is reported to be the first who used the name of “theory of hegemonic stability”, according to many scholars such as Helen Milner the paternity of the theory would be assigned to Charles P. Kindleberger. In his book “*The World in Depression 1929- 1939*”, published

in 1973, the scholar argued that the economic chaos in the period between the first and the second World War which led to the Great Depression was attributable (partly) to the lack of a world leader with a dominant economy (V. Ferraro). Kindleberger, initially used the terms “leadership” or “supremacy”, but then an increasing number of authors begun to use the concept of “world hegemony”. Sometimes, with the pure and simple connotation of a power above the other power, other times with a more “Gramscian” connotation of a global power legitimized by most other states, thanks to the convergent efficacy of their world governments.

In addition to the scholars listed above, other two important scholars need to be underlined: Robert Gilpin and Stephen Krasner both belonging to the neo-realist school. In the contest of this dissertation, we will try to adapt Gilpin’s vision to our case study: China and its process of commercial openness. Has stated above, one of the HST’ assumption is that without a hegemon or dominant power, the international system will inevitably be condemned to instability, both economic and political. As regard the first instability, the economic one, according to Gilpin and Krasner hegemony is the condition in which one county is superior to others in terms of available resources (economic and also military). Because of its vast internal market, a hegemonic country can “force” other countries to open their businesses, using as “carrots” access to the aforementioned market (U.S behavior with China in the past century?), and threatening their closure in case other countries should abandon the rules of free trade (R. Gilpin, 1981). Following this concept, the implicit assumption in this argument is that the international trade is a public good, and therefore creates incentives to “cheat”. Specifically, each country would have an incentive to close their businesses while others keep them open (the so-called “free-riding”). Thus, since this incentive is in action for all the countries, as in a classic “Prisoner’s Dilemma”, the finale and paradoxical result would be that of an international system with limited trade between the parties, although this is not an optimal solution. However, by using its internal market as an instrument to influence the trade policies of other countries, the hegemon can correct this situation and prevent (or at least discourage) that some countries could “fall into temptation”. Additionally, we should add to this aspect (the economic power) a second aspect: the military superiority of the hegemonic country (R. Gilpin, 1981). By guaranteeing the political stability of the international system, the hegemonic country also decreases the strategic incentives of the "secondary" countries to maintain their autonomy and economic independence - which would otherwise be dictated by military considerations. Not feeling threatened, states can thus pursue their wealth and well-being without caring about other problems (R. Gilpin, 1981).

However, nothing last forever, not even the hegemony and this is the core argument of Gilpin in his “War and Change in World Politics”. According to Gilpin, every political system - both domestic and international - is in place to defend and promote the interests of those who created it (the hegemon, in our case). It follows that every political system will remain stable until no actor has an incentive to change it. The true paradox of a hegemonic system is found here: the policies that the hegemonic country promotes (free trade and political stability) will eventually, in the long run, destabilize the system itself. The gap between the hegemonic and the other will tend to decrease due to conditional convergence (i.e. the tendency of the least developed countries to grow at rates higher than those of developed countries). This is due to economic factors (decreasing scale returns), technological (diffusion of techniques), and social factors (greater incentives to work and productive investment in less developed countries). This last point will be shown in the increasing tendency to allocate more resources toward consumption and military spending at the expense of productive investments. The aforementioned scenario, in Gilpin’s view should lead the system more and more toward a situation of parity between two countries: the hegemon and the challenger. From this situation, the challenger has sensitive incentives to trying to change the international system, so as to create *ad hoc* international institutions that reflect, defend and promote its interest (R. Gilpin, 1988). By contrast, faced with this challenge, the hegemonic country can respond by opting for a change in the internal allocation of resources (less consumption and more investment products), or for a decrease in international commitments (less spending on defense), or in extreme cases, for a preventive war. This war, which Gilpin calls precisely hegemonic, since it will lead to a redefinition of the distribution of power among the states, is what has historically led to international change, for example: the Peloponnesian war between Sparta and Athens, the Thirty Years' War, the Napoleonic wars and the First and Second World Wars; these are all wars that have been fought for changes of force at the international level, inevitably attracting in the conflict all the main protagonists (great powers) of the system ( R. Gilpin, 1988). Hence, He contends that the system naturally goes toward equilibrium. To acquire a new system, global war or "hegemonic war", definitionally creates a new hegemon. This new hegemon will create the new system of the world with their own set of preferences. Gilpin argues further that by the global system, the more decisive a victory is after the "hegemonic war", the more stable the new system will be.

Eventually, Gilpin’s assumptions are:

- A system is stable if no one considers a change to be beneficial;
- If the expected benefits are greater than the expected costs, an attempt at change will occur;



- When the marginal cost of further expansion equals the marginal benefit, the expansion is blocked;
- The cost of maintaining the status quo grows faster than the economic capacity to sustain it;
- A new equilibrium arises from an imbalance that reflects the redistribution of power.

### **Hegemonic stability theory: critiques**

Despite this theory gained the attention of many scholars worldwide, many were also the critics: During the eighties, the "theory of hegemonic stability" was subjected to a meticulous criticism for its theoretical and historical inconsistencies (Mc Keown, 1983; Ragowski, 1983; Stein, 1984; Russett, 1985; Snidal, 1985; Strange, 1987; Walter, 1993). Various authors supported the idea that England had intentionally promoted, in the nineteenth century, the accession of most countries to the gold standard model; and (the path undertaken by England is one of the variables analyzed by theorists of the HST) demonstrated historically that in most cases the behavior of the hegemonic countries oriented towards their own national interests, transforming, sometimes, into an obstacle rather than under conditions of international stability.

Suzan Strange, in particular, showed how the crises that systematically occurred throughout history were caused by factors within society and the hegemonic economy much more than by the behavior of the countries that use and challenge the system (S. Strange, 1987). Along the same lines as Strange, Andrew Walter concludes "the hegemonic function of rule provision and maintenance was seen to be of limited descriptive value. The distinction between roles of rule enforcement, the encouragement of policy coordination between states and the management and prudential supervision of the international monetary and financial system enabled us better to understand the different claims have been made for hegemony" (1993, p.249).

On the other hand, even the history of these last decades of the twentieth century contradicted the "theory of hegemonic stability". In the last thirty years, especially since the second half of the 80s, the world has been under the incontestable "leadership" of a single power oriented by a strong liberal commitment. As Kindelberger put forward, during this period, the United States arbitrarily arbitrated the international monetary system, actively promoted the opening and deregulation of national economies and free trade, encouraged the convergence of macro-economic policies, and acted, at least in part, as last resort lender in all the financial crises that have upset the world of trade, while maintaining, at the same time, an undisputed power on the industrial, technological, military, financial

and cultural levels. Despite all this, the world has lived in this period, a conjuncture of great systematic instability, in the financial field as well as on the ground of political-military relations.

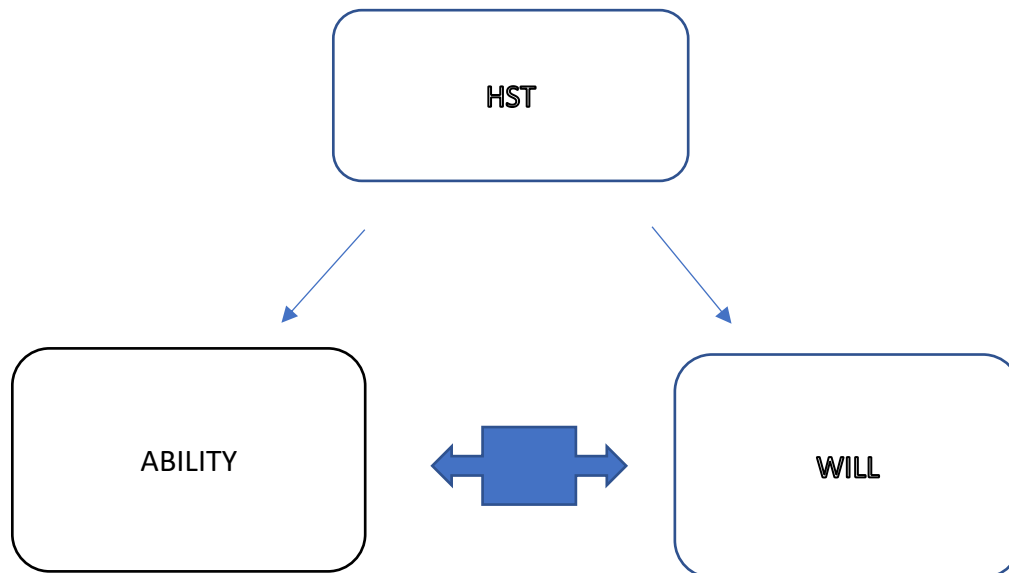
However, the HST remains an important contribution in the field of international relations, as shown by the appreciation received also by non-realist scholars, such as Lake and Keohane. Particularly important, however, is the appeal that it has had among *policy makers*; American post-Cold War foreign policy can in fact be read from this perspective. The defense of the "US primacy", as established in the famous Pentagon 1993 document signed by Khalilzad, or the *Project for a New American Century*<sup>4</sup>, has become an explicit objective of the United States, justified by the need to guarantee the "stability" of the system international (E.B Montgomery, 2014). Similarly, US interventionism is at the financial level (Mexico crisis of 1995, crisis in South-East Asia in 1998, euro crisis in 2010) and military level (Bosnia, Somalia, Haiti, Afghanistan, Iraq) It is explained precisely by the need to guarantee international stability. It is clear, therefore, why China's growth raised so much concern. If Gilpin is right, and if Washington is destined for relative decline due both to structural (growth of other countries) and domestic forces (more consumption – less productive investment), China's economic growth will lead (according to Gilpin's argument) to a greater global instability. Time will tell if Gilpin was right and what China's influence in the international system will cause.

### **The application of the theory: China and the HST**

The following paragraph will provide a review of some scholars about our case study. It is not a final answer to our dissertation, but it is helpful in order to understand why China gained so much attention. The rise of China since 1979 has increasingly influenced the world economy to the point of directly affecting the hegemon's power. Since the begin of Deng Xiaoping's project, China's economy has had a thirty year – run, officially growing at 9.5 % annually; a growth never experienced by any other countries before (T. C. Fisherman, 2005). The rapid industrialization, modernization and the economic growth have given the government an appetite for resources and other needs. Moreover, the PRC is also attractive to foreign investors. Additionally, its influence and its desire to sponsor a multipolar system have shaped a new China, more "westernized". But the question is: is China ready to take U.S place as world hegemon? We will try to answer by analyzing two features of the HST, the *Will* and the *Ability* of a Nation-state.

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<sup>4</sup> For more information visit: <https://www.loc.gov/item/lcwa00010308/> or <https://www.newstatesman.com/node/192545>



To begin, we should analyze the *will to lead*. According to polling data, Chinese people doubt China’s superpower system. A survey conducted by the Global times, has shown that hat only 12% of respondents believe that China is a superpower, despite its increasing diplomatic and economic might; Wu Xinbo, deputy director of the Centre for American Studies at Fudan University said: "Despite an increase in national pride, fewer people categorised China as a world superpower” (Global Times, 2010). Moreover, the survey shown that only the 57% believe at the time of this survey, that China was the most prominent member of the BRICS, with a decline of 10% compared to the previous survey. (Global Times, 2010). It is important to mention also the Comprehensive National Power Index (CNP): this concept has been developed by several Chinese thinkers and academic institutions in an attempt to assess and rank China *vis -à- vis* other major powers. The factors used to determine this index are the material capabilities, such as: military might, economic wealth and natural resources (W. Chuwattananurak, 2016). In 2006, China was way behind the U.S in terms of CNP, today is still behind but according to some scholars by 2020 it might equal the U.S. However, while many people think that it will surpass the United States, the Chinese projections of CNP show that the PRC probably will not surpass the United States in the 21st century. Since the Chinese experts of the CNP believe that the PRC can overcome the United States, while the majority of Chinese citizens seem to doubt that China is a superpower and given the declining confidence in the development of China, this could shape the future foreign policy in a way that binds the hegemonic ambitions of the dominant Chinese elite (Global Times 2010 / M. Pillsbury, 2000).

China has also based its foreign policy on constraining hegemony through the development of multipolarity; an example of this tendency could be seen in China’s engagement with BRICS, and also the IMF where developing countries are trying to alter the decision-making process to eliminate the veto power held by the U.S. In the same direction went its work alongside Russia at the UNCS

by protecting Iran from strong resolutions (D. Hiro, 2012). Last but not least, the diplomatic work made by the Government regards the North Korea issue; President Trump meeting with Kim Jong-un this year in Singapore has been made possible also by the Beijing's government. Another proof of the Chinese unwillingness to become a hegemon are the White Papers on National Defence, year by year it is underline how China does not seek hegemony or hegemonism (D. Hiro, 2012). Given this sentiment, it seems quite unlikely that China could possess the will to act as a Hegemon soon. Finally, according to David Shambaugh a sinologist working for the Brookings Institute, "*China does not want to lead the world*", further it no longer wants "*to be seen as the leader of the developing world*" (Newsweek, 2009). It would be possible to affirm that China would rather prefer the European Union than itself as new hegemon. In fact, Europe China relations are very important in today's geopolitical system; and according to Fisherman, some European countries such as France considers China as the "bulwark against the world dominance by America" (T. C. Fisherman, 2005). Thus, the many scholars agreed that China is unwilling to become a hegemon, so it cannot be a hegemon.

The ability to lead, by contrast is a completely different topic. The literature has tried to give an answer about the China's ability to become the new hegemon; the argument could be divided in different fields, such as the geography, the economic development, but also the aging demography and the problems related to poverty, bad healthcare and of course the environment.

As regard the geography, according to George Modelski in order to be a hegemon a state must have a favourable geography that foster security surplus (G. Modelski, 1987). Furthermore, it must count on a strong economy, including the access to natural resources and the control of the global market (thus, a dominance of production and capital). As said above, a favourable geography is a prerequisite for a hegemon or its challenger, because of that usually hegemons prefer oceanic insularity or peninsular. The best example is Great Britain, former hegemon who owed part of its power to his geographical location: its control of the British Isles served as a basis for its global policy, while allowing it to maintain a safe distance from the other powerful European states. The U.S constitutes another proof of the geography's importance; even if it is not an island its two maritime borders create a similar effect. With its rivals (Russia, PRC and Japan) oceans away, its position generated enough security surplus to serve as basis of its global projection (G. Modelski, 1987). China, however, is a different story.



*Fig.1 Map of China, source: The Economist Intelligence Unit.*

On one hand, part of the western China is comprised by difficult areas such as the mountainous Himalayan border. Furthermore, the western part is also characterized by the social and political turmoil with the Xinjian province and Tibet both aspiring to freedom. Additionally, the country is surrounded by fourteen separate nation- states and it has not few disputed with ten of them (D.G Cox – J. Falconer and B. Stockhouse, 2009). China is also surrounded by old enemies (even If new diplomacy inaugurated by Xi Jinping is changing the previous asset) such as: India, Japan, Mongolia. According to George Friedman, China has also another problem due to its geographical position: with only one maritime coast, it has only one immediate access to the sea: The Pacific Ocean. This is problematic since transpacific trade has equaled that of transatlantic trade just during the 1980s, hence, any nation-state situated on both oceans or with an access to both “has a tremendous advantage”, over countries like China (G. Friedman, 2009). A big project as the “Belt and Road” might solve the problem of just one access to the ocean, thus eliminating one of the problems (found by the scholars) for a possible Chinese hegemony, however, since it’s still a proposal China is still disadvantaged compared to U.S.

Another characteristic of the Hegemon’s ability to lead is the innovation; according to the literature innovation best flow from open and democratic societies. In order to become the new hegemon, China has to deal with this notion, since until today Beijing censors the Internet, runs the Media and the CCP has the monopoly on political power. Furthermore, the PRC’s adherence to the communist

ideology is suffocating innovation. Its top-down approach to economic control and innovation is not the best way in promoting effective idea. According to Thomas L. Friedman, who described this phenomenon in a New York Times article, if Beijing cannot “inspire, liberate, empower and enable” innovation “coming up from below”, it simply will not be able to equals or surpass other powerful countries. The economic dominance has stated before is a mandatory prerequisite for a hegemon, according to Charles P. Kindleberger the so-called father of the HST, a hegemon must maintain a “market for distress goods,” provide “countercyclical, or at least stable, long-term lending,” establish a system of relatively stable exchange rates, and act “as a lender of last resort.” (C. P. Kindleberger, 1973). China is a dominant force in production and capital but its willingness to manipulate its own currency and its outsourcing to Africa and Southeast Asia could compromise its position as a possible hegemon. Moreover, its lack of access to natural resources at home can further jeopardize its ability to become a hegemon. Last but not least, China is too dependent on export, this make it vulnerable to the U.S or other countries which could easily their market to China (the Trump – XI dispute on trade could be seen as a proof of the power of the import and export).

Finally, according to the literature even if China is a great power and can aspire to become even more powerful is not ready to be the new hegemon, even because of its internal problems related to the population and their living conditions. The today’s living condition of Chinese population will be analyzed in this dissertation in the following chapters.

## **Conclusion**

This chapter has shown that the discussion on China’s possible hegemony has been studied by many theorists of the HST. The majority of them agree that is does not matter how strong and powerful (in terms of economy and diplomacy) China has become in the last years, it is not ready to surpass the old U.S hegemony. Even if in terms of ability to lead, China has many cards to play, there still are some problems which affect its possible ability to acquire the hegemony: its geographical location, the troubled relations with some if its neighbors plus its dependency on exports are some of the main causes which affect its ability to “challenge” the U.S. furthermore, the sensitive internal problems: terrorism, poverty, healthcare and environmental issue are also important issues which explain why China could not be perceived as the next hegemon.

However, it would be unreasonable to deny its power and influence in the international system, even if it is not a true hegemon and (perhaps it will never be), China possess many characteristics of the possible future challenger.

In the following chapters, we will try to see when and how China became to be perceived as a threat to the traditional powers while analyzing the pros and cons of this new path: social and economic consequences above all. We will try to use Gilpin's argument to see if it fits to China's perceived aspiration to become the next hegemon.

The remainder of the thesis will be as follows: the first Chapter will illustrate an historical review of the Chinese reforms proposed by Deng Xiaoping, and the Negotiations process experienced by China to join the WTO. The second Chapter will deal with the internal adaptation to the WTO Commitment and analyses the effects of this accession in the agricultural sector and in the *Hukou* system, the pre-accession period is also analyzed. The third Chapter will analyze the effect of the WTO in China, in terms of population well-being, what changed and try to answer to the question: did the WTO bring benefits to the Chinese population? And What have been (if there are) the consequences of this accession? Finally, the conclusion will recall the main theoretical and empirical implications of this research.

## CHAPTER 1

### **The Path to Economic Openness: from a Closed economy to Globalization.**

*Reform is China's second revolution*<sup>5</sup>

Deng Xiaoping

The main aim of this chapter is to present an overview about china and its process to openness to globalization. With a brief explanation of the reforms carried out by Deng Xiaoping started in the late 70s, the purpose of the chapter is to explain the development of Chinese's economy. In particular the focus will be on the path of WTO's Accession, which constitutes the "longest and most arduous" accession negotiation of the GATT/WTO History because of some particular events and because not all the WTO Members wanted China as a Member. China's accession constitutes a unique event, because it was one of the original contracting parties to the GATT in 1948 but decided to withdraw a couple of years later. The readmission dates back to July 1986, when a Working Party meeting was established to examine China's status and it was chaired by Ambassador Pierre Louis Girard of Switzerland. The final stages of China's accession can be classified under three headings: *conclusion of Bilateral market- accession; conclusion of multilateral negotiations in the working party; approval and acceptance of these terms by WTO Members and China respectively.*

#### **1. The Sino- Soviet split**

In the contest of our discussion before engaging in the analysis of Deng Xiaoping's policies and China's decision to join the GATT/WTO, we could not avoid mentioning the Sino – Soviet split with its consequent new approach toward the U.S.

The Sino – Soviet split was a pivotal moment during the Cold War, the breaking of political relations among the PRC and the USSR. There is a variety of reasons to be mentioned to explain the split, however, "*ideological disagreements, conflictive issues over sovereignty and national security, economic dispute or the personality clash between Mao and Khrushchev could prove the most relevant*" (C. Tublewicz, 2009 p 353 – 354)

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<sup>5</sup> Excerpt from a talk with Susumu Nikaido, Vice-President of the Liberal Democratic Party of Japan.) (From Selected Works of Deng Xiaoping, Volume III <1982-1992>)



In the late fifties, debates of ideological orthodoxy between the two communist parties became ground of disputes about Soviet policies of De-Stalinization and peaceful coexistence with the West. Since 1956, when Nikita Khrushchev famously denounced Stalin and the Stalinism, the relations among the two powers became troubled, in fact a few years later in 1961 the Chinese communist party denounced its Soviet counterpart defining the new political approach as the product of “Revisionism Traitors” (B. P. Lenman, 2000). However, it was not just an ideological disagreement, in fact, the dispute was also intensified by increased competition between Beijing and Moscow for their influence in the Third- World. The leadership of the Communist movement was in question. According to historian Lorenz M. Luthi, the split was an important moment in the Cold War’s history as important as the Berlin Wall or the Cuban Missile Crisis, because it facilitated the Sino – American rapprochement.

As regard the Soviet desire of coexistence with the West, Mao perceived that this new path would have isolated the PRC geopolitically speaking (L.M. Luthi, 2010). Moreover, Mao’s cult of personality as the true socialist leader, emerged with the implementation of the Great Leap Forward (realized with Stalinist policies) worsened the situation (Luthi, 2010). As such, Mao widened the ideological divergence among China and Soviet Union critiquing Khrushchev’s economic policies, which included foreign aid to China. The critiques on Khrushchev’s new economic policies are an important point to be underlined since during the 1950's China worked with a large number of Soviet advisers who encouraged the Chinese leaders to follow the Russian model of development with an emphasis on heavy industry funded by taxes and levies from the peasantry whilst making consumer goods a low priority. Apart the aforementioned causes, geography plays an important role: problems with their shared borders and Chinese internal problems (such as with Taiwan).

By contrast, Chinese behavior with its ideological radicalism, was a problem for the USSR since in Khrushchev’s view it destabilized the politics of peaceful coexistence with the West; this is the reason why Russia decreased military and economic aid to China (Luthi, 2010). In November 1962, The PRC and the USSR broke diplomatic relations. Relations between the two communist powers completely collapsed. In 1965, the Sino-Soviet Split was a fact, and the beginning of Mao's Cultural Revolution interrupted all contacts between not only the two countries but between China and most of the rest of the world.

China worst fear became reality, apart from the alliance with some countries such as: Egypt, Indonesia and Albania, it found itself completely isolated in the international political arena (T. William – S. Douglas, 1982). And it will be until 1971 when PRC joined the UN.

Here is the question: How China passed from a voluntary isolated country to a U.S. ally? In 1970, Mao realized that he could not simultaneously confront the Soviet Union, the United States and suppress internal disorder. Mao decided that due to their geographical proximity, the Soviets represented a greater threat than the U.S that is why he decided to open a dialogue with America and thus to face the USSR. In July 1971, Henry Kissinger (National Security adviser to President Nixon) made a secret visit to Beijing in order to arrange President Nixon's visit to China the following year. This Soviets retaliated by organizing their own summit with President Nixon, this paved the way to create a triangular relationship between U.S – PRC – USSR (Luthi, 2010). The Sino – American rapprochement immediately changed the shape of the international system: because of that the USSR lost its power given by the Sino – Soviet ties; China abandoned its position of isolation and the U.S found in “playing China card” a good weapon against the USSR.

## **2. The History of China's Economic Development:**

### **2.1.China's Economy Prior to Reforms:**

Prior to 1979, China maintained a centrally planned economy, this means that a large share of the country's economic output was directed and controlled by the state. It was the State who set production goals, controlled prices and allocated resources throughout the economy (W. M. Morrison, 2018). During the 1950s, all China's individual household farms were collectivized into large communes. Moreover, during the 1960s, to support a rapid industrialization (which has always been the main goal of the Chinese leadership, we will see the same will even in the late 1970s and even after the admission to the WTO), Beijing undertook large-scale investment in physical and human capital. As a consequence, by 1978 nearly three-fourths of industrial production was produced by centrally controlled, state-owned enterprises (SOEs) (W.M. Morrison, 2018). Why these policies? The main goal of the central government was to create a self-sufficient China, the model followed was the Soviet one (which will be gradually abandoned in order to pursue the economic openness two decades later). To pursue this goal, Foreign Trade was limited to obtaining those goods that could not be made or found in China. These policies created distortions in the economy, because since most aspects of the economy were run by the central government, there were no market mechanism to efficiently allocate resources. Thus, for the farmers and for the firms, there were few incentives to become more productive or to be concerned about the quality of their goods. Farmers, thus the primary sector was the core of the economy since the establishment of the People's Republic of China. When the PRC was founded almost 90% of the population lived in rural areas and the agriculture accounted for 65% of national income (V. D. Lippit, 2005).

The period between 1949 and 1978 was characterized also by dramatic conflict over economic and social policy, characterized by the huge gap in terms of income among urban and rural areas. During this period the incomes were stagnant, and what is important to understand is that in part was an outcome indirectly caused by the central government. Why? Because that period was characterized by high levels of capital accumulation, which absorbed resources that might otherwise have been used to improve Chinese living standards (V.D. Lippit, 2005).

The inefficiency of the centrally planned economy left Beijing with a choice among improving living standards and promoting the most rapid growth it could manage: they chose the second scenario. In terms of economic growth, according to Economic Angus Maddison, during the period 1953-1978, China's GDP grew at about 4.4% annually, this datum is however different from the statistics given by the government analysing the same period. In fact, according to the official data provided by the central government, Chinese economy grew at 6.7% annually during the same period. There is no certainty about the real growth per year, but we can be sure about one thing: China's economy suffered significant economic downturns during the leadership of Chairman Mao Zedong, especially during the Great Leap Forward from 1958 to 1962, which led to a massive famine and to the death of up to 45 million people (W.M. Morrison, 2018). As a matter of fact, before the early 1980s the agricultural sector was depressed, the grain production was emphasized to ensure adequate food supply for the country. This plus the sanctions of the US and the United Nations (embargo) reinforced the conviction of the Chinese leadership to strongly promote the "gran-self-sufficiency", hence the new policies which will be remembered as a disaster.

The Great Leap Forward coincided with the second five-years plan, however it will be remembered as a catastrophe. The sharp declines in agricultural production and the widespread famine between 1959-1961 are two important aspects of China's economic crisis during the GLF. Scholars have proposed their own views about the topic, and here we cannot deeply analyse the phenomenon but, since it is linked to the reforms project of the late 1970s, some information will be given. First, one of the main causes for the famine, was the grain shortage; which could have been caused by the diversion of productive inputs away from agriculture (pursuing the everlasting will to promote a strong industrialization) including capital and labour, may have undermined the capacity to produce food (J. Y. Lin – D. T. Yang, 1998). Furthermore, some scholars have argued also using the game theory that the main cause of the agricultural collapse was the deprivation of the right of the peasants to withdraw from the collectives with the communization started in 1958 (J. Y. Lin – D.T. Yang, 1998). What is interesting to note about this period is the fact that even if the GDP grew every year, the Chinese

living standard were not growing at the same percentage. This is one of the reasons that will lead China to undertake a new path. As a matter of fact, shortly after the death of Mao, the government decided to abandon the Soviet-Style economic policies by gradually reforming the economy according to free market principles, in order to increase the economic growth and raise living standards, but also to promote a more internationally engaged China. As Deng Xiaoping said: “Black cat, white cat, what does it matter the colour the cat is as long as it catches mice”.

## 2.2. The importance of thirty years of reforms

*“There are no fundamental contradictions between a socialist system and a market economy”.*

*Deng Xiaoping<sup>6</sup>*

If someone would have said in 1960 that China would have been one of the most powerful countries in less than forty years, nobody would have believed it. However, this is what happened. China embarked in a miraculous path of modernization and development both economic and social that helped it to become of one the richest and politically influent country in the world. This achievement is due to several actors, who shaped China in completely different way from the establishment of the Republic in 1949. However, if someone would ask to who China owe its grandeur many people would answer: to Deng Xiaoping. His project to develop a “*socialism with Chinese characteristics*” (Deng Xiaoping, 1984) has changed the economy; from an economy in which market forces played no role in organizing economic activity to one in which these forces play a central role (Tisdell, 2008). Furthermore, China changed from a close economy to foreign investments to a position where it is a major global recipient of foreign investment (Tisdell 2008). Finally, there are a variety of indicators that can demonstrate how the economic Welfare has shown an upsurge in the last thirty years.

What made Deng Xiaoping’s policies project successful, was the strategy used to implement the reforms: Gradualism and not a “shock therapy” (Y. Yueh, 2003). Moreover, we can consider as successful the project because they were able to find the rights sectors to promote, helping not only the sectors themselves but the entire economy as a whole. Before explaining the major reforms established during the 70s, 80s, and 90s, it is important to understand why these reforms were established. First, the plan was not a new one, the four-modernization plan (agriculture, industry, science and technology) was announced by Premier Zhou Enlai in December 1964, it was interrupted by the Cultural Revolution of 1966-76. The project was re-established as soon as China experienced

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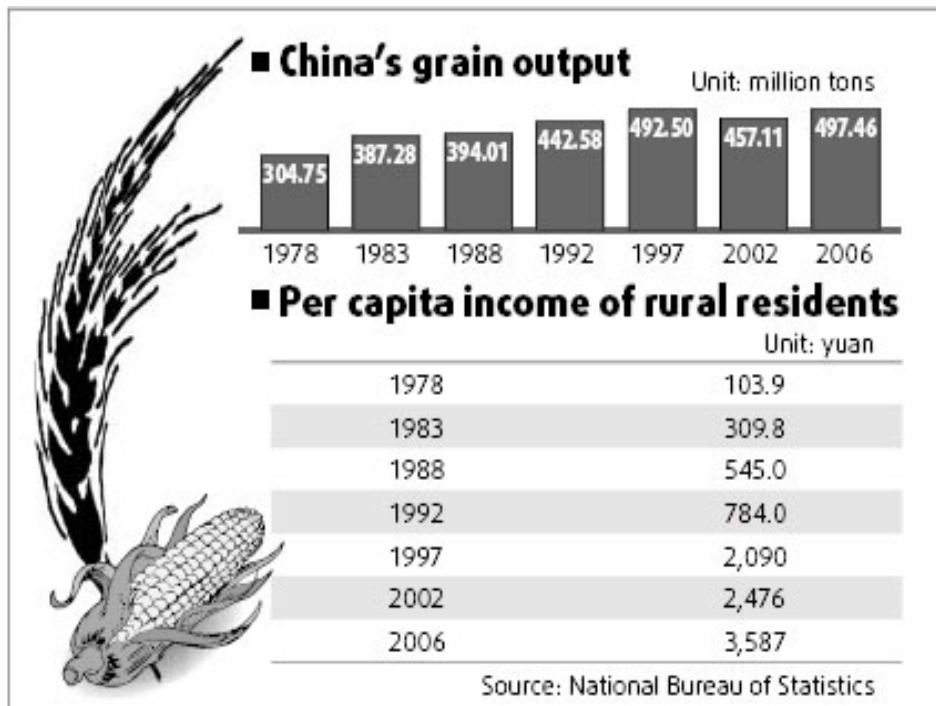
<sup>6</sup> From an interview with “Time”, 4 November 1985

a change of its leadership (Chow, 2004). The second reason is a purely economic one: the planning system used in China was difficult to manage and economically inefficient (Chow, 2004). Third, the rapid growth experienced in the more market oriented neighbouring economies played a fundamental role. The evidence that a market economy can perform better and produce more growth fostered the reforms; the neighbouring economies included: Hong Kong, Taiwan, South Korea and Singapore (Chow, 2004). The contrasts in the economic performance among North and South Korea, among East and West Germany and among Eastern and Western Europe reinforced this point. Lastly, the people's needs. The Chinese population had suffered because of the economic consequences of central planning as the shortage of consumer goods and the limited variety.

One important step moved in the Citizen's direction was the program proposed by Deng Xiaoping during the Third Plenary Session of the Eleventh Central Committee held in December 1978. It was stated that "*The general task put forward by our Party for the new period reflects the demands of history and the people's aspirations and represent their fundamental interests*" (The Research Department of Party Literature, 1991, pp 9-10). Moreover, it was stated that the main goal of the CCP would have been from then on to concentrate on "*rapid growth in production to improve the people's living standards significantly and strengthen national defence*" (The Research Department of Party Literature, 1991, p.10). What is important to underline about this meeting is the new path undertaken by China in relations to foreign countries, during this meeting which constitutes one of the first step of openness to globalization, it was stated that China would have changed the system and the method of economic management. Economic cooperation with other countries would have been strengthened, special efforts would have been made to adopt the world's advanced technologies; moreover, scientific and educational work would be strengthening to meet the needs of modernization (Tisdell, 2008). By embracing Deng's project of create "a socialism with Chinese Characteristics", the purpose was to improve the quality of live for China's citizens and generate strong economic growth for the country (Hebert, 2010). The process of reforming China was split into two main stages, the first step which begun in 1978, involved the breaking down of the collectivization of agriculture and removing much of the barriers that prevented foreign investments (Hebert 2010).

Why beginning with the agriculture sector? It was decided that the economic reforms should begin with the agriculture sector, because in that period, the agricultural sector was considered as "the foundation of the

national economy” (Tisdell, 2008). The policies were focused on the rule of law, decentralization and resource ownership in undertaking the agricultural reforms (Tisdell, 2008). One of the first reforms carried out was the



“Household- responsibility” system (*simplified Chinese: 家庭联产承包责任制; traditional Chinese: 家庭聯產承包責任制; pinyin: jiāting liánchǎn chéngbāo zérènzhì*). This policy divided the land of several People’s communes, across the country, into private plots (de-collectivization), as result of this, the effect on farmers in the rural areas was deep as they were able since then to keep their land’s after paying a share to the state (Hebert, 2010). The effect of this policy affected the sector dramatically, with a rise of the production, a stimulation in rural industry and an improvement in the well-being of millions of farmers. Although the contract responsibility system did not change the nature of land ownership when it began in 1978, it did change the nature of land use rights, with management improved through more balanced benefits (China Daily, 2008).

During this first stage, urban industrial reformations were also made as the *Dual price system*: this system allowed businesses to sell any products which exceeded the planned production quota and commodities were sold at plan and market priced (Hebert, 2010). When private businesses were legitimated China experienced an increase in industrial output which also increased price flexibility. This further reform can be seen as a step further to embracing globalization, at that point China went further in opening its economy to foreign investments and creating several “*special economic zones*”. The first cities which gained this status were: Shenzhen, Zhuhai and Shantou in the Guangdong

Province, Xiamen in Fujian Province and the entire province of Hainan. This experiment, which allowed businesses in these areas to operate under the free market mechanism, contributed as a driving force behind the rapid growth that China saw shortly after this period (Hebert, 2010). Furthermore, the issuing by the CPP of the document “*On reform of Economic Structures*” in 1984 marked an important milestone in the Process of reforming China’s economy. That document shows the willingness of China to continue developing and modernizing the country, the will to adapt China to the new requirements asked by the Globalization Process. With the 1984 Document, we enter in the second phase of the reforming project initiated by Deng Xiaoping in the late 70s. In 1984-93 Deng continued to push China to a more open market economy (Tisdell, 2008). One of the most important reform promoted in that period was the *decentralization of State control*, more power was given to local leaders (Hebert, 2010).

The process begun by Deng Xiaoping, continued even after his death in 1997 with his successors: Jiang and Zhu, who were also great supporters of reformation. Both leaders’ core belief continued to be the adoption of policies that would promote the rapid economic development of China. in the 16<sup>TH</sup> CPP report of 2002, Jiang Zemin provided further guidance on policies for the continuing development of China. What he underlined was the need for his government to raising living standards in China and promote a further expansion in overseas trade, and international cooperation (Tisdell, 2008). Hu Jintao, during the 17<sup>th</sup> Party Congress, outlined China’s remarkable achievements during the reforms period. Both Leaders addressed to the problem of growing inequalities, and to the need to promote further policies to fight this problem. A problem which would be analysed in the following Chapter.

Notwithstanding, the problem faced by China in the process to openness to globalization, the achievement reached by China in terms of economic growth and social development are outstanding.

By 2006, China's real GDP was over 13 times higher than 1978. Some graphs will be helpful to understand how much China changed.

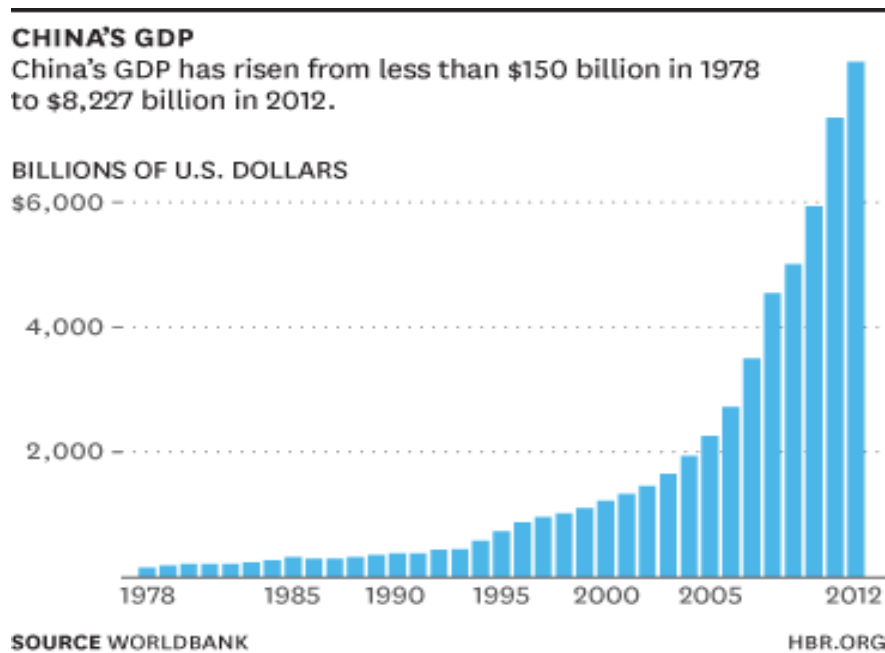


Figure 1<sup>7</sup>

Furthermore, China experienced thanks to Government commitment a dramatic rise in its Human Development Index. Its HDI rose from 0.530 in 1975 to 0.777 in 2005 (Tisdell, 2008). Great achievement was made in reducing the incidence of absolute poverty in less than 30 years (Tisdell, 2003). According to China's national poverty line dropped from 250 million in 1978 to 28.2 million in 2002, a decrease of about 88.7 % (Hu Angang Hu Linlin and Chang Zhixiao).

The reforms promoted in China possess particular characteristics, perhaps these peculiarities constitute the key of their success. Let analyse three of these important features: first of all, unlike the market reforms promoted by other Socialist Countries in Easter Europe, China did not change its political system but was able to maintain its political stability (Chow, 2004). Second, china's reform process does not have a blueprint, "*each step was taken after drawing the experience of the previous step*" (Chow, 2004, p.140). Third, as stated above, the reform project was enacted step by step and thus gradually and not all at once (in the economic language this strategy is known as "gradualism").

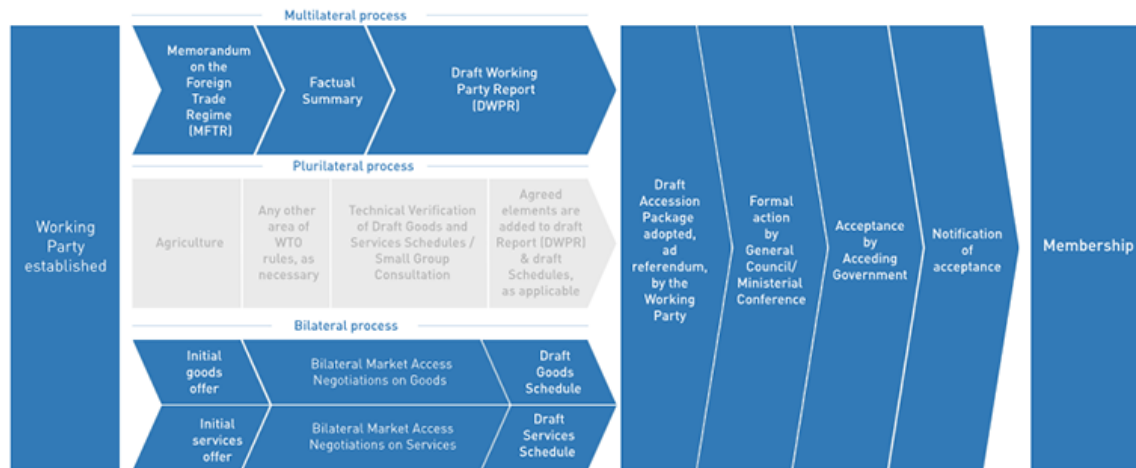
The path begun by Deng Xiaoping in 1978 had many reasons: not only the need to ameliorate the internal living standard of the population or the purpose to create a strong China. Perhaps one of the main reasons was to adapt China to the Western standards and allow it to become an important actor

<sup>7</sup> <https://hbr.org/2013/11/chinas-economy-in-six-charts>



in the international relations. Another step in the path to strengthen the international cooperation was the decision to join the GATT/WTO.

### 3. The WTO Accession: A long journey



Source: WTO<sup>8</sup>

#### Art.XII

1. *Any State or separate customs territory possessing full autonomy in the conduct of its external commercial relations and of the other matters provided for in this Agreement and the Multilateral Trade Agreements may accede to this Agreement, on terms to be agreed between it and the WTO. Such accession shall apply to this Agreement and the Multilateral Trade Agreements annexed thereto.*
2. *Decisions on accession shall be taken by the Ministerial Conference. The Ministerial Conference shall approve the agreement on the terms of accession by a two-thirds majority of the Members of the WTO.*
3. *Accession to a Plurilateral Trade Agreement shall be governed by the provisions of that Agreement.*<sup>9</sup>

China officially joined the WTO on December 2001, but the path to this accession is considered as the longest and most arduous accession negotiations of the GATT/WTO history (T. Rumbaugh and N. Blancher, 2004). Why it is considered so unique? Because China was one of the 23 contracting parties to the GATT in 1948 but after few years decided to withdraw and re-decided to apply in 1986

<sup>8</sup> Application Process scheme. [https://www.wto.org/english/thewto\\_e/acc\\_e/a1\\_chine\\_e.htm](https://www.wto.org/english/thewto_e/acc_e/a1_chine_e.htm)

<sup>9</sup> Article XII, Marrakesh Agreement about the procedure of accession for a new member.

(Gertler, 2002). Many problems were faced during this long journey causing a 15 years delay. The WTO constitutes an important part of the reforming process enacted by China begun after the death of Chairman Mao Zedong with the leadership of Deng Xiaoping. The accession of China in the World Trade Organization marks an important milestone along the reform path China followed for more than twenty years, it is an important part of that project and not a new direction (OECD,2002).

In 1986, the People's Republic of China notified the GATT of its wish to resume its status as a GATT contracting party and its willingness to renegotiate the terms of its membership (Gertler, 2002). The formal request was presented by H.E Ambassador Qian Jiadong, Permanent Representative of the People's Republic of China to the UN Office at Geneva (Ministry of Foreign Affairs, the People's Republic of China)

The notification was received on 10/07/1986, Mr. Paul – Henry Ravier (Deputy Director – General of the WTO), communicated China's will to the other contracting parties for their consideration. This is the official communiqué:

*“I have the honor to inform you that the Government of the People's Republic of China, recalling the fact that China was one of the original contracting parties to the General Agreement on Tariffs and Trade, has decided to seek the resumption of its status as a contracting party to GATT. China is currently pursuing the basic national policy of opening to the outside world and revitalizing the domestic economy and will adhere to it in the years to come. It is the firm belief of the Government of the People's Republic of China that the ongoing process of economic reform will contribute to the expansion of economic and trade relations with the contracting parties, and that the participation of China as a contracting party in the work of the GATT will further the objectives of the General Agreement. China is a developing country. The Chinese Government expects to receive treatment equivalent to that accorded to other developing contracting parties. China is prepared to enter into negotiations with GATT contracting parties on the resumption of its status as a contracting party. To this end, it will provide information on its economic system and foreign trade régime<sup>10</sup>.”*

The working party to examine China's status was established in March 1987, it was chaired by Ambassador Pierre – Louis Girard from Switzerland. They met almost every year from 1987 to 2001: until 1995 they met over 20 times but without concluding the negotiations; after the 1995 when the

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<sup>10</sup> GATT, China's Status as a contracting party. Communication from the People's Republic of China. L/6017 14 July 1986.

GATT converted into WTO, they met 18 times until reaching the final Agreement in November 1999 (Fewsmith). The final stages of the accession process can be classified under three headings: conclusion of bilateral market-access negotiations; conclusion of multilateral negotiations in the Working Party; approval and acceptance of the terms of accession by WTO members and by China, respectively (Gertler, 2002). Before engaging in the explanation of these steps, it may be worth reviewing the many ups and down China experienced along its accession trail. The main reason is that there several particular events that may have delayed the accession of China, it is important for the sake of accuracy explaining them. The core of the problem was that China's WTO accession was politicised in a way that it gained its own political life (Y. Yang, 2000). Since the decision to Join the GATT7WTO, the politics surrounding the campaign experienced important change. There are in particular two events that caused an impressive delay in China's procedure of admission: the Tiananmen issue and the collapse of the Soviet Union (Gertler,2002). In the years following these two events there was no activity in the admission front. Prior to these two events, the relationship among China and the West enjoyed a peaceful moment, largely because of the reforming project started in 1978. The importance of the reforming process should not be underestimated mainly because, China took a different path compared to other socialist countries: economic reforms versus central planning (Y. Yang, 2000). The Cold War period meant that the West had a strong interest in maintaining a strategic relationship with China to contrast the Soviet Union. However, the events cited above compromised that relationship.

According to the West, China was no longer a progressive country but just "*one country ruled by a repressive regime*" (Y. Yang, 2000 p.15). It is possible to imagine that without those events, the West would probably let China accede to GATT out of political and strategic consideration (Y. Yang, 2000). Moreover, even China perception of West changed. After Tiananmen, the Chinese government strengthen their belief that the West was only interested in democratisation of China and Chinese market. This vision was "helped" by a number of events happened in the 1990s, noteworthy to mention are: the forceful inspection of a Chinese cargo ship suspected by the CIA of carrying chemical weapon heading to the Middle East, the Taiwan Strait Crisis in 1996 and the bombing of the Chinese Embassy in Belgrade in 1999 (Y. Yang, 2000). The involvement of the United States of America in these events aroused much resentment in China, and perhaps increased suspicion of the West in general.

Without any doubts, China and the WTO members were on a roller-coaster ride of major proportions over the entire application process period (Gertler, 2002).

### 3.1. Bilateral agreements

Forty-four members (including fifteen members States of the European Union as one), expressed their will to enter into negotiations with China. This long process of negotiations began in 1987.

These bilateral agreed commitments became part of the multilateral treaty term of China's membership in the WTO. Once these agreements were communicated and notified to the WTO, *China's consolidated Schedule of Concessions and Commitments on Goods* (China's "Goods Schedule") and its *consolidated Schedule of Specific Commitments on Services* (China's "Services Schedule") were prepared with assistance from the WTO Secretariat (Gertler, 2002). Subsequently, they were reviewed in the Working Party and "multilateralized", i.e., extended on a "*most-favored-nation*" ("MFN") basis to all WTO Members, as China's Goods and Services Schedules, annexed to the Protocol of Accession (Gertler, 2002).

Notwithstanding, the willingness express by some of the WTO members, china was able to make rapid progress in concluding its bilateral negotiations with most other WTO member governments just after the conclusion of the agreement with the United States in November 1999 and then with the European Communities in May 2000. Thus, the "*negotiations picked up pace*" (Gertler, 2002, p.3). These agreements have gone a long way toward removed the remaining obstacles to the Chinese membership in the World Trade Organization (T. Walmsley – T. Hertel, 2000).

The agreement stipulated among People's Republic of China and the United States constitute an important part of this long accession process. Not only because as said before it constituted one of the final stages of the bilateral process begun by China in 1987, also because it was a statement of friendship among the country; after several years of misunderstanding this step restored the balance. Concerning the US administration's agreement with China – as a quid pro quo for China's market-access concessions – the United States would provide China with permanent MFN status, thus eliminating the annually renewed conditional MFN provided under the *Jackson- Vanik Amendment* to the US Trade Act. After much debate, the US Congress finally passed unconditional MFN for China in September 2000 (Gertler, 2002). Hence, during this process with the United States, China agreed to a set of conditions that were far more stringent than the terms under with other developing countries had acceded (L. Branstetter – N. Lardy, 2006).

Resistance to the agreements was advanced by other Member states such as: Mexico and El Salvador.

With reference to Mexico, it was the last country to accept Chin's WTO accession. The major problem among these two countries was how to deal with hundreds of anti-dumping orders that

Mexico continued to maintain against products of Chinese origin. *In the end Mexico, agreed that it would have terminated these allegedly WTO-inconsistent measures six years after China's accession* (Gertler, 2002, p. 5). Annex 7 of the China's Protocol of Accession in 2001, required that all measures incompatible with WTO principles be "eliminated gradually "eliminated gradually or treated in accordance with the conditions and terms mutually agreed" (Liu Y – Zhao L, 2017). El Salvador took a step further in the opposition to China's accession in the WTO by acting as the only state to officially oppose China's membership by invoking the non-application clause in Art. XIII of the WTO Charter (E. Scalera, 2017).

Here the official communication from the representative of El Salvador:

*"I have the honour to address you in connection with the accession of the People's Republic of China to the World Trade Organization.*

*In this regard, I would like to inform you that, pursuant to Article XIII of the Marrakesh Agreement, my Government has decided that it will not apply the multilateral trade agreements between El Salvador and the People's Republic of China if China accedes to the Organization.*

*I would be grateful if this decision could be communicated to the Ministerial Conference."*<sup>11</sup>

Noteworthy to mention is the role of Japan in the negotiations process. Tokyo helped to ensure that the process of admission was expedited as much as possible, especially after the conclusion of the bilateral agreements with United States and European Union (E. Scalera, 2017).

### 3.2. Multilateral Steps

Once concluded the Bilateral agreements between China and the Other member states as required by the procedure underlined by Art XII of WTO Agreement<sup>12</sup>.

In order to conclude the negotiated package, and in recognition of the fact that the information provided by China to the Working Party was incomplete or out of date; the Working Party requested

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<sup>11</sup> WTO, (official document): Invocation by El Salvador of Article XIII of the Marrakesh Agreement Establishing the World Trade Organization with Respect to China. Ministerial conference 4<sup>th</sup> session. WT/L/429.

<sup>12</sup> Worth to mention is the peculiarity of the accession's procedure of the WTO. It constitutes a process of negotiation among the parts involved. Quite different from other procedure of admission to other international entities such as: the IMF which is an automatic process. (Source, WTO)

to submit updated information such as: notifications of laws, regulations and other policy measures on all the key aspects of China's trade regime (Gertler, 2002).

This passage presented major challenges for all concerned. The Working Party requested several updates during the last year of negotiations in 1998 and two times in 2000<sup>13</sup>. The final meeting of the Working Party in September 2000, with an informal session on 10<sup>th</sup> of September, was devoted to completing the technical "clean up" and verification of the Goods and Service Schedules, followed by an overall review of all the documents provided by China during all the negotiation's period. The 17<sup>th</sup> September, China reached the agreement with the Working Party on all outstanding issue. By the conclusion, agreement was reached on preambular and general provisions;

- *commitments related to the administration of the trade regime, including uniform administration, special economic areas, transparency and judicial review;*
- *commitments on non-discrimination, special trade arrangements, state trading, non – tariff measures, tariff- rate quota administration, import and exporting licensing, price controls, taxes and charges levied on imports and exports, export subsidies and domestic support in agriculture, sanitary and phytosanitary measures; trading rights; and standards and technical regulations (Gertler, 2002, p.6).*

Furthermore, agreement was also reached on:

- *a special transitional provision on price comparability in determining subsidies and dumping (lasting fifteen years);*
- *the establishment of both a transitional product-safeguard mechanism and a separate transitional textile safeguard;*
- *immediate implementation of the Agreement on Trade-Related Aspects of Intellectual Property Rights ("TRIPS");*
- *a host of Technical, sectoral issues in trade in service;*
- *a transitional review mechanism to oversee the compliance with the terms of the protocol (Gertler, 2002).*

From the moment of the accession until the 12<sup>th</sup> year of Membership, the WTO members had access to a Transitional Safeguard Mechanism in cases where imports of products of Chinese origin caused or threatened to cause market disruption to the Members' domestic producers (Gertler, 2002).

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<sup>13</sup> For more information about the "additional questions and reply", please check:  
[https://www.wto.org/english/thewto\\_e/acc\\_e/a1\\_chine\\_e.htm](https://www.wto.org/english/thewto_e/acc_e/a1_chine_e.htm)

According to Art. 16 of the protocol of Accession, in any import item from causes or threaten to cause market disruption in any WTO member, the problem should be first resolved through consultation with China; if consultation does not lead to China's action to "*prevent or remedy the market disruption*", the member affected "*shall be free in respect of such (disruptive) products to withdraw concessions or otherwise limit imports only to the extent necessary to prevent or remedy such market disruption*" (S.M. Shafaeddin, 2002, p.99).

Another measure concern imports of specific products: textiles and clothing to certain WTO member countries. These countries include members of EU, Argentina, Hungary, Poland, Slovak Republic, Turkey and Mexico. These WTO members can according to *para 243 of the Report of Working Party*, maintain existing import restriction for the products mentioned above, until "China fully confirms to WTO obligations" (S.M. Shafaeddin, 2002).

Another issue about the multilateral agreement the subsidies issue. In particular, there was a lack of agreement on the availability to China of WTO provisions in favour of developing countries relating to domestic support in the agricultural and industrial sectors (Gertler,2002). The United States objected to providing China with the full benefit of developing country provision in these areas. Nevertheless, after some tough negotiation, China agreed to the immediate elimination of subsidies on exports of agriculture and subsidies paid to SOEs contingent to export performance (S.M. Shafaeddin, 2002). According to art.12 of the Protocol of Accession "... China shall not maintain or introduce any export subsidies on agricultural products". A similar provision is included to art10 concerning subsidies of any kind.

The Protocol and Working Party Report essentially contain a *one-way* set of commitments from China's side only, what is possible to find about the other Member states are some "soft" commitments, for example, concerning the non-abuse of domestic procedures in anti-dumping actions and restraint in the use of special safeguard (Gertler, 2002, p.8).

### 3.3. Approval and Acceptance

"I have the honor to inform you that on 11 November 2001, the Government of the People's Republic of China accepted the above-mentioned Protocol.

In terms of paragraph 2 of Part III of the Protocol, it shall enter into force on 11 December 2001.

Pursuant to paragraph 1, Part I, of the Protocol, the People's Republic of China shall become a Member of the World Trade Organization on 11 December 2001.

This notification is furnished in accordance with paragraph 3 of Part III of the Protocol<sup>14</sup>.”

Once consensus was achieved in the Working Party on the final accession package, this was forwarded to the General Council for the final decision. Notwithstanding, the procedure involve a decision at the level of the General Council in Geneva, it was decided that these documents (Protocol and Annexes) should be forwarded to Doha for approval by Ministers. Thus, the ministerial Conference approved the *Decision on Accession and the Protocol* on 10<sup>th</sup> November (Gertler,2002).

China Became the 143<sup>rd</sup> Member of the WTO on 11<sup>th</sup> December 2001.

Although, Art. XXII:2 of the WTO Agreement provided that “*the Ministerial Conference shall approve the agreement on the terms of accession by a two-third majority of the members of the WTO*”, pursuant art. IX:1 of the same agreement and a 1995 decision of the General Council, all decisions are to be approved by consensus with the possibility to return to vote when consensus is not achievable ( Gertler, 2002 p.9).

#### 4. Conclusion

Since the end of the 1970, the process of reform in China has matured considerably, and China’s trade performance has reflected this. The policies introduced by Deng Xiaoping and then continued by Jiang Zemin and Hu Jintao helped to fight the backwardness present not only in the economy but also in the institutions. China turned from a close Country with no ambition of embracing Globalization to one eager to adapt to the new standards requested by the Globalization. Reforms under the slogan “socialism with Chinese characteristics” have made China a top international power and have resulted in an improvement in the well-being of the Chinese population. As a result of its economic achievements and its foreign policies, China’s responsibility for global leadership has grown. What is important to underline is the ability shown by Chinese leadership to promote a deep change in just thirty years; the project of domestic reforms combined with the decision to accede to the GATT/WTO are the proofs of this *new course* embraced by China.

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<sup>14</sup> Protocol on Accession of the People’s Republic of China, Doha on 10<sup>th</sup> November 2001. Notification of Acceptance Entry into Force. WTO WLI/100.



In terms of Will to lead (main characteristic of the HST), China shown their willingness of engaging in a new path, made by international cooperation. It is clear that, in order to gain a new international status China was “obliged” to engage in economic cooperation, thus its decision to join the GATT/WTO. Additionally, as stated in the Introduction, in order to even “aspire” to be new hegemon, a nation-state must have a strong economy; an economy which might influence other countries, thus, we can consider the WTO as a perfect stage to show the Chinese new path (economically and socially).

As stated above, the decision to be re-admitted in the GATT/WTO constitutes the second part of the project initiated by Deng Xiaoping. However, it was not a simple process, it took fifteen years to conclude the final agreement. The entire negotiation process was influenced by some historical events causing an impressive delay in reaching the agreements. Furthermore, not all the WTO member states agreed on China’s accession, Mexico and El Salvador constituted the main example. Many questions arose: *when China should have joined; whether or not granting the status (with all the benefits) of a developing country; the subsidies issue (T.L. Wolmsley – T. W. Hertler, 2000)*. According to some Member States as: Hungary, Poland, Slovak Republic, Turkey and Mexico, the accession of China in the WTO should have jeopardized their domestic economies. Thus, they agreed to China’s accession but imposing some restrictive measures.

Noteworthy is the role of Japan in this long negotiation; despite the “ancient rivalry” among the two countries, Japan was deeply involved in the process of negotiations, especially during the bilateral rounds. Even the U.S helped China, even if some problems arose during the negotiations, Washington thanks to the conclusion of the Sino-US bilateral agreement speeded up the entire negotiation process.

After fifteen years of negotiations, China became the 143<sup>rd</sup> WTO Member on December 2001.

Many reports and papers were written about the prospect for China after the 2001, about how the economy would have benefited, about the possibility of growing imbalances in regional development; but above all about the effects of an economic openness on sectors like the agriculture. After the abolishment of the subsidies provided by the State what has been the consequences on the population’s well-being? This is the topic which will be analyzed in the following chapters.

## Chapter Two

### *The domestic adaptation to WTO requirements: the impact on Agriculture and Hukou system*

#### **Abstract**

The purpose of the second chapter is to analyse how china committed to the WTO requirements. As said before, china's membership was really difficult to reach not only because of some particular events such as, Tiananmen "incident", Belgrade Bombing and Bush administration but also because many countries such as Mexico, El Salvador and some countries of East Europe were reluctant about the possibility for China to become a WTO member, because they feared possible bad implications for their economies. This is why some restrictive measures were adopted until "China fully confirms to WTO obligations" (para 243 of Working Party Report). Moreover, other problems were experienced with U.S regarding agriculture and industrial subsidies which were almost abolished. Furthermore, U.S objected to providing china with the full benefit of Developing country provisions in these areas. That is why China and in particular the rural population experienced a huge unemployment period. China tried to solve the problem with the adoption of new policies and trying to foster a non-agricultural employment, which was not effective because of the administrative division in the country and because of the "Hukou system", which is a system of household registration that jeopardize the Labour mobility between different regions.

#### **1. Fulfilling the WTO's Criteria: The Process of Adaptation**

*"...China's WTO membership marks a new stage in its reform and opening up. We will remain true to our commitments, working hard to develop an all-directional, multi-level and wide-ranging pattern of openness, and participating more broadly in international economic cooperation..."*<sup>15</sup>

Jiang Zemin

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<sup>15</sup> Excerpt of a speech by President Jiang Zeming at the 10<sup>th</sup> APEC Economic Leaders' Meeting, 27-10-2002. Source: <http://www.china-un.org/eng/hyyfy/t27924.htm>

In order to gain the Membership to the WTO, the Chinese government made more than 600 commitments. These many commitments are fully described in hundreds of pages of WTO official documents (W.B. Abnett, 2002). Hence, not surprisingly the process of internal adaptation took a long period and required a strong effort by the government. Moreover, China's accession agreement is considered one of the longest of the WTO history with more of 800 pages. Many of these commitments were phased in over a period of several years, to help China's transition from a nonmarket economy to a market-driven one (S.S. Westin, 2002).

One of the main requirements for the accession in the WTO is to plan a reduction of Tariffs. The tariff reduction planned by China in the context of its WTO accession are the continuation of a longstanding trend; a trend begun with the reforms' project of the late 70s. This path is reflected in the decreasing level and dispersion of tariffs and the continued reduction in NTBs, especially since the early 1990s (T. Rumbaugh – N. Blancher, 2004). The reforms enacted during the 90s, introduced widespread import tariff exemptions, in particular for processing trade and foreign investments. It is interesting to provide a comparison with other countries who experienced a reduction of tariffs, while imports tariffs were over 50% in the early 1980s they averaged 12% in the 1990s, less than Mexico and less than half of India's.

Therefore, the majority of China's imports were not subject to any tariffs in 2000. Hence, thanks to the reforms provided by the Government, and thanks to the continued domestic price liberalization, domestic prices of most traded good largely converged with international prices by mid-90s (T. Rumbaugh – N. Blancher, 2004). Under the WTO commitments Beijing further reduced its average tariff rate to 10% by 2005. The overall trade regime will be increasingly tariff- based as China agreed to eliminate import quotas, licenses, designated trading practices and other non-tariff barriers.

The accession protocol lays out China's major commitments on trade-related activities, as the *national treatment* and the *non-discrimination principles*. Furthermore, China agreed to fully implement the *Trade-Related Investment Measures (TRIMs)* and the *Trade Related Aspects of Intellectual Property Rights (TRIPs)*. The decision to fully agree and to implement these measures, had far-reaching implications domestically, *including by encouraging greater internal integration of domestic markets (through the removal of inter-provincial barriers), as well as by enhancing the predictability of the business environment* (T- Rumbaugh – N. Blancher, 2004 p.9).

With reference to the implementation of the WTO commitments, a special procedure was established to review the compliance with the Agreement: *The Transitional Review Mechanism (TRM)*. This mechanism is present in the Protocol at section 18 (WTO, 2001).

*“Those subsidiary bodies<sup>16</sup> of the WTO which have a mandate covering China's commitments under the WTO Agreement or this Protocol shall, within one year after accession and in accordance with paragraph 4 below, review, as appropriate to their mandate, the implementation by China of the WTO Agreement and of the related provisions of this Protocol. China shall provide relevant information, including information specified in Annex 1A, to each subsidiary body in advance of the review. China can also raise issues relating to any reservations under Section 17 or to any other specific commitments made by other Members in this Protocol, in those subsidiary bodies which have a relevant mandate. Each subsidiary body shall report the results of such review promptly to the relevant Council established by paragraph 5 of Article IV of the WTO Agreement, if applicable, which shall in turn report promptly to the General Council...<sup>17</sup>”*

As described by this section, China's protocol of Accession provided that the TRM will have review Beijing's compliance on an annual basis in the first eight years of WTO Membership. Those reviews were conducted separately by sixteen WTO sectoral councils (E.g., on agriculture, trade in services, technical barriers to trade or trade-related aspects of intellectual property rights)<sup>18</sup>. In lieu, of a simple “*pass or fail*” tests, these reviews were opportunities for stock-taking on past progress and areas for further efforts (T. Rumbaugh – N. Blancher, 2004). Notwithstanding, no problems arose with regard to China's early implementation of its commitments, some doubts were expressed by some of China's trade partner in certain specific areas. These concerns were expressed due to delays in implementation or to transparency of the legal framework and enforcement issues. Even if, key changes were already implemented since the WTO accession, the compliance procedure will be continually tested in the period ahead. One of the main WTO's requirements, Tariff reductions took effect as scheduled and the abolishment of non-tariff barriers, especially in the agricultural sector proceeded. In the context of compliance to the WTO requests, it is important to underline that a number of fundamental changes in China's legal and regulatory framework at the central government level were made. Nevertheless, China's commitments implied a need to ensure adequate enforcement of new rules at all levels, with a particular focus on the provincial and municipal levels, where administrative and judicial capacity

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<sup>16</sup> Council for Trade in Goods, Council for Trade-Related Aspects of Intellectual Property Rights, Council for Trade in Services, Committees on Balance-of-Payments Restrictions, Market Access (covering also ITA), Agriculture, Sanitary and Phytosanitary Measures, Technical Barriers to Trade, Subsidies and Countervailing Measures, Anti-Dumping Measures, Customs Valuation, Rules of Origin, Import Licensing, Trade-Related Investment Measures, Safeguards, Trade in Financial Services.

<sup>17</sup> Excerpt from the, ACCESSION OF THE PEOPLE'S REPUBLIC OF CHINA, WT/L/432. 23 November 2001. Source WTO.

<sup>18</sup> More information is available at [www.wto.org](http://www.wto.org).

constraints as well as the potential role of vested interests, may hamper progress (e.g., eliminating restrictive practises such as the pervasive inter-provincial taxes, fees and other non-tariff obstacles (T.Rumbaugh – N.Blancher, 2004, p.11) .

Although, many efforts were made by Beijing, in order to foster a quick internal adaptation to the WTO standards, many doubts were arisen by some Member States. Given, the troubled “love story” among China and some of the WTO Members, it is not a surprise that even during the implementation period, some mistrust was present. Thus, it is interesting to present in this discussion also the Chinese perspective about its commitment to WTO. The minister of Foreign Trade Shi Guangsheng made several defensive public statements about China commitment to WTO. Addressing to the press, he expressed his concerns about the foreign perception on the matter, for example: “*Shi Guangsheng, minister of foreign trade and economic co-operation (MOFTEC) lashed out this weekend against ‘untrue’ and ‘malicious’ reports on China’s implementation of its commitments to the World Trade Organization (WTO).*<sup>19</sup>”

Or:

“So far the Chinese government has *basically completed* the work of sorting out and revising related laws and statutes, thus providing a *legal guarantee* for the fulfillment of our commitments....Honoring commitments means that China will manage its economy in accordance with common international rules...So long as our government is *familiar with WTO rules*, properly uses market economic means, and *establishes an effective legal system*, macro- control under the market economy will still be effective....<sup>20</sup>”

The PRC government took seriously its commitments to the WTO obligations, and even if there is still a gap between the Chinese policies and its WTO commitments, its record of WTO implementation has been good. This was recognized not only by the Organization itself, but by most of the Member States. According to a survey sponsored by *US. -China Business Council* in 2006: the

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<sup>19</sup> The official English-language mouthpiece of the Chinese Communist Party, *China Daily*, “Minister vows to keep WTO promises,” July 22, 2002

<sup>20</sup> As in “Changes Take Place over the Past Half Year Since China’s WTO Entry,” *People’s Daily* (online English version), July 11, 2002.

forty-nine percent of U.S companies surveyed gave China a grade of “excellent” or “good” in the implementation of WTO obligations, while other thirty-eight percent gave a “fair” (Yuce, 2007).

Many people changed their views of the WTO over the years. In the 1980s many Chinese viewed the GATT as “clubs of the rich”, where wealthy and developed countries, imposed rules on poor developing countries (W. Yong, 2011). To ease the overall doubts about the long-term benefits of the multilateral trading system, the Chinese government and the scholars made many efforts to educate the public. In fact, several books about the WTO rules were published; furthermore, the central government modified more than 2.300 national laws and regulations to adapt to WTO commitments, whereas the local governments modified or abolished 190.000 related local laws and regulations to improve transparency and ensure conformity with WTO rules (W. Yong, 2011).

The implementation of WTO commitments brought many changes in Chinese policies, especially in particular sectors such as: The Agricultural. Before focusing the attention on the impact of the process of trade openness in this sector, it is important to understand how this sector changed before the accession in the WTO, and how and if the new international commitments changed the situation.

## 2. Agriculture

*“Dare to think, dare to act” (敢想敢干)*

*Mao Zedong (1958)<sup>21</sup>*

This sector has been the protagonist if not the main one, of a huge change during the reforms period enacted by Deng Xiaoping in the late 70s and also during the transitional period after the Chinese decision to be re-admitted in the GATT/WTO. Furthermore, it constituted a big challenge as far the implementation of the WTO commitments concerns.

The importance of this sector must not have underestimated, we have to remind that Beijing invested a lot in this sector, providing new policies and subsidies to help the rural population that still constitute a huge part of the society. In the context of our discussion about the effects that the WTO brought to the country and in particular the effects on the well-being of his population, it is important to analyze in deep the main changes and the challenges that the government faced after its decision to open its border to globalization. Furthermore, China’s entry in the WTO with its reduced tariffs on agricultural

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<sup>21</sup> The crucial slogan during the Great Leap Forward, a two-year campaign where Mao encouraged peasants to join together in collective farms. "Dare to think, dare to speak, dare to act" was the exhortation used by Mao to encourage the peasants to follow his lead. Source: BBC <http://www.bbc.co.uk/news/world-asia-china-24923993>

produce have threatened the livelihood of hundreds of millions of farmers (Yuce, 2007). In the context of our application of the HST, the agricultural sector could be seen as one of the main leading sectors of Chinese's economy. Since one of the HST assumptions is to create and develop a strong economy able to influence the economies of other countries, this sector perfectly fits with the aforementioned criterium. Why? Because China historically speaking, has always been an agrarian country, thus most of the national income is/was based on the agricultural produce. The importance and sensitiveness of the topic is easily understandable.

## **2.1 The Agricultural Sector Pre-WTO**

China had long been an Agricultural nation in the history, and agricultural tax had contributed a lot to the government's fiscal budget in the past (X. Wang, 2014). Since 1949, China's leaders have tried many large-scale social experiments to boost agricultural production. When the People's Republic of China was founded, the agricultural tax accounted for 40% of China's fiscal income. (X. Wang, 2014). The desire to foster the industrial sector at that time extremely underdeveloped and the need of capital in order to promote this new sector, caused one main consequence: the two sectors became linked. Despite, the attention of the new Chinese leadership switched from the primary sector to the industrial one, the primary constituted the only big resource able to permit the development of the industries. Hence, during the long process of internal reforms, even if at the beginning the main sector to be developed was the primary, we will see a new trend: every time the industrial sector experienced a slowdown, immediately the government promoted new reforms to ameliorate the agricultural sector, in order to maintain the economy in balance.

The Agricultural sector experienced many changes established by the different views of China's Leader. We could say that the sector has adapted to the views of all the leaders in charge. Agricultural policy has gone through three broad phases: the 1950s, when agriculture was collectivized, ending with the Great Leap Forward (1958–60); the period from 1961 to the death of Mao Zedong in 1976, when more agricultural progress came to depend on the supply of capital and modern inputs; and the period under the post-Mao leadership, which has been characterized by greater reliance on markets, prices, and incentives to boost production and to diversify output. During the Cultural Revolution (from 1966-78), Chinese agricultural institutions were characterized by four distortions: first, all land was state-owned, and the agricultural production was organized through the commune system. Many lands were farmed by "production team" of twenty-thirty household; second, the state pursued a policy of self-sufficiency (Marden, 2015). From 1965 "*rural areas were still allowed to produce economic crops or raise animals, but only after they had achieved basic self-sufficiency in*

*food grains*” (Lardy, 1983, p.49). Third, the state further promoted grain production by encouraging payments of agricultural taxes in grain, providing most counties with “*quotas for grain deliveries and linking the political success of rural party cadres to the production of grain*” (Marden, 2015, p .30). Lastly, prices were kept low to facilitate the transfer of surplus from the rural agricultural sector to the state industrial sector (Marden, 2015).

After the death of chairman Mao, the new Chinese leadership faced the problem of re-build the economy because of the consequences of the policies promoted during the Great Leap Forward, which especially in the primary sector, caused a huge crisis. One of the first reform promoted by Deng Xiaoping was the Household Responsibility System (which will be analysed in the following paragraph) in the early 80s. This policy was introduced to boost farmers’ incentives in agricultural production; it can be described as a “quasi privatization measure”, the land tenure system was institute to ensure farmers of the right to keep the land for twenty years (S. Yao, 2006). Furthermore, since the grain production was still a priority for the development of the sector a new policy was enacted: instead of a mandatory production quota sold to the government at lower than market price, a price support program was put in place to encourage the production (S. Yao, 2006). For the farmers, this change in procurement policy helped transfer grain revenue from the grain marketing bureau to grain growers, and it was a positive outcome as far their income concern (S. Yao, 2006). Moreover, markets were (in some part) liberalized, the rural periodic markets were re-established; the grain procurement quota were reduced in some areas and the self-sufficiency policy was relaxed. Furthermore, thanks to the price reform, the state procurement prices for agricultural products dramatically rose, and the bonus for above quota deliveries was increased (J.Y. Lin, 1992). In response to these reforms, the agricultural output growth increased dramatically. The grain output increased by 5% per-year from 1978-85 compared to 2.4% per-year compared to 1952-1978. Besides, even the output of cash-crops increased steadily and even more than grain: cotton by 19.2% per-year, sugar by 12.3% per-year and oil-crops by 14.8% per-year, compared to 2, 4.5 and 0.8 percent per-year pre-reform (S. Marden, 2015). The total output growth during the period 1978-1984 was 42.2 percent (J.Y. Lin,1992).

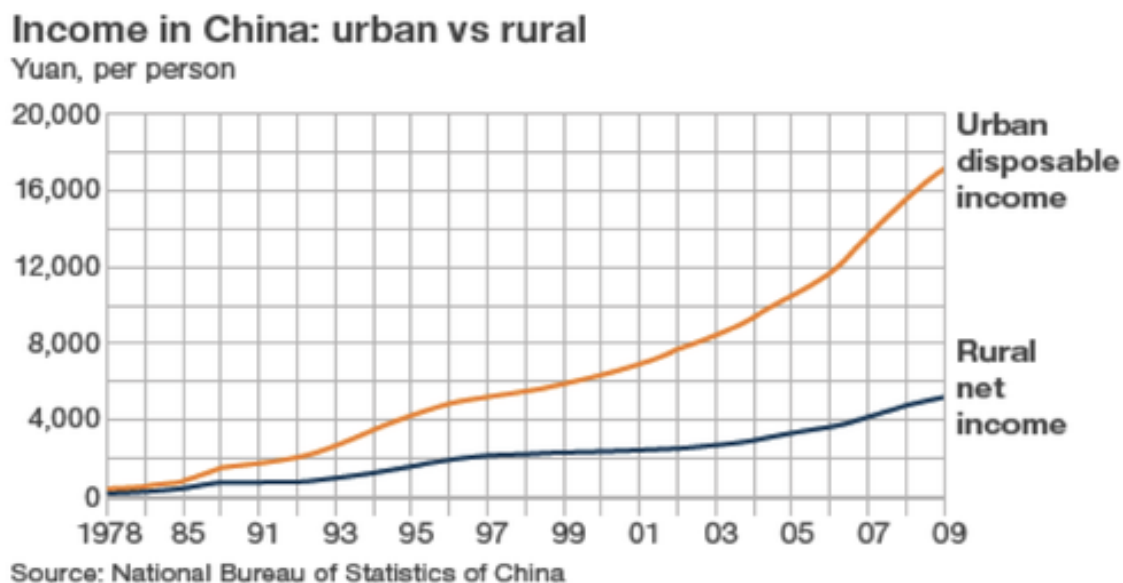
During this period of “rapid growth” (from 1978-1985), the growth rate of farmers’ income reached 10 or more percent during seven consecutive years, with annual average of 15.2% (F. Xiaojing, 2012). This period is the phase that farmers’ income grew most rapidly and also the period that the income gap among urban and rural residents was floor. However, even if the State relaxed the agricultural restriction and increased the investment in the sector, it was still far from meeting the need of



agricultural development (F. Xiaojing, 2012). After the extraordinary “economic miracle” of the first phase, the economy and the per capita income experienced a slowdown. The scholars have highlighted several possible reasons for this decline: first, because the HRS contract had been weakened; second, the agricultural productivity released in the last phase increased the production, causing “*a low-level of relative surplus and low market prices of agricultural products*”; third, the lack of storage facilities and poor circulation made difficult to transfer the agricultural goods to consumers (F. Xiaojing, 2012). During the period 1992-1996 the situation slightly improved, because of the rebound in prices of agricultural products. Furthermore, the reform of grain circulation system which promoted food production and stable food prices played an important role in improving the benefits of farmers. Another important factor was the development of the township enterprises, which absorbed a large number of rural surplus labour force causing an increase of farmers’ non-agricultural income and the fiscal capacity of local government, hence, the investment from local government increased (F. Xiaojing, 2012). The last phase to be analysed is the period of the ninth “five-years plan”, from 1995 to 2000. During this period, the gross value of agricultural production in the country grew from RMB 1199.3 billion in 1995 to RMB1421.2 billion in 2000 (3.5% average annual increase in constant prices, but lower of 0.5 compared to the Eight five-years-plan). In 2000 the GDP decreased to 15.9 percent, 4.6 percent lower than 1995 (C. Xiwen, 2004).

Despite, this period was characterized by a strong industrialization, the importance of the primary sector in the national economy was not overshadowed. The agricultural and rural economic structures improved thanks to new technologies. At the same time, the percentage of farmers’ income derived from secondary and the services increased (C. Xiwen, 2004). The growth of farmers’ income decreased year by year, the main reasons are: firstly, *the demand and supply situation of agricultural products transferred from overall shortage to overall balance with certain structural and regional relative surplus. All of these led to a large number of agricultural prices continued to decline. Secondly, the Asian financial crisis led to the economic downturn. Township enterprises gradually entered the stage of restructuring and technological upgrade, as a result, the absorptive capacity of them for rural labour force declined. Correspondingly, farmers’ non-agricultural income declined. Thirdly, the reform of state-owned enterprises led to increase the number of laid-off workers in urban areas. In order to reduce their own stress, many cities had issued a series of policies restrict migrant workers; migrant farmers blocked and further reduced farmers’ non-farm industry revenues* (F. Xiaojing, 2012 p.581). These are the main characteristics and trends experienced by the Chinese

Agricultural sector prior to its accession in the WTO. A decision that will change the shape of this sector and the conditions of its workers.



### 2.1.1 The Household Responsibility System

The household responsibility System (simplified Chinese: 家庭联产承包责任制; pinyin: *jiāting liánchǎn chéngbāo zérènzhì*), was a policy introduced by Deng Xiaoping during the reforms' period. It was established as an experiment which was at first introduced in the agricultural sector and then adopted in many other sectors. More than 93% of production teams adopted the system in 1983 (China.org.cn September 16, 2009). This experiment began in a village called Xiaogan, in the Fengyang county (Anhui province), where eighteen households signed a contract with local cadres (H. Huang, 2011). The same experiment began in Sichuan in 1980, both the villages experienced a dramatic growth in terms of productivity. Hence, the practice was adopted nationwide from 1981.

This institutional change brought a remarkable growth in agricultural productivity. What are the characteristics of this reform? With the HRS, the local managers become responsible for the profits and losses of an enterprise. In particular, the system allows households to contract land, machinery and other facilities from collective organizations. Moreover, thanks to this new practice, households can make operating decisions independently (within the limits set by the contract agreement) and can dispose of surplus production over and above national and collective quotas. The contract will have granted the lease for 15 years with the possibility of renewal. During the Maoist organization of the rural economy, farmers were given by the central government a quota of goods to produce, thus they received a compensation for reaching the quota, but producing above the fixed quota was anti-

economic. During the 80s, farmers were given drastically reduced quotas<sup>22</sup>. Hence, any products above the quota was sold in the free-market. Farmer income rose steadily, the production rose 5% every year during the 80s. Additionally, new forms of specialized agricultural households appeared (H. Huang, 2011).

## 2.2. The Agricultural Sector Post-WTO

One of the most sensitive issue during the WTO negotiations was the agricultural sector. The importance of this sector for Beijing caused long and complex negotiations in order to adapt to the new standards required by the organization. The rollercoaster experienced left as main consequence a decline of farmers' income growth and also a stagnation in labour-mobility (which will be analysed in the following paragraph). The changes fostered by the government after 2001, re-shaped the sector with consequences on the well-being of the rural-population.

In our discussion about the implementation of the WTO standards in China, we cannot avoid mentioning the so-called Tariff- Rate- Quota (TRQs). This is a term which came from the negotiations held during the Uruguay Round from 1986 to 1994 (W.B.Abnett, 2002). The TRQs are generally used by the WTO to replace (gradually) non-tariff barriers in agriculture trade with tariff-rate that could be standardized in the future. The TRQs for a given member state are determined by the country's historical import level during the baseline period<sup>23</sup>. In China's case, the baseline period was agreed to extend from 1995 through 1997 (N.L. Lardy, 2001). One of the main problems regarding this sector was the concerns expressed by not only by the government but also by the population about the possible bad consequence for the sector. Why? As stated in the Chapter 1, China acceded the organization without the benefits granted to a *developing country*, in fact the United States were strongly against the concession of such title to China. Hence, the country was not considered *developing* but: the majority of Chinese population lived in the countryside and many feared the competition with more developed countries in terms of technologies such as: The U.S, Canada and Australia. Furthermore, they believed that the accession to the WTO could have caused substantial negative effects on the sector. Many scholars and economists dealt with this matter, "will the accession to the WTO be beneficial or not? Of course, different opinions have been advanced, but

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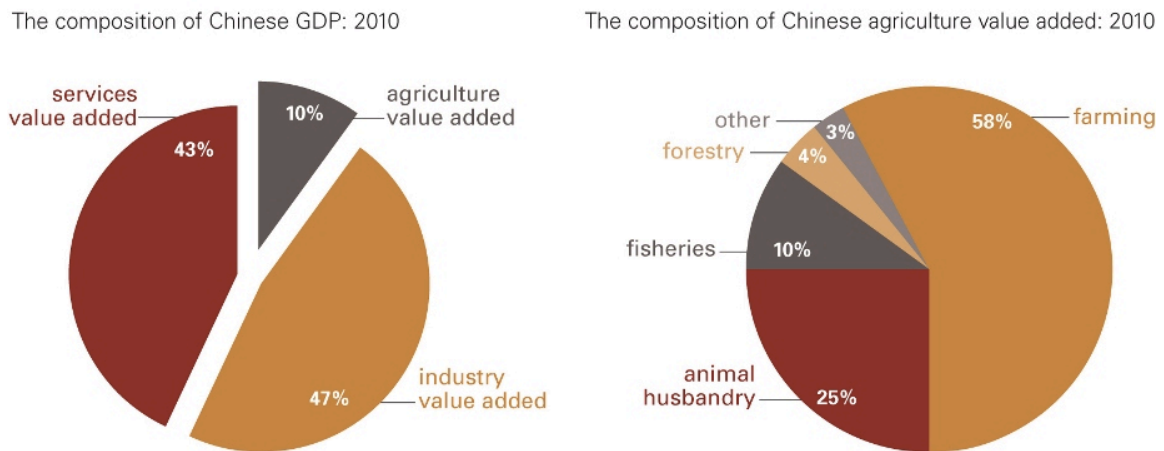
<sup>22</sup> For further information, please see: Joe Ho Chung, *Central Control and Local Discretion in China: Leadership and Implementation during Post-Mao Decollectivization (Studies on Contemporary China)*, Oxford University Press; 1 edition (October 26, 2000)

<sup>23</sup> For more information about the TRQs,  
[https://www.wto.org/english/thewto\\_e/whatis\\_e/tif\\_e/agrm3\\_e.htm#tariffquota](https://www.wto.org/english/thewto_e/whatis_e/tif_e/agrm3_e.htm#tariffquota)

the majority agreed to one point: China would have faced problems at the beginning of its journey but in the long-run it would have benefited of this is openness. Problems like the unemployment and the divide among rural and urban cities. According to a report provided by J.P Morgan, the unemployment rate would have reach 25 million over 2001-2006 (S.M. Shafaeddin, 2002). Going back to our discussion about the TRQs, China agreed to apply the new quota on product groups considered important for national food security and sovereignty: bulk products (food grain and feed grain), cotton, edible oil, sugar and wool (K.E. Bingshen – G.H. Wan, 2003). It is important to underline this choice, because according to many experts, this commitment will have a greater impact on its agriculture than its tariff reduction. Hence, on the income and life-quality of the farmers. Additionally, the domestic prices of many products (e.g. cash crops) were higher than world market prices, thus the effects were not only serious but also immediate (K.E. Bingshen – G.H. Wan, 2003). Lower prices as result of a trade liberalization significantly harm some specialized producers of these commodities, for example to corn producers in Heilongjiang, sugar producers in Guangxi and cotton producers in Xinjiang (A. Park, 2008). Broadly speaking, at least in the short term, China's WTO entry presented more challenges than opportunities, that is why the government promoted new policies and projects to fix the situation. The new stage of restructuring was initiated in 2001, when Beijing specified that the fundamental objective of the new strategic restructuring was to ensure increased in farmers' income. In mid-January 2001, the central government convened a *National conference on Agricultural Science and Technology*, when a new project for the Development of Agricultural Technology was adopted (C. Xiwen, 2004).

The project worked, because all the economy benefited by this new trade openness. As matter of fact, the farmers' income got a resumption of growth, with the average annual per capita income increased by 6.4%, in which, from 2006 the farmers' income growth rate remained at 7% (F. Xiaojing,2012). The reasons why, the income experienced a growth are: first, the rapid development enhancing the financial capacity of the country, the state's investment in the sector increased dramatically; second, the tax-fee reform, health care reform, rural compulsory education reform, further the implementation of the preferential agricultural policies which reduced the burden on farmers. third, a new wave of subsidies; fourth a new policy for the migrant farmers (e.g. reform of the Hukou system) (F. Xiaojing, 2012). Noteworthy to underline the importance of the new policy for migrant workers, because the past policies prevented rural-urban migration earlier decades. The large percentage of people living in rural areas and the low earning are a consequence of the strict labor-mobility established by Beijing. Most people are engaged in agriculture, the sector produced the 11% of the GDP in 2007. According

to China's 2006 census, the rural population was 746 million, including 342 million people engaged in agriculture<sup>24</sup>.



Source: China Statistical Yearbook 2011<sup>25</sup>.

By the end of 2010, China's rural population was 670 million, just over 50 per cent of the total. In 2010 agricultural value-added reached 4.1 trillion yuan (\$659 billion), accounting for 10.1 per cent of GDP, with crop farming comprising 58 per cent, animal husbandry 25 per cent, forestry 4 per cent, fisheries including aquaculture 10 per cent, and other 3 per cent (Australia–China Joint Working Group, 2012). Undoubtedly, the accession of China in the WTO brought benefits to its economy, even to the agricultural sector. However, it brought an unbalanced growth which deepened the yet big gap among rural and urban cities and among inner and coastal regions, and the farmers' income follow the same path. (this discussion will be better analyzed in the following chapter). Despite the initial success of the post-1978 rural reforms, China's agriculture by the end of the 20<sup>th</sup> century faced seriously problems and rural areas were in Crisis. This was manifest in, the re-emerging of rural poverty, the deepening of rural-urban divide and the inequality of growth between sectors. The insufficiency of rural social welfare combined with the quasi impossibility for a worker to emigrate contributed to worsening the situation. Similar to the pre-reforms period, resources in rural China continued to be directed toward much advantaged Chinese cities. Furthermore, agriculture

<sup>24</sup> <https://www.ers.usda.gov/amber-waves/2009/june/how-tightly-has-china-embraced-market-reforms-in-agriculture/>

<sup>25</sup> From "A Joint Australia–China Report on Strengthening Investment and Technological Cooperation in Agriculture to Enhance Food Security" Author: Australia–China Joint Working Group. <http://dfat.gov.au/about-us/publications/trade-investment/feeding-future/Pages/a-joint-australia-china-report-on-strengthening-investment-and-technological-cooperation-in-agriculture-to-enhance-food-s-2.aspx>

continues to subsidize industry, while the interests of farmers continued to “sacrifice” for the development of the industrial sector.

In this analysis about the role of WTO in China, we cannot avoid writing about the agricultural sector, but there is another important issue concerning this sector, which has influenced it in an indirectly way not only the primary sector but the entire economy: *The Hukou system*.

The following paragraphs will provide an explanation of this phenomenon and its importance to the entire economy.

### **3. The Household Registration System: restrictions on *labor-mobility***

The system of controlling and regulating internal movements of its citizen, constitute a practice which is or was present in many countries, such as Vietnam (ho khau), North Korea (hoju) or the ex-URSS, it is not a Chinese unique practice. As a matter of fact, the Chinese Hukou system owe much to the *propiska* (internal passport) system utilized in the former USSR (K.W. Chan, 2009). The system of registering population and household has a long history in China, even before the 1949 a similar practice was present. The *Hukou* entered into force in the 50s and has experienced many developments during the reforms’ period and further after the accession to the WTO in 2001. Since the early 1960s, the *Hukou* system, attempted to regulate labor mobility and population growth in the main cities. This institution requires every resident to be to be accounted for in a household and report identifying information such as: name, spouse, date of birth and educational attainment (E. Boffy-Ramirez and S. Moon ,2017). Directly and indirectly connected to the agricultural sector and to the whole economy in general, it constitutes an interesting point of analysis to understand how China has changed in his process of adaptation to the western standards.

#### **3.1 The establishment of the *Hukou* system and its development.**

##### **3.1.1. From 1951 to 2001.**

China has promoted the division among rural and urban labor- market since the early 1950s, whereby individuals born in rural areas were restricted to from moving to cities. This division was carried out by a policy known as, Household Registration System or *Hukou*, which artificially divides people among agricultural and non-agricultural populations. The alteration of *hukou* status between rural and urban areas is conditional, and the criteria to allow this alteration are strict (F. Cai, 2011). This divide

has been considered by some scholars like Whyte, as comparable to the Indian caste system. The system was established in 1951, even if, before the 1949 a form of registration was present but a different purpose, it was used for statistical use. Even if established at the beginning of the 50s, it is just during the 60s that the policy came to be understood as it is to this day. This institution played an indispensable role in implementing the government's post-1949 economic policies, that prioritized industrialization by regulating citizens' geographic mobility (Chang – Zhang, 1999). Why? First, urban employment was primarily determined by the prospective employees' *Hukou* status which favored urban residents (Chang- Zhang, 1999); second, state-subsidized food and other necessities were distributed preferentially to urban residents through a national rationing system (Liu, 2005); third, urban residents were granted numerous benefits including subsidized housing, health service and education (F. Cai, 2011). Thus, by controlling the rural-urban migration, it was ensured that the population in urban area was mostly homogenous in terms of its *hukou*. Since this institution passed down to the next generation, *hukou* status and thereby educational attainment, thus this the employment opportunities of the next generation of rural populace was in some way restricted by birth. Hence, from a social point of view, this institution at (least) the beginning, created two different social groups: a non – agricultural population which was socio-economically more advanced to the agricultural population (Chan – Zhang, 1999). Because of this thig mobility controls and monitoring during Mao's tenure, almost all people remained where they were supposed to be. The number of people living in a place different from their *de jure* residence was poor. Even during the 1980s, when this percentage began to grow, it was still small, accounting for only 0.6% of the total population (K.W. Chan, 2009).

With Deng Xiaoping and his reforms to the economy, the passage from a centralized to a market economy, the institution known a new phase. As stated in the precedent paragraphs, the Chinese's process of openness started by the rural areas. In the initial stage, reform was characterized by the introduction of the HRS (see paragraph 2.1.1) to sustain the labor productivity in the agriculture. This program was a success in term of farmers' income growth, they were able to fulfill their needs for basic living. Consequently, the rural populace began to seek off-farm work to increase is income (F. Cai, 2011). Henceforward, the *Hukou* system reform took place without a clear blueprint of the overall reform. It was characterized by labor-mobility from agricultural to non- agricultural sectors in rural areas, and from villages to nearby towns (F. Cai, 2011). The labor transfer required local relocation to township and village enterprises (TVEs) before the terms of the policy were relaxed to allow rural-to-urban migration. As described by Professor Fai Cang, the will of the Central government was to create a pattern of "*leaving the land without leaving the countryside*" before the

mid-1980s. TVE development, however, was limited to local villages and small town, moreover, it was unbalanced among regions. Thus, the TVEs were incapable to absorb the laborer surplus in the rural regions. To give a clearer image of this phenomenon, in 1985 only 18.8 percent of 370 million rural laborers were engaged in the Township and Village Enterprises (NBS,2010a). With the stagnation of TVE development in the 1980s, rural workers began to migrate across region, from rural to urban areas. In 1983 the Chinese Government began to allow farmers to be engaged in long-distance transportation and sell their products beyond local market places (F. Cai,2011). For the first time, to the farmers was given the possibility to do business outside their hometown. During the 1980s many reforms were promoted by Beijing in order to relax restriction for rural migration, with certain changing in the *Hukou* system (which was still active).

We can consider the 1990s as the milestone that distinguishes among the first and second phases of *Hukou* system reform. During this decade the establishment of a market economy became the goal of Chinese reform. The dramatic growth of labor-intensive and export-oriented sector, the surge of non-public sectors in urban areas created an incremental demand for labor, which encouraged the migration from rural to urban sectors and from western to eastern regions. In response to these trends in labor market expansion and integration, several reforms were taken to eliminate the institutional barriers hindering labor mobility. Some resistance to these reforms were encountered in some major cities, especially after 1998, when the ministry of public security allowed the entry of rural people into the cities (F. Cai, 2011). The liberalization (in part) of labor mobility had consequences for the agricultural sector. With the mass labor migration from rural to urban sectors, the surplus in agriculture was reduced and the growth rate of the working age population began to accelerate (Cai – Wang, 2008).

### **3.1.2 The *Hukou* system post-2001**

The *hukou* system, experienced greater liberalization once China joined the WTO. Even if this membership exposed China's agricultural sector to foreign competition, leading to a raise of the unemployment, it invigorated the labor-intensive sector such as textile and clothing boosting the urban labor demand. Hence, the restriction began to be (gradually) more relaxed.

In 2001, the Central Government decided to promote a new reform of the household registration system, starting an experimental reform of the residence registration in more than 20.000 small towns. Furthermore, the State Development and Planning Committee (SDPC), proposed a new five-years plan which aimed at unifying the national labor market eliminating the restriction for rural laborers (H. Ping – Z. Shaohua, 2005). The new characteristics of these new policies are: first, residence in



small town and township is allowed to rural laborers who have a job and accommodation there; second, medium size cities and some provincial capitals removed the limit on the number of rural laborers who can apply for a permanent residence status; third, Mega cities (e.g. Shanghai and Beijing) adopted a policy of “widening the gate, raising the price”, under which still limits the percentage of rural laborers allowed to apply for a permanent residence status ( H. Ping – Z. Shaohua, 2015, p.9).

In order to create a unified labor market, in early 2002, the State Council issued Document No.2, which underlined the importance of a free flow of rural-urban migrants. The document stressed that migrant workers are “members of the working class”, and not peasants (it is important to note the change of terminology to promote more inclusion), which contributed much to urban construction and development. As a matter of fact, the document set out four new policies principles: *fair treatment, reasonable guidance, management improvement and better services* (H. Ping – Z. Shaohua, 2005). Since 2003, the proportion of non-agricultural *Hukou* status has increased, and promoting reforms became mandatory. The State’s Council Document No.1 of 2003, granted more rights and freedoms to the rural migrants who seek employment. However, the adherence to these guidelines and directives was left to individual city government, this is one of the main reasons why, the extent and specifics of the *hukou* reform in large cities vary greatly (J. Zhang, 2013). Despite this trend, many medium-sized cities, as Nanjing, Xi’an and Zhuhai, adopted the new guidelines relaxing their criteria for granting a *hukou* (J. Zhang, 2013). According to the Chinese Ministry of Agriculture, in 2004 over 100 million people registered as “rural” were working in cities. In 2006, six teams composed of members from fourteen government department, were dispatched to twelve different provinces to research how to best implement a reform of the registration process. Furthermore, in the same, twelve provinces such as: Hebei, Liaoning, Shandong, Guangdong provinces, the Guanxi Zhuang Autonomous Region, Beijing, Shanghai, and Chongqing, launched autonomous programs to implement a new policy (J. Zhang, 2013).

From 2008 to 2010, at least ten cities abandoned the temporary residence system, a new round of reforms began to fight the effects of the 2008- 2009 financial crisis. This new round of reforms is different from the others implemented in the precedent rounds. First, because the motivations are endogenous and strong; the shortage of migrant workers which appeared in 2003 worsened in 2010, affected enterprises’ ability to fully use their production capacities, hence the local governments in coastal areas (more industrialized compared to the inner regions), included the *hukou* system reform among the policy to stabilize labor supply. Also, because of the strict control over arable land use,

the only way that local government could exploit land promoting urbanization was to reclaim the plots of contracted arable land houses sites left behind those who migrated away and “to use the quota of those plots elsewhere to balance the reclamation and exploitation of land” (F. Cai, 2011 p.43).

We can take the example of Guangdong Province. This province is situated in the south of China (and it is a coastal region), it championed a new household registration reform to deal with the labor shortage experienced by the export-oriented sectors. On the contrary, Chongqing, an agrarian municipality in the south-western China; it constitutes a perfect example of

**Fig.1** the two cities took as example above: Chongqing and the Province of Guangdong. As is possible to notice, Guangdong is a coastal province whereas Chongqing is an inland Municipality. Source: THE ECONOMIST<sup>26</sup>



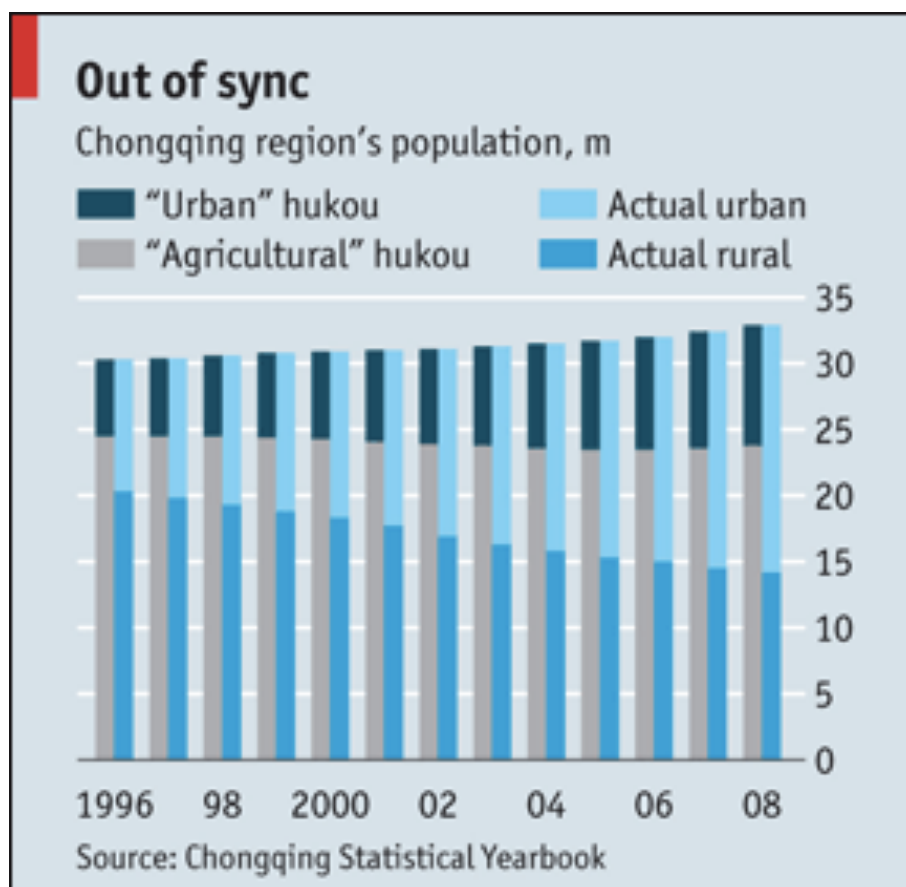
an attempt to obtain necessary land for urban expansion. Compared to Guangdong, the inland municipality is a less developed country, thus it is constrained more by land than by labor shortages in its efforts to catch its developed counterparts. Hence, the reform in Chongqing involved the relocations of land’s plots rescinded by those rural families who migrated<sup>27</sup>.

<sup>26</sup> Map of Southern China <https://www.economist.com/node/16058750>

<sup>27</sup> For more information about the process of relocation of land’s plot, please see: *Invisible and heavy shackles*, the Economist, May 6<sup>th</sup>, 2010 or *Hukou System Reform and Unification of Rural–urban Social Welfare* by Fang Cai in *China & World Economy* / 33 – 48, Vol. 19, No. 3, 2011.

The new round of reforms represented by the example cited above, have something in common: low entry threshold and equal application of social welfare. In fact, in Chongqing, migrant worker who worked and undertaken business for a certain amount of time, bought a house, invested are eligible to obtain local *hukou* status, and to receive equal access to employment assistance (F. Cai, 2011). In Guangdong, the government convert various criteria (schooling, working skills, volunteering) into credit points, which will be used to obtain urban *hukou* status.

The reforms carried out in 2006 or 2008-10 were sponsored by local government in the majority of cases. As stated before, this constitute one of reasons why, the application of reforms or the criteria involved diverge between cities and provinces. However, as a public policy reform, the household registration system requires nationwide harmonization. In the following paragraph we will analyze the last decade to see if the situation has changed and if yes, how.



**Fig.2:** Chongqing population divided by “urban/ agricultural” Hukou and actual urban/rural, from 1996 to 2008, before the major liberalization of the registration process. Source: THE ECONOMIST<sup>28</sup>

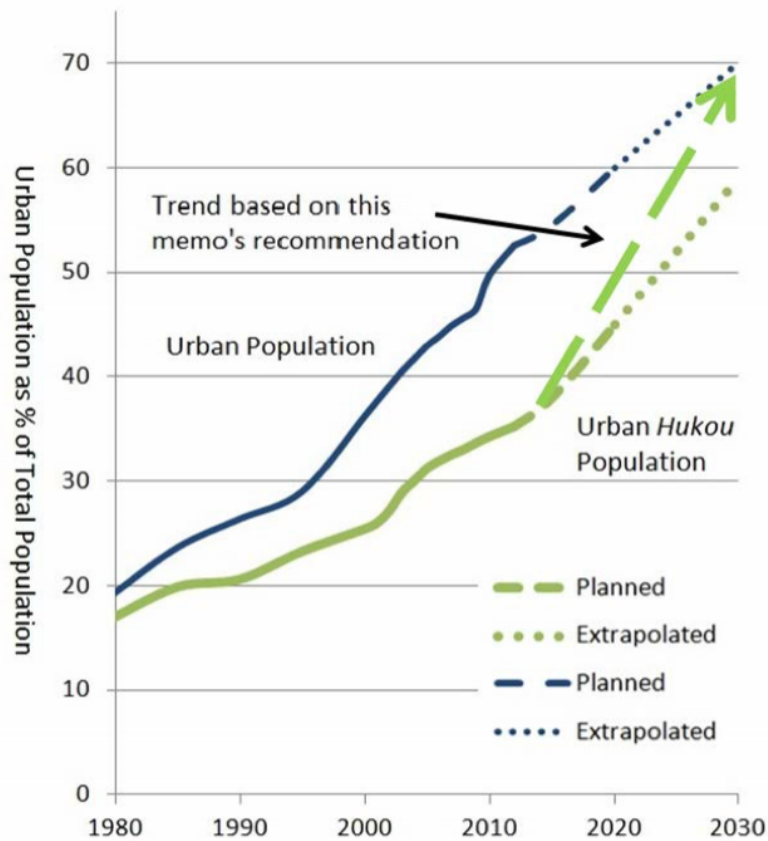
<sup>28</sup> Graph of the composition Chongqing’s population from 1996 to 2008 <https://www.economist.com/node/16058750>

### 3.1.3 The *Hukou* system Today: Latest reforms

According to official statistics, the number of internal migrants in China is about 20% of the entire population, with an increase from 30 million in 1989 to more than 269 million in 2013 (NBS, 2014). The 2010 Census data showed that the urbanization rate in China reached 49.71%, and China's cities continue to grow. According to a research conducted by the McKinsey Global Institute, by 2025, Chinese cities will have 325 million more people, including 230 million migrants (J. Zhang, 2013). Furthermore, following this trend, the country's urban population will reach 926 million by 2025 and will exceed 1 billion by 2030 (Devan et al. 2008). The China 11<sup>th</sup> Five- years plan (2011-2015), played an important role in the further development of the household registration system. It planned to "ensure and improve people well-being" as well as to "promote long-term, steady and rapid economic development and social harmony and stability", providing the appropriate means to allow people to become more mobile socially and geographically (J. Zhang, 2013, p 244).

The reform of China's household registration system is a major issue for the future development of China. China has less arable land than the United States, but yet more than 200 million Chinese depend on agriculture for their livelihood and more than 800 million citizens are registered with the government as having a rural Hukou.

In March 2014, the Chinese government released its "*New National Urbanization Plan*", which proposed to allow 100 million rural workers and to others long-term resident to obtain an official urban hukou by 2020 (K. W. Chan, 2014). At the end of July 2014, the State Council released its "Opinions on Further Promoting the Reform of the Hukou system", which propose to relax even more the restrictions in small cities, town and medium-sized cities (K.W. Chan, 2014).



*Sources: China Statistical Yearbooks; China Population Statistical Yearbooks; figures for 2013-2020 are from National New-Type Urbanization Plan; those after 2020 are from Kam Wing Chang.*

However, according to some scholars the two proposals are still not enough to solve the problem. It is not a problem which may be solved in a mere decade but requires at least thirty years. Yet, it is mandatory so solve this divide among rural and urban in order to promote China's economic development in the future. A restriction on labor-mobility could put into jeopardy its "aspiration" to become the next hegemon, because this kind of policy worsen the overall social and economic development of a country. By investing in rural areas, the government has restricted the liberty of millions of people to emigrate (and try to ameliorate their living conditions). By "forcing" the population to stay in particular areas, Beijing shows its authoritarianism; even this point contrast with the HST. As stated in the introduction, the literature has shown that a Democracy has more chances to become a hegemon.

#### 4. Conclusion

This chapter provides an explanation of how China implemented the WTO requirements. Furthermore, it analyzes two important features of Chinese development: the agriculture and the

household registration system. Together the agricultural sector and the Hukou system are a perfect example to show how China changed before and after the accession to the World Trade Organization.

The implementation and internal adaptation to the WTO's commitments did not present particular problems and have been adopted since the beginning. Perhaps some problems arose in regard to the agricultural sector. This sector has always been sensitive for the entire economy of the country; it has been considered as the sector to aim for greater economic development. Many things changed post-2001, the sector experienced at least in the short-run challenging effects, because of the TRQs and because of the international competition. With the entrance to the international trade system, the industrial sector became the leading sector. This caused a huge urbanization which is China since 1950s is controlled by the *Hukou* system. The household registration system can be considered as a "passport", which divide the population among rural and urban, thus it was established to control the flow of migrants who wanted to find employment in the cities. The restriction on labor mobility provoked by the *Hukou* system had significant effects on the economy, especially in the industrial and agricultural. Furthermore, it has created this huge gap among coastal and inland regions. Finally, as regards these two fields, we can state that China does not meet two of the basic requirements of the HST: overall economic stability and democratic policies.

The effects of the entrance in the WTO will be analyzed in the following chapter.

## Chapter 3:

### China and WTO: What are the main consequences after almost 20 years?

*The economic and social implications*

#### Abstract

The final chapter is focused on the social- economic implications of the China's accession to WTO. What happened in China after almost twenty years of membership?

What many researchers noted is that the commitment to WTO promoted the growth of China, economically speaking China is now ranked as second, just behind U.S. The Chinese economy has long been known for its strong growth, a growth of over 7% even in recent years. However, the country saw its total GDP growth go down to 6.7% in 2016 and is projected to slow to 6.6% in 2017, and further decline to 5.7% by 2022. The country's economy is propelled by an equal contribution from manufacturing and services (45% each, approximately) with a 10% contribution by the agricultural sector. The nominal GDP for the U.S. and China for the year 2022 is estimated at \$23.76 trillion and \$17.71 trillion respectively, while the GDP in terms of PPP is projected at \$23.76 trillion for the U.S. and \$34.31 trillion for China. However, developed in an unbalanced way.

In the last years China faced the problem of the "new poor": poverty is distributed unevenly across the country. The market liberalization produced unbalanced growth in coastal and inland regions, causing the so-called "interregional inequality". The geographic disparities in income have been rising steadily since the late 80s, but have worsened after 2001, because many development project and policies are addressed to urban region rather than rural. Unemployment Rate in China decreased to 3.90 percent in the fourth quarter of 2017 from 3.95 percent in the third quarter of 2017.

However, still Thirty-millions of people lives below the national poverty line. Many problems still need to be faced: Rural-urban divide; Urban poverty and the unequal educational opportunity plus the restrictions on migration. We will see how all these consequences are strictly linked together, we could say one the cause or consequence of the other. Is China ready to be a potential next Hegemon?

#### **1. The Economic Development**

*“China’s accession to the WTO is a milestone in China’s reform and opening up, bringing us into a new era to further open up. To join the WTO was a major strategic decision based on our comprehensive analysis of the situation at home and abroad in order to push forward China’s reform and opening-up and socialist modernization drive.”*

Before engaging in the discussion about the social implication which the WTO, (hence the economic openness) brought to China, it is important to give some information about the effects on the overall economy. To have a complete picture of the today's situation in China is worth to start from the extraordinary economic development experienced after December 2001.

China's WTO accession had profound impact on the Country, fostering tremendous transformation and expanding the country's participation in the global economy. Its economy has evolved faster than anyone hoped. Throughout the past decade, China's GDP grew at an average of 9% *per year* and is now the second-largest trading nation in both exports and imports. Moreover, China became a major source of outbound investment, as well as one of the main destinations for FDI (W. Yong, 2011). China also became a major creditor nation. These achievements show that WTO accession and integration into the global economy have been *pivotal* to the country's progress.

China's support of the World Trade Organization will continue to be strong because of China's rapidly growing interests in an open global trading system.

According to the WTO's report published in 2011 to celebrate the first decade of China's Membership, China scored remarkable achievements in economic and social terms. In 2011, China was the 2<sup>nd</sup> largest economy in GDP terms, the 1<sup>st</sup> largest merchandise exporter, the 2<sup>nd</sup> largest merchandise importer, the 4<sup>th</sup> largest commercial services exporter, the 3<sup>rd</sup> largest commercial services importer, the 1<sup>st</sup> destination for Inward FDI among developing countries and the 1<sup>st</sup> investor for outward FDI among developing countries (WTO, 2011). It is worth to mention China's contribution to the world's economy, because not just China benefited from joining the WTO but also the other Member States. We can refer to a *do ut des*, even if not all the countries involved consider the exchange equal. China since 2008 is a contributor to the Aid for Trade Initiatives and it is the largest trading partner for major economies; for the sake of accuracy, in 2011 China was: 1<sup>st</sup> largest trading partner of Australia, Chile, Japan, South Korea, Hong Kong, Malaysia, Russia, Brazil, South Africa and Saudi Arabia. Moreover, it was the 2<sup>nd</sup> largest trading partner of: Argentina, Canada, EU, India, Indonesia, US, Mexico, New Zealand and Singapore. Finally, it was the 3<sup>rd</sup> largest trading partner of: Turkey, Germany and Italy (WTO, 2011). Hence, as stated by the WTO, China's first Ten years after accession achieved win-win outcome with the rest of the world.

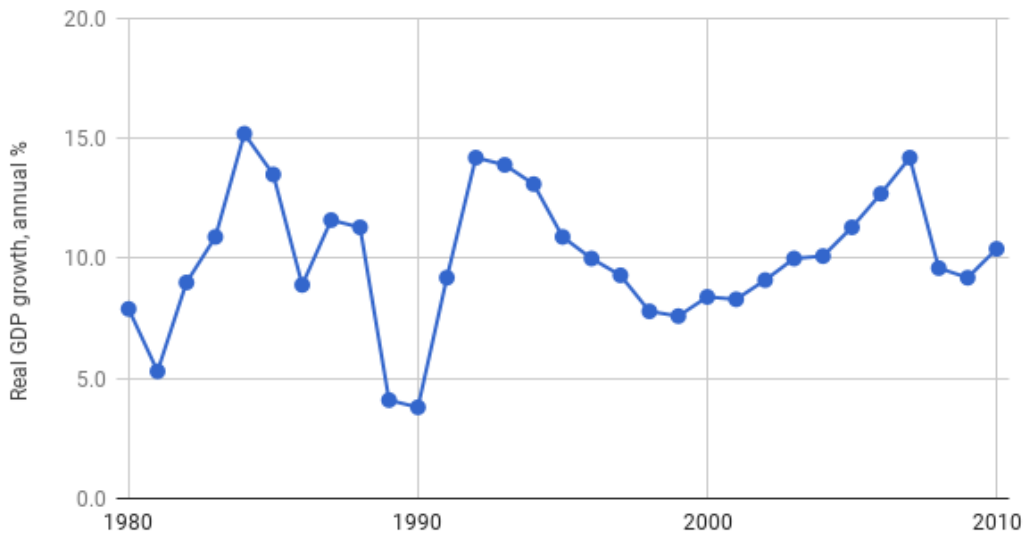
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<sup>29</sup> Source: China in the WTO, Past, Present and Future, 2011.  
[https://www.wto.org/english/thewto\\_e/acc\\_e/s7lu\\_e.pdf](https://www.wto.org/english/thewto_e/acc_e/s7lu_e.pdf)



In terms of GDP growth, China has experienced a rise from 8.3% annual in 2001 to 10.6 annual in 2010. However, the GDP growth rate during that decade showed fluctuations, for example even if the index steadily grew until reaching 14.23 in 2007, from 2007 to 2009 the index fell by various points. From 2010 the GDP began to grow again<sup>30</sup>.

China's annual real GDP growth, %



Source: IMF and World Bank (from Guardian)<sup>31</sup>.

But, according to the latest statistics provided by the World Bank, the period from 2010 to 2016 is characterized by a dramatic fall of the GDP's growth, the annual growth passed from 10.6 in 2010 to 6.7 in 2016. What is clear analyzing the Chinese GDP's trend is that China is fully influenced by the trend of the world's economy. As a matter of facts, China was one of few countries able to sustain its economy and recover soon from the world economic crisis of 2008.

According to the latest data about the GDP, China's economy grew faster than expected in the fourth quarter of 2017, as an export recovery helped the country posts its first annual acceleration in growth after seven years (Data above) (Reuters, 2017). Growth for the 2017 full year picked up to 6.9% year-on-year, the first annual acceleration for the economy since 2010. The annual growth beaten the Beijing's 2017 target of around 6.5% (Reuters, 2017).

<sup>30</sup> Data from The World Bank: [https://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG?end=2010&locations=CN&name\\_desc=false&start=2001&view=chart](https://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG?end=2010&locations=CN&name_desc=false&start=2001&view=chart)

<sup>31</sup> Graph and data from: <https://www.theguardian.com/news/datablog/2012/mar/23/china-gdp-since-1980#data>

In terms of economic development, China obtained dramatic results in just sixteen years. Once joined the WTO in 2001, China ranked as 6th in terms of GDP, in 2011 was 2nd. Still in 2001, China's trade of good was valued at 0.51 trillion US dollars, ranking 6th in the world; whereas in 2014 it reached 4.3 trillion US dollars, growing over eight times and ranking the world's first for the second consecutive years (yet in 2013, it ranked as first) (Y. Yuan, 2015).

Furthermore, as regards the FDIs, in 2014 the amount of Foreign Direct Investments absorbed by China reached 123.5 billion US dollars, lifting its global ranking even in this field to the first. Outbound Direct Investment were at 102.9 billion US dollar, the closest equivalent ever to its FDI peer (Y. Yuan, 2015).

Undoubtedly, China benefited from its WTO membership by obtaining a stable and transparent institutional framework and external environment, ameliorating its industrial competitiveness and people's living standards (the topic will be analyzed in the following paragraphs).

Therefore, the benefits for China's trading partners (as said before) are equally evident. The implementation of the commitments made by China in the WTO, including (but not limited) to the reduction of tariffs for agricultural products and industrial goods of 8% and almost 6%, respectively; the elimination of non-tariffs measures for products of 424 tariff items, the opening of 100 of the 160 services sectors classified by the WTO, facilitated the access of foreign goods and services in the huge Chinese Market. Jobs were created for business partners and more investment opportunities. Hence, China has made great contribution to be family of the world trading system.

Notwithstanding, according to the words of YI Xiaozhun, the deputy Director-General of the WTO, expressed during an Interview for China Daily on 2016:

*"While China's huge achievements during the 15 years of WTO membership are to be commended, the country must not rest on its successes," said Yi Xiaozhun, "It is essential that China continue to play an active and constructive role in the WTO so that the multilateral trading system can continue to deliver new trade reforms in the future<sup>32</sup>."*

With strapping transitional challenges ahead and strenuous adjustments behind, China has risen to become a doyen of global free trade and a token of globalization at large, after sixteen years since its accession to the World Trade Organization (WTO).

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<sup>32</sup> China's accession to WTO "most significant": senior WTO official. By Fu Jing, 2016-12-11. [http://www.chinadaily.com.cn/china/2016-12/11/content\\_27635301.htm](http://www.chinadaily.com.cn/china/2016-12/11/content_27635301.htm)

An undeniable winner of globalization, China has undergone the whole process with costs and pains. But all that has benefited China and the world due to the country's solid integration into the global system has proved the worthiness of such afflictions. The success of China after its entry into the WTO has shown that, compared to other resources, the resistance nourished by an inclusive and flexible mentality is the key to promote a country development, domestically and internationally speaking.

### ***1.1. What Happened to the Agricultural Sector: Evidences and Future Prospects***

But what happened to one of the most important and troubled economic sectors, the Agricultural? During the rush to the economic growth what has been left behind? If something has been left behind, what is?

We have already discussed about the importance of the agricultural sector for a country as China. In Chapter 2, an analysis of the pre-and post- accession to the WTO was given; it was said that, China during the first years after its accession to the WTO would have suffered from openness to foreign competition and for the adjustments of the prices. Hence, in the short-run the sector would have suffered but would have benefited in the long-run from the open market.

The aim of the section is to provide the new Data about the Agricultural sector and the projects enacted the central government during the 12<sup>th</sup> Five-Year-Plan, and the policies which will be promoted according to the 13<sup>th</sup> Five-Year-Plan.

Before starting with the analysis of the new reforms and projects addressed to the primary sector, it is important to understand how important the agricultural sector in the calculation of the national GDP is, and how it has changed in the last sixteen years. According to the World Bank national accounts data and OECD national accounts files, the importance in terms of percentage points in the calculation of the Chinese GDP has been declining since 2001<sup>33</sup>.

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<sup>33</sup> Agriculture, Value Added (% of GDP), description: Agriculture corresponds to ISIC divisions 1-5 and includes forestry, hunting, and fishing, as well as cultivation of crops and livestock production. Value added is the net output of a sector after adding up all outputs and subtracting intermediate inputs. It is calculated without making deductions for depreciation of fabricated assets or depletion and degradation of natural resources. The origin of value added is determined by the International Standard Industrial Classification (ISIC), revision 3. Note: For VAB countries, gross value added at factor cost is used as the denominator. Source: World Bank.

<https://data.worldbank.org/indicator/NV.AGR.TOTL.ZS?end=2016&locations=CN&start=2001&view=chart>

In 2001, the Agriculture constituted the 14 percent of the total national GDP, whereas in 2016 it constituted just the 8.6% of the total national GDP (World Bank). In terms of annual growth, in 2001 the growth was about 2.7%, whereas in 2016 the annual growth was 3.3% (world bank).

However, the agriculture is still a vital sector for China, as reported by the National bureau of Statistics, it employed 300 million farmers. (NBS,2008)<sup>34</sup>. Moreover, the country ranks first in worldwide farm output, producing: rice, wheat, tea, millet, peanuts, potato, tomato and sorghum. Furthermore, as reported by the FAO, China has succeeded in producing ¼ of the World's grain and feeding 1/5 of the world's population with less than 10% of arable land; this was a huge attainment in pursuit of food and nutrition security not only in China but also in the World<sup>35</sup>. Besides, China has ever closer ties with other countries in this field. Nowadays, the country has built agricultural exchanges and cooperation with some important international and financial organizations and over 140 countries. In addition, through South-South cooperation, it has actively aided other developing countries.

The importance of the sector was not underestimated by the Central Government, in its last projects of policies. In the 12<sup>th</sup> Five-Year-Plan, some priorities were highlighted for the Agricultural sector and for the Rural Development<sup>36</sup>. The plan highlighted seven priorities (MOA, 2013):

### ***1. Supply of farm produce***

*Grain sowing area will be maintained at above 106.7 million ha, and gross production above 540 million tons; Gross output of cotton, sugar and oil will reach 7 million, 140 million and 35 million tons in respective; vegetables and fruits supply will increase steadily; meat, poultry/egg, milk, and aquatic products will total no less than 85 million, 29 million, 50 million and 60 million respectively; compliance rate of farm produce in regular quality and safety inspection will be above 96%.*

### ***2. Agricultural and rural industrial structure***

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<sup>34</sup> More information can be found in: Communiqué on Major Data of the Second National Agricultural Census of China (No.1), National Bureau of Statistics of China, 2008.

<https://web.archive.org/web/20131213092519/http://www.stats.gov.cn/was40/reldetail.jsp?docid=402464541>

<sup>35</sup> For more information, please visit the FAO Official Website: <http://www.fao.org/china/fao-in-china/china-at-a-glance/en/>

<sup>36</sup> The 12<sup>th</sup> Five-Years Plan is representative of China's efforts to rebalance its economy. Emphasis is given to the development from urban and coastal areas to inland areas. One of the project related to this aspect is the will to develop small cities and greenfield districts to absorb coastal migration. Furthermore, the plan continues the path of the 11<sup>th</sup> Five-Years Plan in terms of accelerate the process of opening and reform and to promote environmental protection.

Source: CCTV.com, "China unveils 12<sup>th</sup> Five-Year Plan". 10-28.2010  
<http://english.cntv.cn/program/china24/20101028/100670.shtml>

*Livestock and fishery will contribute 36% and 10% to total output value in agriculture; output value of agro-processing will out-size agriculture by 2.2 folds; added value of township enterprises will grow by 10% annually; gross output value of state farm will grow by 9% annually; functions of agriculture will be more diverse – being a platform for farm tourism and a bond of cultural traditions. Agricultural and rural service industry will grow rapidly.*

### **3. Agricultural material and technology development**

*High-standard farmland—harvest can be secured in drought or flood conditions – will keep increasing its share; an additional 2.667 million ha farmland will be under effective irrigation; the coefficient on effective use of water for agricultural irrigation will reach 0.53. Total horsepower of agricultural machineries will reach 1 billion kW. Mechanization will cover 60% of plowing, planting and harvesting works; rural labors with practical know-how will amount to 13 million, with much better education and capacity; science and technology will contribute to 55% of agricultural output.*

### **4. Agricultural production and operation**

*Modern agriculture is witnessing growing size of operating entities – robust development of specialized farmers' cooperatives, and steady development of moderate-scale operations in various forms. 130 million farm households will benefit from industrialized organization in agriculture. Large dairy farms of 100 plus standing animals will account for 38% of all farms; 50% of swine farms will be large ones with slaughter population of over 500.*

### **5. Agricultural return and farmers' income**

*Added value of agriculture, forestry, livestock and fishery will grow at around 5% annually; a total of 40 million rural labors will be employed in off-farm sector; per capita net income of rural residents will grow at an annual average of over 7%, leading to sharp decline of poor population.*

### **6. Utilization of agricultural resources and ecological conservation**

*Application of fertilizer and chemicals will be evidently improved, while utilization rate of straws is aiming at 80%, and biogas digesters will be installed at more than 50% of suitable rural households. Grassland degradation will be effectively contained. In addition, conservation of aquatic resources will be enhanced, with a total of 150 billion of aquatic seedlings released for proliferation.*

### **7. Rural infrastructures and public service**

*Rural infrastructures, including supply of tap water, electricity and gas, modern highway, and housing will be constantly bettered; science and technology, education, culture, health, and sport in rural areas will march ahead side by side; and rural social security systems will be continuously improved<sup>37</sup>.*

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<sup>37</sup> Priorities of Agricultural and Rural Development in China during the 12<sup>th</sup> Five-Year Plan.

Source: Ministry of Agriculture of China.

[http://english.agri.gov.cn/governmentaffairs/pi/201307/t20130725\\_20020.htm](http://english.agri.gov.cn/governmentaffairs/pi/201307/t20130725_20020.htm)

According to the Ministry of Agriculture, to promote a modernization of the agricultural sector was mandatory. Furthermore, it was mandatory to promote such modernization along with the development of industrialization and urbanization. Promote a development of the sector was not important just to the overall economic development of the country, but also the prerequisite to promote the agricultural productivity increasing farmer's income and building a new socialist countryside (MOA, 2013). The main aim was to develop a modern sector, able to be competitive in the global market and able to sustain the population, providing better living-conditions. During this five-years period many reforms were enacted concerning household registration system (see Chapter 2), rural land and social security.

The 13<sup>th</sup> Five-Year-Plan (2016-2020), constitutes an important milestone for Chinese development; the aim for the next five years is improving environmental quality. Therefore, industrialization, urbanization and agricultural development are required to promote the environment. Furthermore, Beijing's other aim is to build a moderately prosperous society by the Centennial anniversary of the foundation of the CPC in 1921; the ambitious program would double the GDP and the per capita income in 2020 from the levels of 2010, because yet seventy million people need to be lifted up from poverty (MOA, 2016).

In order to bolster this goal of creating a “moderately prosperous society”, the 13<sup>th</sup> five-year-plan underlines how the agricultural sector is vital for the success of the project. As a matter of fact, part four of the plan from chapter 18 to chapter 21 is entirely dedicated to the development of the agricultural sector. From the preface of the Report, Part 4: Agricultural Modernization:

*“Agriculture is the foundation on which we can finish building a moderately prosperous society in all respects and achieve modernization. The agricultural growth model must be transformed at a faster pace, industrial, production, and business operation systems that work for modern agriculture must be established, and the quality, returns, and competitiveness of agriculture must be strengthened to allow China to embark on a path of agricultural modernization which ensures high yields and safe products, conserves resources, and is environmentally friendly.”<sup>38</sup>*

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<sup>38</sup> From: the 13TH Five-year Plan, for economic and social development of the People's Republic of China (2016-2020). Translated by Compilation and Translation Bureau, Central Committee of the Communist Party of China Beijing, China.

The priorities highlighted by the new Plan in part are those begun during the 12<sup>th</sup> five-year-plan (which in part are those of the 11<sup>th</sup> five-year-plan), among those:

- a) Continue the safeguards for grain Production;**
- b) Foster Agricultural Structure Adjustments;**
- c) Integrating a development of Primary, Secondary and Tertiary industries in Rural areas (focus on the farmers' income);**
- d) Sustain the Quality and Safety of the agricultural products.;**
- e) Promote a sustainable Agricultural Development (focus on eco-friendly production);**
- f) Improve International Cooperation in Agriculture;**
- g) Establish a Modern Agricultural Operations System;**
- h) Improve Technology and Equipment and increase Information Technology application in Agriculture;**
- i) Improve systems for Providing support and Protection for Agriculture.**

As the 12<sup>th</sup> Five-Year Plan concluded with all major targets met, the 13<sup>th</sup> is set to make comprehensive reform arrangements including many sectors and fields. The aim to pursue is ambitious, the efforts to make in order to succeed are many and difficult. We just have to wait and see what China can really do.

In the meantime, the following paragraphs will be focused on the increased urban-rural gap and the increased interregional inequalities that China is experienced since many decades. If the main purpose of the central government is to fight this trend, it is important to understand when the problem arose, why and if the process of openness to the western countries along with the decision to join the WTO have contributed to the problem.

## **1.2. An Imbalanced Growth: Evidence from the Coastal-Inland Divide**

This phenomenon is strictly linked to the approach used by the central government in order to promote a rapid economic growth, without no doubt it was not planned, but still constitutes one of the main problems affecting China. Let's discuss it in detail.

It is clear that China experienced a "miraculous" economic and social growth since the decision to open the market to foreign competition. The data collected, shows this dramatic growth began in the

late 1970s during the reforms period of Deng Xiaoping. The discussion about the reforms period and about the Chinese economic development has been included in both Chapter 1 and 2 of this Thesis. However, in this discussion there is a peculiarity that has not been analyzed yet: The Imbalanced economic growth between coastal and rural regions. About this topic, the literature has provided many explanations about this Chinese trend, scholars from China and not, they have questioned what the real causes of this gap were.

According to, Xiabo Zhang and Kevin Zhang, regional inequality might be a result of many different factors as: geographic and institutional barriers in product and factor markets, but also Globalization. In its process of economic development, high levels of Trade and the FDI have stimulated domestic market expansion, contributed to reforms of state-owned industries and privatization, hence promoted competition (X. Zhang, 1999). However, the gains of economic growth have not been equally distributed across regions (X. Zhang- K. Zhang, 2003). Many scholars suggest the importance of the FDI in the growing coastal-inland divide; for example, in 1998, Guangdong, Jiangsu and Shanghai were ranked first in attracting FDI, these three provinces are coastal. Whereas, Guizhou, Inner Mongolia and Jilin ranked as last three, these provinces are inland. To further confirm the thesis of the importance of FDI, in 1998 the three above coastal provinces alone contributed to more than 60% of the total foreign trade in 1998 (X. Zhang- K. Zhang, 2003). Notwithstanding, there is also another explanation for this gap, the uneven distribution of capital constitutes a further reason to the increased inequality among regions. China promoted a preferential policy for coastal regions in the 1980s, in fact, many inland provinces have initiated offices or investing companies in the special zones in the coastal areas. Thus, because of his favorable investment policy also the domestic capital moved to south and east (China Development Report, 1995). Moreover, the fiscal decentralization encouraged during the reforms' period, provinces were allowed to keep a larger share of revenues locally, *which further reduces the central government's redistribution power and enlarges the existing regional disparity* (X. Zhang – K. Zhang, 2003 p.61). Globalization caused changes in regional comparative advantages, which exasperated regional inequality because of the segmentation in labor and capital markets.

Hence, even if incomes and living standards have risen in almost all areas, the growth was most rapid in the coastal provinces, followed by provinces in the central region and least rapid in the western regions (OECD, 2002).



Region	Domestic Product (100 million yuan)	Primary Industry	Secondary Industry	Industry	Tertiary Industry	Per Capita GDP (yuan)
<b>Beijing</b>	2174.46	87.48	840.23	649.34	1246.75	<b>19846</b>
<b>Tianjin</b>	1450.06	71.01	711.93	640.21	667.12	<b>15976</b>
<b>Hebei</b>	4569.19	805.97	2243.59	1950.21	1519.63	<b>6932</b>
<b>Shanxi</b>	1506.78	159.96	760.72	650.62	586.10	<b>4727</b>
<b>Inner Mongolia</b>	1268.20	342.91	515.46	428.33	409.83	<b>5350</b>
<b>Liaoning</b>	4171.69	520.80	2001.48	1795.71	1649.41	<b>10086</b>
<b>Jilin</b>	1669.56	423.48	671.74	552.34	574.34	<b>6341</b>
<b>Heilongjiang</b>	2897.41	377.23	1587.76	1399.85	932.42	<b>7660</b>
<b>Shanghai</b>	4034.96	80.00	1953.98	1758.68	2000.98	<b>30805</b>
<b>Jiangsu</b>	7697.82	1003.51	3920.15	3387.99	2774.16	<b>10665</b>
<b>Zhejiang</b>	5364.89	631.94	2902.81	2630.00	1830.14	<b>12037</b>
<b>Anhui</b>	2908.59	741.14	1278.91	1135.98	888.54	<b>4707</b>
<b>Fujian</b>	3550.24	628.86	1507.29	1268.95	1414.09	<b>10797</b>
<b>Jiangxi</b>	1962.98	464.40	758.15	613.12	740.43	<b>4661</b>
<b>Shandong</b>	7662.10	1221.00	3705.44	3251.77	2735.66	<b>8673</b>
<b>Henan</b>	4576.10	1123.14	2070.88	1788.84	1382.08	<b>4894</b>
<b>Hubei</b>	3857.99	653.99	1887.93	1692.46	1316.07	<b>6514</b>
<b>Hunan</b>	3326.75	778.25	1297.74	1096.56	1250.76	<b>5105</b>
<b>Guangdong</b>	8464.31	1021.30	4264.32	3705.88	3178.69	<b>11728</b>
<b>Guangxi</b>	1953.27	554.48	695.83	579.26	702.96	<b>4148</b>
<b>Hainan</b>						<b>6383</b>
	471.23	176.42	94.95	59.43	199.86	
<b>Chongqing</b>	1479.71	284.28	604.39	492.39	591.04	<b>4826</b>
<b>Sichuan</b>	3711.61	941.02	1556.68	1293.53	1213.91	<b>4452</b>
<b>Guizhou</b>	911.86	267.57	348.59	284.16	295.70	<b>2475</b>
<b>Yunnan</b>	1855.74	412.17	825.12	680.01	618.45	<b>4452</b>
<b>Tibet</b>	105.61	34.19	24.00	9.97	47.42	<b>4262</b>
<b>Shaanxi</b>	1487.61	267.51	641.90	487.26	578.20	<b>4101</b>
<b>Gansu</b>	931.98	191.21	423.79	327.68	316.98	<b>3668</b>

<b>Qinghai</b>	238.39	40.54	97.88	69.96	99.97	<b>4662</b>
<b>Ningxia</b>	241.49	48.01	102.68	80.70	90.80	<b>4473</b>
<b>Xinjiang</b>	1168.55	268.51	460.71	317.93	439.33	<b>6470</b>

*Source: China statistical Yearbook 2000. Growth by Regions in 1999<sup>39</sup>.*

The above figure provides a proof of this unbalanced growth among regions, it is possible to see how the Main cities and the coastal provinces granted better living condition for the population. Moreover, the amount of production is undoubtedly being larger compared to provinces such as, Inner Mongolia.

As said above, the segmentation has been emphasized by differences in market rules and conditions across regions, and in the way government policies are applied (OECD, 2002). Government policies to foster the development of coastal provinces increased their integration with the international economy, and according to an OECD Report, the integration among some provinces and the international economy reached an amount that in some parts exceeded their integration with the rest of the domestic economy.

Another important feature in this divide, is the role of fiscal decentralization. As a matter of fact, fiscal decentralization caused uneven fiscal burdens in regions with different economic structures (Zhang, 2006). The coastal areas are equipped with non-agricultural tax base; hence they do not need to rely on existing or new enterprises to finance public goods provision (R. Hao- Z. Wei, 2007). In contrast, the inland regions where the agriculture constitutes the main economic source, have little resources left for public investment after paying the bureaucracy expenses. Moreover, the political recentralization since the early 1990s reinforced the effect of the fiscal decentralization on regional inequality, in fact the introduction of the performance-based cadre promotion system, led to local completion. Hence, the yet developed coastal regions experienced a further enrichment compared to the efforts enacted by the inland regions.

China as a large and diverse country, must always deal with the challenges of fair regional development and national economic integration. In recent years, the central government has made considerable efforts to control regional inequalities. Many internal areas have been opened up for foreign investments and many resources plus investments have been allocated to the inland areas.

<sup>39</sup> Source: CSY, <http://www.stats.gov.cn/english/statisticaldata/yearlydata/YB2000e/C09E.htm>

However, is no longer a planned country and the central government control has declined over the years and after many reforms. Thus, the regional inequality in China is not only due to geographical conditions but also to the complex interaction between: state, local government, national and foreign investors.

To fight the inequality among its regions, the central government in large part as a response to the Asian Financial Crisis in the late 90s, initiated a “western development strategy”; in period from 2000 to 2005 the central government started seventy main construction projects and the total amount of public investment in the Western regions reached one trillion Yuan (S. Fan- R. Kanbur – X. Zhang, 2010). Furthermore, since 2006, the government has fully abolished agricultural taxation, and also provided subsidies to grain producers to incentivize agricultural production and farmer income.

During the period 2004-2014 we assisted to significant decrease of regional disparities in China, the relatively rapid growth of less developed regions combined with the economic slowdown of the Eastern region has reduced the gap. The Eastern region experienced a slowing growth rate after 2004, due to the rising cost of labor force and the decline of export demand caused by the international financial crisis (S.Li - F. Wang – Z. Xu, 2016).

Finally, the coastal-inland divide has characterized the development of China since its foundation in 1949, it has worsened in first period of reform of the late 1970s, then slightly ameliorated in during the 1990s and 2000s. However, the accession of China in the WTO has in some aspect worsened the divide, because of the foreign investments which was and even now addressed to the coastal provinces (in majority). To fight this trend, Beijing has promoted several policies and investment to solve this imbalance. However, there are some other challenges which are related to the coastal-inland divide: the urban-rural gap, the restriction on labor- mobility (*Hukou* system, See Chapter 2) and capital mobility and the unbalanced per capita income.

In the following paragraphs, we will focus the attention of some of the aforementioned challenges to which China is still committed, in particular the following paragraphs will deal with the urban-rural divide, and social implication of the Globalization process with the accession to the WTO for Chinese population.

## **2. The social implication of the Accession to the WTO**

*"While China's overall productive forces have significantly improved and in many areas our production capacity leads the world, our problem is that our development is unbalanced and inadequate,"*

**Xi Jinping<sup>40</sup>.**

After an impressive 35-years period of unprecedented economic growth, China has now entered a new and challenging period regarding development. It is a new stage, focused on improvement of the quality and depth of socio-economic growth and more distribution of national prosperity to finally reach a “sustainable and harmonious society” (UNDP, 2016). We are here referring to the “Chinese Dream” stated by President Xi Jinping, but what is this dream?

As underlined by the 13<sup>th</sup> Five-Year- Plan, the new Chinese purpose is to become a moderately prosperous society by 2021 and a fully developed nation by 2049 in occasion of the 100<sup>th</sup> anniversary of the founding of the People’s Republic of China.

Reaching these goals could be not easy as it appears, in fact, despite China’s remarkable achievement in poverty reduction and extensive gains in development, the country is still facing numerous challenges.

Nowadays, China is dealing with several development stages, facing growing inequity, environmental challenges, and an idiosyncratic societal shift characterized by rapidly aging population and shrinking workforce, plus mass urbanization with all the problem of migration related (UNDP, 2016).

Moreover, there is also a thriving pressure to reach the appropriate balance among domestic reforms while assuming an increasingly active role in global collaboration. But, before dealing with the future challenges and prospects, it is important to understand which these problems are and why they became so challenging.

### ***2.1. The Urban- Rural Divide: Income inequality in modern China***

China had made remarkable progress in human development since the reforms period and the opening up of the late 1970s. in terms of Human Development Index (HDI), its ranking has risen steadily over the past decades (UNDP,2005). Life expectancy and other health indices are higher today than average levels in developing countries and barely the same as in medium-income countries (

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<sup>40</sup> Principal contradiction facing Chinese society has evolved in new era: XI. From China Daily 2017-10-18. [http://www.chinadaily.com.cn/china/19thcpcnationalcongress/2017-10/18/content\\_33401026.htm](http://www.chinadaily.com.cn/china/19thcpcnationalcongress/2017-10/18/content_33401026.htm)

UNDP,2005). Nevertheless, China remains affected by imbalances in development, most notably between urban and rural areas. According to the “*China Human Development Report of 2005*”, the extending human development gap in rural-urban areas, especially from 1997, has been caused by the growing income inequality among these areas. Furthermore, the World Bank, estimated China’s national Gini coefficient<sup>41</sup> for income distribution rose from 0.30 in 1982 to 0.45 in 2002 (almost 50% percent increase in 20 years) (UNDP,2005). From 1979 to 2003, both urban and rural *per capita* income increased dramatically, however this income growth took place in different periods, hence, the income gap among urban and rural citizens remained unstable. The growth rate of rural household since the late 1990s was lower compared to that of urban residents, thus the gap in terms of absolute income among these two areas has been widening year by year (UNDP,2005). The broadening, income gap depends to a large extent on the growth of rural household income. We have noticed in the previous paragraphs and also in Chapter 2, that growth in urban households has always been high than the rural one, why? Basically, because the growth of rural household income is strongly influenced by the changes in agricultural products and changes in the farmers’ opportunity to work outside their place of origin (the restrictions in labor-mobility caused by the household registration system play a fundamental role in the income gap among rural-urban areas, this is why the phenomenon has been analyzed in this thesis, for further information see Chapter 2). In this degree, when the price of farm products goes up, rural income increases, and the divide becomes smaller, whereas, if the prices of farm products remains unchanged or decline, the divide widen. This is why, the WTO and its consequences: Market openness, foreign competition really influenced well-being of Chinese population.

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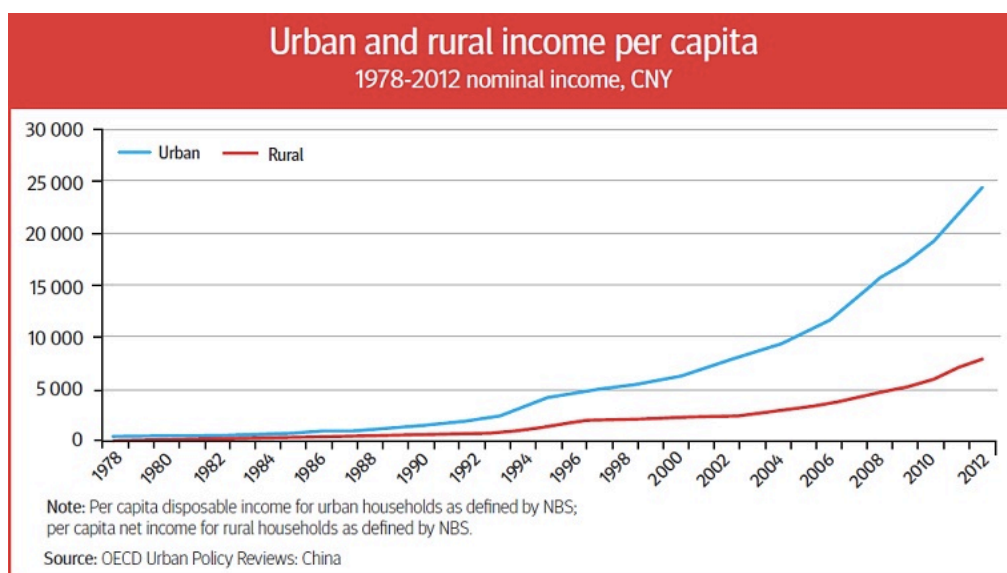
<sup>41</sup> **Gini Coefficient:** The Gini index or Gini coefficient is a statistical measure of distribution developed by the Italian statistician Corrado Gini in 1912. It is often used as a gauge of economic inequality, measuring income distribution or, less commonly, wealth distribution among a population. The coefficient ranges from 0 (or 0%) to 1 (or 100%), with 0 representing perfect equality and 1 representing perfect inequality. Values over 1 are theoretically possible due to negative income or wealth. A country in which every resident has the same income would have an income Gini coefficient of 0. A country in one resident earned all the income, while everyone else earned nothing, would have an income Gini coefficient of 1. The same analysis can be applied to wealth distribution (the "wealth Gini coefficient"), but because wealth is more difficult to measure than income, Gini coefficients usually refer to income and appear simply as "Gini coefficient" or "Gini index," without specifying that they refer to income. Wealth Gini coefficients tend to be much higher than those for income. Read more: [Gini Index | Investopedia](https://www.investopedia.com/terms/g/gini-index.asp#ixzz5DCcAWp4) <https://www.investopedia.com/terms/g/gini-index.asp#ixzz5DCcAWp4>

In 2001, according to China Statistics Yearbook, the average income of urban residents was 6.860 yuan whereas that of a rural resident was 2366 yuan (B. Li – D. Piachaud, 2004). Urban average income was almost three times rural average income.

It is clear that Beijing, has recognized how damaging such disparities can be in what would have been just few years later, the world's second-largest economy. Thus since 2004, the government worked to lift 40 million rural residents out of poverty, raising minimum wages for migrants workers, improving rural incomes by tax cuts and enforcing labor contract law (Dr. D. Tobin, 2011).

In 2007, *If measured by per capita income, rural and urban residents in the inland regions earned only about two-thirds of their counterparts in the coastal regions. The rural–urban gap in per capita income is also enormous: 3 times in the coastal regions and 3.2 times in the inland regions (S. Fan – R. Kanbur – X. Zhang, 2010 p.48).*

Moreover, despite the continued growth China is a very rural economy, this is why the concerns about the inequality among urban and rural per capita income is still broad. In 2010, rural citizens have an annual average per capita disposable income of 5,900 yuan, less than a 1/3 of the average per capita disposable income of their urban counterpart, which stood at 19,100 yuan. (BBC, 2011). Therefore, the rural Gini-Coefficient (see note.13 for an explanation of the Gini Coefficient) increased from 0.35 to 0.38 between 2000 and 2010 implying growing inequality within rural areas (BBC, 2011).



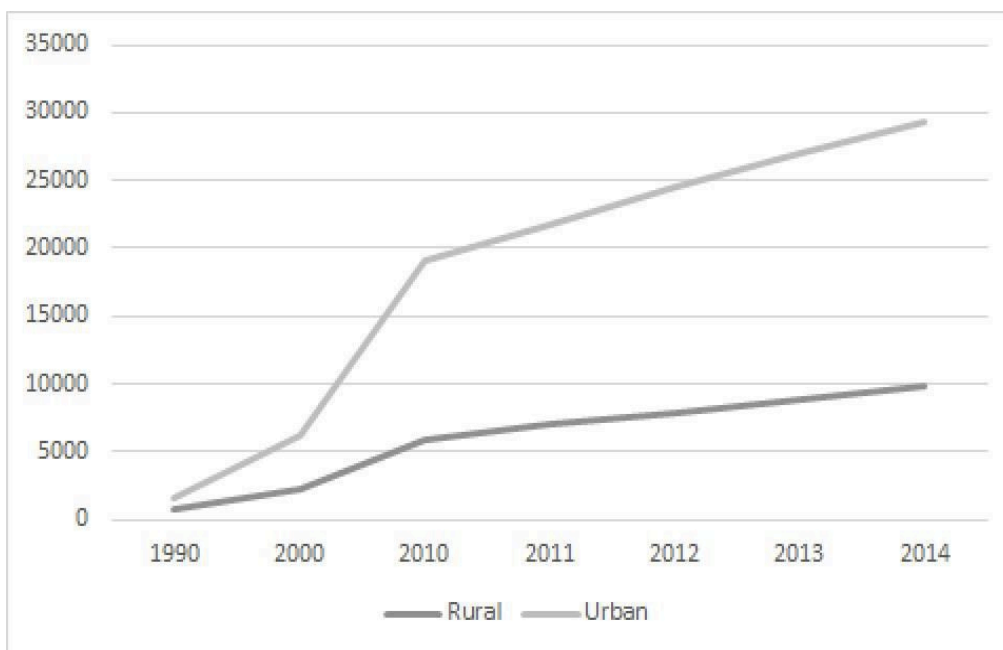
<sup>42</sup> Source: OECD Observer.

It is impossible to deny the dramatic growth of both urban and rural per capita income, as it is possible to see in the above graph. The per capita income has increased and is increasing, however, the

<sup>42</sup> Source: [http://oecdobserver.org/news/fullstory.php/aid/5669/China\\_92s\\_urban-rural\\_divide.html](http://oecdobserver.org/news/fullstory.php/aid/5669/China_92s_urban-rural_divide.html)

disparity among these two areas constitute a challenging plague for China. A high- and rising-income inequality

could provoke adverse effects on social and economic development. It jeopardizes domestic consumption, contributed to the trade balance and blunts social cohesion and political stability (Wang, C., G. Wan, and D. Yang, 2014)<sup>43</sup>. Moreover, this rural-urban gap has played and increasingly important role in income inequality in China as a whole (L. Shi, 2015).



Source: Statista (Forbes)<sup>44</sup>

The above graph provides a clear image of the gap among rural and urban income until 2014, it is possible to see how the divide has worsened especially from 2010. It is possible to state after having analyzed the data from 1978 to today, that there is a negative relation among growth and inequality, more growth a country experiences, the more inequality it will fight. The rural-urban gap is still present, even if according to new statistics is narrowing, it will take time to re-balance this trend. Besides, it not just a problem of different income, it also a problem concerning the access to Education. It is important to underline the Education and School's access, because as said in the

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<sup>44</sup> Source: <https://www.forbes.com/sites/sarahsu/2016/11/18/high-income-inequality-still-festering-in-china/#540eaac61e50>

previous paragraphs and in Chapter 2, the Household Registration System (Hukou) deeply influences the gap among urban and rural areas.

The restrictions on labor-mobility have been relaxed during the past decades but are still present across the country, and the criteria to obtain an urban *hukou* are really strict: one of the criteria is the possession of degree or to be skilled-worker; but in order to become a skilled worker or obtaining a degree, an education is required. If in the rural areas, the per capita income is low, this means that young people could not have the possibility to enroll to a school, hence to a university. As a consequence, obtaining an urban *hukou* will be impossible and the only solution would be to stay in its place of origin, without the possibility to ameliorate their condition and as consequence the rural-urban income get worse.

## **2.2.The New Poor: The Urban poverty**

We have investigated about the urban-rural divide which affects China for decades, we have seen how the rural areas are more disadvantaged compared to the urban counterparts in terms of income or social services. However, there is inequality even in the Urban areas of the country, the process of openness, the new market economy has contributed to the worsening of this new phenomenon. How the government dealt with this new problem? And how the problem developed? These are the key question we should provide an answer, but first we should understand when and why this new poverty trend developed.

Economic reforms and urbanization have reduced poverty in China. In twenty-three years (between 1981 and 2004), the number of poor living on US\$1 a day declined from 634 million to 128 million (J.G. Taylor, 2008). In 2002, number of poor was estimated at 28.2 million (about 3% of the rural population); however, in 2003, for the first time since 1978 China experienced an increase in its level of poverty. As a matter of fact, in just one-year China experienced an increase of poverty of 800,000 people (J.G. Taylor, 2008). Who are these poor? We have already described the divide among the urban and rural population and the difference among coastal and inland regions, however even in the cities people live in condition of poverty. However, despite increasing awareness of urban poverty, the definition of the problem has met some difficulties, due to China's lack of an official urban poverty line for the country as a whole (J.G. Taylor, 2008).

Urban poverty has only recently been put on research and policy agenda in China and among scholars of Chinese poverty. Since 2000, the government has defined the urban poor as people covered under



the Minimum Living Security Standard scheme (MLSS) or Di Bao<sup>45</sup>; by contrast according to the experts of the NBS, an urban poor is defined as people with annual expenditure of less than Y 2,310 per capita (in 1998 prices) (J.G. Taylor, 2008). According to the Ministry of Civil Affairs (who is responsible for urban poverty relief), in September 2000 there approximately 14 million urban residents with income below the local poverty lines. In 2007, 22 million people were said eligible for minimum livelihood supplement (which may differ between different cities, because of the local budget constraint) (C. Riskin – Q. Gao, 2009). As it is possible to understand, urban poverty is a “new problem”, which affects China since the late 70s.

Undoubtedly, before the reform period, with the impossibility to migrate because of the strict Hukou system and the planned economy, the urbanization with its flow of migrants was barely impossible, hence the problem of reallocation of labor-force was not a problem. However, with the new course of China, with the market openness, the relaxation of the *hukou* system and the great industrialization and development, the problem begun to be serious. In the analysis of the characteristics of urban poor it has been highlighted that Regional location is an important predictor of urban poverty, with higher poverty rates in central and western China than in eastern coastal provinces (C. Riskin – Q. Gao, 2009). Still, poverty rates fell in the central and western regions while remained low and stable in the east, thus contributing to reducing regional disparity. In fact, the central government promoted projects of investment of 100 billion yuan to fight the problem of inequality and poverty after the Asian Crisis of 1997-98 (C. Riskin – Q. Gao 2009).

Moreover, with the 16<sup>th</sup> National Party Conference of 2003, when the new leadership of Hu Jintao and Wen Jiabao was introduced, we assisted to a policy evolution “from the pursuance of GDP to

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<sup>45</sup> Dibao Program: By 2011 the dibao programme covered about 8% of the rural population, which is twice the size of its urban counterpart and so exceeded all other poverty relief programs in rural areas. The programme provides cash transfers to households with incomes below a threshold so as to close the gap between the recipient’s income and the threshold, and, as such, to guarantee a minimum level of income. Contrary to many cash transfer programmes in developing countries, participation in the programme does not require the household members to take any specific actions. Following initial success with the programme in urban areas, local governments began to test dibao programmes in the rural setting in the 1990s. These rural experiments gradually expanded, and in 2007 the central government adopted the program in rural areas nationwide. Despite being a national programme, eligibility criteria, beneficiary selection and transfer amounts are determined by the local government, and are, as such, subject to local capabilities as well as budgets. **Source:** Manchester Policy Blogs, Written by Jennifer Golan. <http://blog.policy.manchester.ac.uk/posts/2017/06/minimum-income-china/>

more people-centered policies”. By the end of 2003, according to the data provided by China’s National Bureau of Statistics in collaboration with the State Council Research Office, there were 20 to 30 million urban-registered who lived into poverty, together with their families they added up to about 40 to 50 million people (almost 13% of the urban population) (D.J. Solinger, 2015). Furthermore, in 2006 the World Bank estimated that 7.7% of the total urban population had net income below the relevant Dibao in their cities of registration (D.J. Solinger, 2015). Despite the efforts, the Chinese Government and in particular the Ministry of Civil Affairs are still concerned about the problems. As a matter of fact, the government is calling for improvements in consultation with urban communities to “*address weaknesses in urban planning and devise means of addressing the types of poverty experienced by groups of urban residents*” (J.G. Taylor, p.98).

Furthermore, the Ministry is seeking more coordination and cooperation with non-governmental and community-based organizations in urban areas, in order to build a strategy to solve the problem, monitoring poor urban households and developing appropriate poverty reduction measures (J. G. Taylor, 2008).

In 2008, there still were 22,67 million urban-citizens who needed the Minimum Living Standard (F. Wu – C. Webster – S. He – Y. Liu, 2010).

Despite the World economic crisis of 2008 and the following economic slowdown, China has achieved remarkable results in fighting urban poverty. According to a survey conducted by the China Household Income Project, from 2013 the percentage of urban citizens below the minimum income line was just 1.6%. This success has been achieved thanks to the government who has proposed a policy of subsidies paid to urban dwellers to bring incomes up to a minimum level of 4,476 Yuan (The Guardian, 2015).

Hence, China has put many efforts in trying to solve the poverty afflicting urban-residents, we can say that he reached the purpose if there would not be other categories of people living in urban areas. Unfortunately, as in rural areas, in urban areas poverty is still very present, even if the central government has promoted and is promoting policies and big projects, including new aids, new infrastructures, better social services the problem is still there. As regards urban areas, in all the data collected the migrants workers or the “immigrants” from rural areas are not counted in the surveys. Still an important part of the population lives in condition of extreme poverty, that is the case of those people who are not officially registered as “urban” (they do not possess an Urban-Hukou) who are residents in the main cities. This part of the population has not the same facilities provided to their urban counterpart and try to survive with very low income in the main cities of modern China is not

cheap. Prices are really high in cities like: Beijing or Shanghai, rent an apartment can be extremely difficult due to the market prices. Thus, living in Urban areas without an official Hukou is not easy, unfortunately, many people are forced to move from rural areas to find a job. Even if the government invested billions of yuan to rebalance the urban-rural divide, promote the industrialization of the inland regions to be competitive as the coastal ones, grant access to education and health to rural people, the problem persists and will persist until a final solution about the domestic labor-mobility will not be found.

### **3. What still need to be achieved: future commitments**

In this chapter we have analyzed the various effects of Chinese commercial openness on the population. We have therefore noted how a great economic growth leads to an increase in inequalities between the population and the various regions based on their geographical position, we have also seen how the strong urbanization has created a new problem of equality: urban poverty.

Undoubtedly, we can say that the Chinese government has in recent years engaged in trying to solve the problem, opting for development projects aimed at the population rather than mere economic growth, as had been at the beginning of the economic project of Deng Xiaoping. President Xi Jinping presented several new projects to eradicate poverty and promote a sustainable development; we could say this “war on poverty” constitutes the continuation of the goal of reaching a “moderately prosperous society” begun during the Hu Jintao era.

Among the latest proposed projects, it would be impossible not to mention the “One Belt One Road”. Perhaps China’s most ambitious foreign policy and economic initiative, the project was proposed by President Xi Jinping at the end of 2013. This new version of the ancient Silk Road aims to create a network of railways, roads, pipelines and utility grids that would link China and Central Asia, West Asia and part of South Asia (T. Jinchun, 2016). However, it is not just a project involving new infrastructures, but comprises more than physical connections. In fact, it aims to create the world’s largest platform for economic cooperation, including policy coordination, trade and financing cooperation, and social and culture cooperation (T. Jinchun, 2016).

It is a huge project which would include the participation of sixty countries, it constitutes therefore an enormous challenge for China. The project is composed by two parts: the creation of a land and a maritime new silk road; what is interesting for our discussion is the land project. Xi’s vision is an ambitious program of infrastructures building to connect China’s less-developed border regions with

neighboring countries (P. Cai, 2017). Worthy to mention is the enthusiasm showed by all levels of the Chinese Government (from the national economic planning agency to provincial universities); almost every Chinese province has developed its own OBOR plan to complement the national blueprint. What is interesting about the OBOR, is not just the worldwide effect produced but also the possibility to solve some domestic challenges, and here the interregional disparities are the main challenge. The regional development aspect of OBOR is one of the most important economic policy objectives. In 2014, OBOR was officially incorporated into China's national development strategy at the Central Economic Work Conference (P. Cai, 2017). In order to promote an efficient project, it is mandatory to solve the internal problem, and the inequality between inland regions and coastal is still a huge challenge, for example, Shanghai is five times wealthier than the inland province of Gansu which is part of the old Silk Road (P. Cai, 2017). Hence, a re-balance of the inland-coastal regions is vital for the success of the project. Apart from developing regions in the west, the OBOR is expected to play an important role in revitalizing economically underperforming provinces in the north-east as well as the other poor regions in the south-west, thus the project could be a useful tool to reach the goal of no-poverty by 2021.

In addition to the OBOR, another important project is ongoing with the collaboration of the World Bank. In 2016 the World Bank approved a \$100 million loan to increase income generating opportunities for poor farmers in the Guaxi Zhuang Autonomous Region, through the creation of cooperatives and partnerships with agribusiness enterprises (World Bank, 2016). As Paavo Eliste, World Bank's Lead Agriculture Economist and Team Leader for the project said:

*“Farmer cooperatives play an important role in the agricultural industrialization approach by enabling farmers to engage with the rapidly changing food market, improving production efficiency, adopting new technologies and standardizing agricultural production. The Guangxi Rural Poverty Alleviation Pilot Project will support the establishment and strengthening of farmer cooperatives in ten counties in the karst and hilly areas to link poor rural households to the modern food value chains,<sup>46</sup>”*

The Guangxi Rural Poverty Alleviation Pilot Project will cover 54 townships and 117 administrative villages (95 of which are classified as poor villages). According to the study conducted by the World Bank, this project will help about 64,000 households (about 260,000 people) (World Bank, 2016). The project has four components: 1) improvement of pro-poor value chain aims to address market

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<sup>46</sup> Source, World Bank: <http://www.worldbank.org/en/news/press-release/2016/12/21/new-world-bank-project-in-china-focuses-on-poverty-reduction-through-industrialization>

failures in the development of agricultural and non-agricultural rural value chains and key industries; 2) public infrastructure and service system in support of value chain and key industry development under component one; 3) enhance investment in poor areas in order to improve and facilitate investments in poor areas by existing and new-micro entrepreneurs and business entities; 4) project management, monitoring and evaluation will strengthen the administrative and technical capacity of the project's staff offices at county, prefecture and regional level<sup>47</sup>.

Hence, even this project is addressed to solve the interregional inequality which affects many regions and provinces in China. Furthermore, the focus on the living-condition of the population is present, develop the industry to increase the rural income, hence the well-being of the rural population.

Another development project is the one launched by the Central government in collaboration with UNDP: United Nations Development Assistance Framework

China 2016-2020. This project was established following the main goals that the Beijing announced with the 12<sup>th</sup> Five-Year-Plan, and it will be developed during the 13<sup>th</sup> Five-Year-Plan as an external aid to China to solve the problem of inequalities and poverty. In particular, the Project interests three areas<sup>48</sup>:

- 1) *Poverty Reduction and Equitable Development* – the aim is to help more people, particularly the vulnerable and disadvantaged, to enjoy improved living conditions and increased opportunities for economic, social – cultural – development.
- 2) *Improved and sustainable environment* – the aim is for more people to enjoy a cleaner, healthier and safe environment as a result of improved environmental protection and sustainable green growth.
- 3) *Enhanced Global Engagement* – the aim is to contribute to the effectiveness of China's engagement in international cooperation for the mutual benefit of China and the world (UNDP, 2016).

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<sup>47</sup> For more information about the project, please visit the project's official page, <http://projects.worldbank.org/P153892/?lang=en&tab=overview>

<sup>48</sup> For more information please visit the UNDP official website: <http://www.cn.undp.org/content/china/en/home/presscenter/pressreleases/2016/01/12/launch-of-the-united-nations-development-assistance-framework-2016-2020-a-renewed-commitment-to-strengthen-un-china-collaboration.html>

For the complete text of UNAF please visit: [http://www.un.org.cn/uploads/kindeditor/file/20160104/20160104104815\\_5332.pdf](http://www.un.org.cn/uploads/kindeditor/file/20160104/20160104104815_5332.pdf)

Lastly, it is worth to underline the importance of the policy's project presented by President Xi Jinping in occasion of the 19<sup>th</sup> National Congress of the Communist Party in October 2017. This package of policies has been released on February 4, 2018 in the "No.1 Central Document"

Undoubtedly, it can be said that the focus of this Document is on the development of China's rural and agricultural sectors, promoting rural well-being, reducing the divide among rural and urban areas. It is also expected that this project will encourage the rural population to live in rural areas rather than migrate to big cities, hence solving the problems connected to urbanization. According to Han Jun, Chief of the Central Rural Work Leading Group, the document is "problem-oriented", by channelling more capital to rural areas China could expand its export of high-quality farm produce and broaden rural cooperation with countries and regions under the OBOR initiative (Global Times, 2018).

Furthermore, the document present precise dates for the achievements of the set of objectives: by 2020, the strategy should have established an institutional framework and policy system.

Moreover, by then no people should be living under the existing poverty line and rural productivity plus agricultural supply will improve.

By 2035, "decisive" progress shall be made with the basic modernization of the agricultural sector. All Chinese population will have equal access to basic public services, thus urban-rural integration will improve.

Finally, by 2050, rural areas should be perfectly developed not just in term of productivity but also in term of environment and population well-being (Xinhua, 2018).

As Victor Gao, chairman of China Energy Security Institute said in reference to this new document:

*"The Chinese farmers will become new farmers, with greater empowerment and incentives; better training and education; higher income and more benefits; greater protection of their legitimate rights. Their voices will better be heard, and dreams more and more within reach"*<sup>49</sup>.

Finally, China will commit itself to a new wave of modernization projects, to foster a balanced development. As said before, it is possible to note the shift of aim experienced by the Central Government: from the pursuit of economic growth to the pursuit of social development to obtain economic growth. These projects highlighted in this paragraph are the clear example of this new course.

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<sup>49</sup> Source CGTN: [https://news.cgtn.com/news/33416a4e31677a6333566d54/share\\_p.html](https://news.cgtn.com/news/33416a4e31677a6333566d54/share_p.html)

### 3.1. Is China ready to be next hegemon?

In the contest of the HST, the path undertaken by China in the last thirty years could be seen as the one of a hegemon's challenger. However, there still some loopholes which prevent China to become the next hegemon and thus surpass U.S.

As said in the introduction, one of most prominent HST scholar was Robert Gilpin. In his work "War and Change in Politics", he proposes a systematic theory of the hegemonic transition instead of an historical account (as other scholars did).

When he published his book in 1981 during the Cold War the international system was characterized by "fight for the hegemony" between The United States and the Soviet Union. At that time, Gilpin perceived the U.S as a declining power and the Soviet Union as a potential challenger; China was part of his study but in Gilpin's view it could have been seen as backward state (Gilpin, 2010 p 235). Today, the situation changed: The U.S is the sole hegemon, the Soviet Union does not exist anymore, and China has undergone reforms (social – economic) making it the only potential equal competitor of the U.S.

Despite these geopolitical changes, Gilpin's framework is still valid and finds application in this new international scenario. One of the fundamental assumptions of *War and Change in World politics* is that the international system is stable until no nation-states wish to change the status quo; if a nation-state believes that the expected benefits of changing the system outweighs the expected costs it will attempt to do so (p.11).

The current hegemon, the U.S., created a set of rules for the international system its alliance system and its influence over international institutions such as the IMF, WB and the WTO. When the shaping of the post WWII begun in 1945, China was weak and isolated, thus it did not participate in making the rules of the current order. But today the situation is quite different compared to 1945, China "miraculous" economic, social and military growth show its capability to challenge the current international order. Quoting Gilpin: "a more powerful state can afford to pay a higher cost than a weaker state...as the power of state increases, so does the probability of its willingness to seek a change in the system" (p.95). As regard this last point, President Xi has stated many times the need for a new international system based on mutual respects between countries and non-interference

(specifically, the respect for each country core interests, including China's interest of reunification with Taiwan) (A. S Erickson – A.P. Liff, 2014)

As country rises and the balance of power shifts in its favour, it will seek for territorial control, political influence and economic supremacy (Gilpin, 2010). Today China is asserting a stronger role in the world economic system and creating new diplomatic ties; those actions could threaten or undermine the American hegemony.

For example, China in 2015/2016 created the Asia Infrastructure Investment bank (AIIB): with 86 members is seen as a competitor to U.S. led financial institutions like the IMF and the World Bank. For the sake of preventing this competition, the United States unsuccessfully urged allies like Australia, South Korea, Germany and UK not to join the AIIB (N. Gaouette – A. Mayeda, 2015). In diplomacy, President Xi has strengthened strategical alliances all over the world: Pakistan, India, Latin America and most of the African Country (one of his latest achievement was the re-establishment of diplomatic ties with Burkina Faso in May 2018. Burkina Faso was traditionally a Taiwan's ally. Nowadays only the little reign of Swaziland or eSwatini constitutes the only missed ally in Africa).

Finally, the main concerns of the theorists of the HST and in particular Gilpin is the threat of a hegemonic war.

According to Gilpin, the hegemonic war occurs when an emerging power tries to change the international system and the current dominant power is not able to restore the international system in a state of equilibrium through changes in its policies. A hegemonic war is a total war fought to reorganize the international system, where the winner establishes the rules and the distribution of territory and power. Because of the totality of this objective, it includes the participation of all the major states and many minor states, and the actual limits of the means employed weaken with the result of high levels of violence and betrayal (Gilpin, p 187-200).

I do not personally think that such a catastrophic scenario will happen, it is true that in the last years the U.S. has been considered as a power in decline; Obama's detractors would say that his administration led U.S. to this decline in terms of power and international influence. Furthermore, the 2008 financial crisis did not help U.S. in regaining its status and the Chinese strength to resist to it, worsened the situation. However, the U.S economic recover from the financial crisis give no reason to believe that an American decline is inevitable.



In order to prevent decline relative to China and create a stable hegemonic prosperity, Gilpin would suggest that the U.S should find an optimal way to allocate resources among the conflicting needs of protection, consumption and investment (p.190).

This consist in a process of rejuvenation both in domestic and foreign policy: as example for the latter, the allocation of resources to fund the Strategic Rebalance to Asia policy might strengthen the Western security position in East Asia, hence raising the cost for China to challenge the existing system. Unfortunately, internal problems have a “big weight” in the success of this strategy. A Hegemon must have stability even within their own boundaries.

It is almost the same situation for China: in this dissertation we have explored the Chinese path to globalization, we have seen how China became so influent and powerful and the why. We have proved that the accession to an international institution such as the WTO has benefited the overall economy; however, we have seen by the analysis of the Hukou system and its consequences such as the huge gap among the rural and coastal regions or the new poverty, how china is still socially unbalanced.

Even if in foreign policy, the projects proposed by President Xi Jinping tell a story of a powerful country ready to be next hegemon, the truth is quite different.

Differently from the U.S. China is not a power in decline and it does not need a “rejuvenation” to re-acquire its status. It is a huge country which was able to seat among the “greats” thanks to ad hoc policies and choices, but it is not ready to be next hegemon. The internal problems constitute a brake on its potential desire to overcome the U.S.

It is possible that in fifty, hundreds of years China would be able to surpass the U.S but it not its time, before commits in a position of supremacy it must solve its internal cleavages.

#### **4. Conclusion**

In this last chapter, we have analyzed the economic growth experienced by China in the last sixteen years after the accession to the WTO. moments of spectacular growth have been followed by moment of deep economic slowdown. The 2017, constitutes a year of unexpected economic growth, more than imagined by the Central Government. However, this economic growth has been accompanied by important domestic unbalances such as the coastal-inland divide, followed by the urban-rural divide and the urbanization process with leaded to a growth of Urban Poverty. Despite the efforts made by the government these problems still persist, even if some result has been achieved in all the aforementioned areas, and further efforts need to be made. That is why, China is

investing even with the collaboration of international organization to finally solve these problems. The OBOR, the UNAF, together with the 100\$ million provided by the WB and the new Document No.1, are some of the policies approved by the government to reach the final goal: no poverty by 2021.

## Conclusions and Final Evaluations

As said by Voltaire in 1793 commenting the new French leadership post- French Revolution:

*“Les Représentans du peuple se rendront à leur destination, investis de la plus haute confiance et de pouvoirs illimités. Ils vont déployer un grand caractère. **Ils doivent envisager qu’une grande responsabilité est la suite inséparable d’un grand pouvoir.** Ce sera à leur énergie, à leur courage, et sur-tout à leur prudence, qu’ils devront leur succès et leur gloire”*; in English, *“The people’s representatives will reach their destination, invested with the highest confidence and unlimited power. They will show great character. **They must consider that great responsibility follows inseparably from great power.** To their energy, to their courage, and above all to their prudence, they shall owe their success and their glory<sup>50</sup>.*

I think this quote is quite representative of what China experienced in the last forty years and especially after the death of Chairman Mao Zedong. The path undertaken by China at the end of the 1970s resulted in outcomes never seen before, in terms of quantity and quality but most of all in terms of timing. The extraordinary economic growth experienced by China in less than thirty years can be considered as miraculous. From a complete close country, with no aim of engaging into globalization China turned in one of the most internationally engaged country. Consequently, the role and the international influence of the PRC changed completely, today it is considered one of the main world’s power in terms of economy and political influence. This is why, I chose to begin this paragraph with that famous quote, because China gained a lot of power and prestige in the last decades, but it also gained more responsibility, inside and outside the country.

But a process of reforms was what China needed, because after the death of Mao, the country was in a political and economic quagmire. The Great Proletarian Cultural Revolution and subsequent factional turmoil left the country much poorer, weaker and isolated than it had been before. Perhaps this is the reason why, when Deng Xiaoping proposed his new plan for the economy he said that “Reform is the new revolution”; it was in fact a real revolution in terms of growth and development. Starting from the agriculture, the central government proposed new policies to restore the health of

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<sup>50</sup> 1793 May, Title: Collection Générale des Décrets Rendus par la Convention Nationale, Date: May 8, 1793 (Du 8 Mai 1793), Quote Page 72, Publisher: Chez Baudouin, Imprimeur de la Convention Nationale. A, Paris. (Google Books Full View.

[https://books.google.co.uk/books?id=D55aAAAAcAAJ&q=ins%C3%A9parable&redir\\_esc=y#v=snippet&q=ins%C3%A9parable&f=false](https://books.google.co.uk/books?id=D55aAAAAcAAJ&q=ins%C3%A9parable&redir_esc=y#v=snippet&q=ins%C3%A9parable&f=false)

the Chinese economy. Beijing largely owes its economic growth to Deng's emphasis on the development of the productive forces as theorized by the Marxism's Theory of the Productive Forces. But the importance of Deng's Project is not just in following the Marxist-Leninist precepts but also in combining them with some precepts taken by the capitalism and most important, by understanding what China really needed. By a combination of these different features Deng Xiaoping proposed the so-called "Socialism with Chinese Characteristics".

New projects were initiated as the "Household responsibility System" or the "Township and Village Enterprises", also a strong decentralization of competencies was promoted to foster the autonomous development of the regions and provinces. Furthermore, the central government experimented new economic projects, one of this (which was a success) was the creation of the Special Economic Zones (SEZs). Located in strategic part of the country, these cities were more free-market oriented, thus the government was more flexible in terms of economic policies and regulations. These cities became really attractive for both foreign and domestic firms, and it was a success concerning the new business' possibility carried by these SEZs.

However, Deng Xiaoping was not interested just in rebalancing the domestic economy of China, but he also stressed opening China to the outside world. The decision to join the GATT/WTO can be seen as one step forward to opening up China to the world. In 1986, the People's Republic of China notified the GATT of its wish to resume its status as a GATT contracting party and its willingness to renegotiate the terms of its membership (Gertler, 2002). The formal request was presented by H.E Ambassador Qian Jiadong, Permanent Representative of the People's Republic of China to the UN Office at Geneva. What is important to underline is that China was one of the 23 contracting parties of the GATT in 1948, but few years later decided to withdraw, hence the 1986 was not a simple request to be admitted but a request to be re-admitted. The process of admission took fifteen years to be completed, in fact China obtained the membership just in 2001. There were many international and domestic events which delayed the admission as the Tiananmen facts or the bombing of the Chinese Embassy in Belgrade, even the dissolution of the Soviet Union influenced the process. Furthermore, even during the bilateral and multilateral negotiations (which are part of the WTO accession process) were not easy, in particular some problems were advanced by countries like: Mexico, El Salvador and some other East European Countries. These countries were afraid of the possible bad consequences that the admission of china could have caused to their domestic economies (competition and prices were the main problem). However, in the end just one country did not give the approval for China's admission: El Salvador. The rollercoaster experienced during the fifteen-

years period was also influenced by the role of the United States and its relationship with China. Part of the delay for the admission was due to the difficulty in reaching an agreement with the U.S in field like the agriculture and state subsidies to enterprises. Once the agreement among Beijing and Washington was reached, the admission process could be said to be almost complete.

Many were the internal adaptation requested by the WTO to China and many new policies were enacted to comply with the new asset. The requirements requested by the WTO are underlined in the hundred-page Protocol of Accession, a system of monitoring was also established to ensure the compliance with the commitments imposed by the WTO.

Two sectors were and are important in our discussion about the role of WTO and the Chinese process of economic openness: The Agriculture and the consequence on Labor-Mobility in particular I am referring to the Hukou System.

The agricultural sector has always been a vital sector for China because the country has always been a rural country, where the majority of the population lived and still live. Since the reforms carried out by Deng Xiaoping, this sector has been one of the main protagonist of the Chinese economy, many policies were promoted by the central government to sustain it but also to sustain the industrial sector. In fact, by sustaining the agricultural sector, the government succeeded in specific moments to sustain the industrial sector. Once China joined the WTO but even before the formal admission, scholars, economists both Chinese and foreigners expressed their concern about the possible bad outcome that the foreign competition could have caused to the sector. In particular, the majority of experts with the assistance of various economic models estimated that in the short-run, the admission to the WTO would have caused a slowdown of the sector due to the new foreign competition, the new tariffs and the prices. As a matter of fact, the firsts years after the admission were troubled for the Chinese agriculture and for the peasants, with an increase of the unemployment. However, in the long-run thanks to the adjustments enacted by the government and after the complete adaptation to the WTO standard the sector experienced an improvement in its performance, becoming one of the main exporters of agricultural products in the world.

Related to the question of the Agriculture and the new economic possibilities brought by the WTO, is the labor-mobility which in China is strictly connected to the Household Responsibility System (Hukou System).

The hukou system has origins in China that date back to ancient times, but the system in its current form came into being with the 1958 *People's Republic of China Hukou Registration Regulation* (J. Young, 2013). Until very recently, each citizen was classified in an agricultural or non-agricultural

hukou (commonly referred to as rural or urban) and further categorized by location of origin. The central government asserted that because rural areas had greater capacity to absorb and use excess labor, the majority of the population should be concentrated in these regions. Furthermore, free movement of people was considered dangerous, as it would lead to overpopulation of cities and could threaten agricultural production (J. Young, 2013). This system had deep consequences for the labor-mobility across China, but also for the urban-rural divide (which characterizes China since the early years of the PRC Foundation). The impossibility to move across regions and provinces caused a worsening of the living condition of the rural population. However, since the reforms period, the central government began to understand how deeply this system could influence the economic and social development of the Country; thus, the policies became more relaxed, the criteria to obtain an urban hukou became less strict and the amount of disposable Hukou per year increased. Notwithstanding efforts made by Beijing, the problem with the Hukou system and its development is that many of these new policies were enacted at local level, hence they were not fostered at central level. This caused an inhomogeneous application of the new requirements, moreover the criteria for the application diverged city by city.

The hukou system still remain a problem for the complete development of China, preventing a full urbanization and impeding to people to emigrate for seeking new opportunities. About this topic, Chinese leadership announced new reforms of the system which will be applied nationally, hence, solving the problem of the local differences in terms of policies.

*“There can be no Communism with pauperism, or Socialism with pauperism. So, to get rich is no sin. However, what we mean by getting rich is different from what you mean. Wealth in a socialist society belongs to the people. To get rich in a socialist society means prosperity for the entire people. The principles of socialism are: first, development of production and second, common prosperity. We permit some people and some regions to become prosperous first, for the purposes of achieving common prosperity faster. That is why our policy will not lead to polarization, to a situation where the rich get richer while the poor get poorer”* (Deng Xiaoping in a 1986 US television interview, J. Fenby 2013).

I use this excerpt from an interview with Deng Xiaoping to introduce the evaluations of the last part of this dissertation. China’s economic development and international influence are a real thing. The extraordinary path began in the late 1970s changed, promoted (we can say it) one of the deepest and quickest development of the century. Undoubtedly, China is not the only nation which experienced changes due to international events or to internal challenges, hence it is not a unique case. However,

it is the way it changed to make its experience different from others: the approaches used, the fields involved constitute the unicity of the Chinese progress.

However, all that glitters is not gold. It is true that China is now the 2<sup>nd</sup> World Economy and that is deeply involved in international cooperation, but in the path to reach these outcomes some internal problems present yet, aggravated.

The issue of the urban-rural divide was present in China even before the process of economic openness. Strictly connected to the Hukou System and to the quality and quantity of investments, the rural areas are characterized by an income *per capita* definitely lower compared to the urban counterpart, the inequality among these areas still is one of the biggest challenges with which the government finds itself dealing. Different “five-year-plans” have been dealt with this issue and several projects for a revitalization of the rural areas have been implemented; furthermore, new ad hoc fiscal policies have been promoted to ameliorate the primary sector and the living-conditions of the farmers. Additionally, China experiences another divide: the coastal-inland gap. Due to the optimal geographical location, some regions have developed more compared to others. In particular the eastern and southern regions and provinces have experienced a development which cannot be compared to their western northern counterparts. One reason which could explain this unbalanced growth among inland and coastal regions is the amount of FDI; it has been noted that the large majority of foreign investment were addressed to coastal regions rather than inland regions which are characterized by rural areas.

The economic, financial but also industrial sectors are located in the eastern – southern part of China, this is why the economic growth has been so unbalanced. The situation worsened with the economic openness and the admission to the WTO, although the central government promoted new projects aimed to improve the inland regions facilitating the investments both for foreign and domestic enterprises, the gap still remains. Another interesting social issue arose in the last decades is the “new poor” phenomenon: Urban poverty, has only recently been put on research and policy agenda in China and among scholars of Chinese poverty. The strong urbanization caused by the new labor-demand brought by the accession to the WTO combined with the difficulty of internal migration are the cause of an impoverishment of the urban citizen. The sharp rise of the prices with the consequent rise of the cost of living have cause an increase of poverty in the cities. From the Leadership of Hu Jintao until Today, the government has promoted new reforms and new plans to solve this problem. It could be seeming as a repetition, but it is important to underline once more the commitment of the central government in fighting poverty and in trying to re-equilibrate the society.

Many scholars believe that the efforts made by the government are not enough, it is true that many internal challenges are still present in the country. New adjustments are mandatory for a country which “weights” so much, politically and economically speaking. If China is seeking to become a pillar of the international cooperation it must solve its internal problem. This is why the future Chinese commitments are focused on solving the internal shortcoming: because, projects like the OBOR could not be achieved without a strong China. The leadership of Xi Jinping made promises to be maintained in a not too long future: no poverty by 2021 and a new China by 2049. We just have to wait and see what China will become and what will achieve in few years, by now we can say that the change accomplished is remarkable, a radical change: from a poor, isolated and completely anti-globalization country to an economic and political superpower, engaged in many international projects. Furthermore, the society, is still unbalanced but the improvement of the living conditions has been profound. Thirty years of economic growth allowed the income per capita to grow, hence fighting poverty.

Finally, is someone would ask, do you think the process of economic openness and the accession to the WTO have brought benefits to China and to its population? I would reply: Yes. it was not always easy and new challenges came but we would not have this China if Deng Xiaoping had not decided to opt for a second "revolution".

Furthermore, we could have not used the stability theory if China would have not decided to change. At the beginning of this dissertation we have discussed about the characteristics of this theory, we have further seen how scholars and government perceive this new China. According to the literature China is not ready to surpass the U.S in term of World’s influence, hence to become the next hegemon.

We have shown why, this concern came to the desks of powerful nation-states and scholars; by analyzing the process of economic openness and its new diplomatic project (the parting from the Soviet Union and the decision to join the WTO), we have understood the sensitiveness of the topic. However, by focusing the attention on the domestic situation of China in terms of social and economic policies we have also proved that China has still some work to do prior to be considered the effective hegemon’s challenger.

The purpose of this thesis was not to answer to the question if China will surpass the U.S., however, we gave some intuitions about the possibility. It would be impossible to give a certain answer to this question, just time will tell.



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## Summary

China is today considered as the direct competitor to U.S., in terms of economic and political power. Economically and socially speaking, the path undertaken by Deng Xiaoping in 1978 shaped a new China, powerful and influential in the international system.

According to the World Bank, even if the sustained economic growth has lifted hundreds of millions of people out of poverty (more than 800 million), China still remains a developing country with many people still living below the nations' official poverty level<sup>51</sup>. The World Bank considers China as a developing country because of the *per capita income* which is still a fraction of that in advanced countries. Furthermore, as reported by China's current poverty standard (*per capita* rural net income of RMB 2,300 per year in 2010 constant prices), there were fifty-five million poor in rural areas in 2015. Policy adjustments are required in order for China's growth to be sustainable. China's 12th Five-Year-Plan (2011-2015) and the newly approved 13th Five-Year-Plan (2016-2020) address these issues. The two plans both highlight the development of services and measures to address environmental and social imbalances, to expand social protection, to improve access to education and healthcare. The annual growth target in the 12th Five-Year Plan was 7 percent and the growth target in the 13th Five-Year Plan is 6.5 Percent, which reflect the rebalancing of the economy and the focus on the quality of growth in accordance with the goal of achieving a "moderately prosperous society" by 2020 (World Bank, 2017).

However, China could not have achieved these outcomes if it had not embarked on a path of market's opening as it did after the death of Chairman Mao Zedong, with the leadership of Deng Xiaoping and his idea of "*socialism with Chinese characteristics*" (中国特色社会主义 - *Zhōngguó tè sè shè huì zhǔ yì*). In less than thirty years, China changed and what contributed to the success of these reforms was the modality of implementation which was used: Gradualism and not a shock therapy.

It is important to understand, what a "socialism with Chinese characteristics" is; according to Professor Liu Jianwu from the Hunan University of Science and Technology, the idea of Deng Xiaoping differs from the socialism proposed by Marx and Engels, or from the socialism of the Soviet Model, it diverges also from the "*Surmounting Stage*" socialism in past China. It is different from the model proposed by Marx and Engels because it was not born after an experience with capitalism but on the basis of backward economy and culture. Moreover, in the Party's official narrative, Socialism

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<sup>51</sup> For more information From the World Bank: <http://www.worldbank.org/en/country/china/overview>

with Chinese characteristics is *Marxism-Leninism* adapted to Chinese's conditions and a product of the so-called *scientific socialism*. The Theory pledged that China was in the “primary stage of socialism” because of its relatively low level of material wealth, hence it was mandatory engaging in economic growth to be able to pursue a more egalitarian form of socialism, which in turn would lead to a communist society described in Marxist orthodoxy. In the discussion of the theoretical development of the “socialism with Chinese characteristics”, we cannot avoid mentioning that this theory has been further developed after the death of Deng Xiaoping. Theories like: *Jiang Zemin's The Three Represents*, *Hu Jintao's Scientific Outlook on Development* and *Xi Jinping Thought on Socialism with Characteristic in a New Era*, are clearly the heirs of the Deng's Ideology. These theories have in some ways revised *Dengist* interpretations of the term, and in other ways have expanded them<sup>52</sup>.

Thus, it was and still is (even with some differences) an ideology used to promote the Chinese Development.

As regards, the reforms' period, it may be divided into three phases: from 1978 to 1984; from 1984 to 1993 and from 1993 to 2005.

The process of Chinese openness toward the West began at the end of the 1970s, with the Reforms' project initiated by Deng Xiaoping. The project involved a re-build of the entire economy: from the agricultural sector to the Services sectors. The first sector involved in the project was the primary; China, historically speaking has been a rural country with the majority the population living in the country-side. The changes promoted by Beijing caused a dramatic growth of the economy and ameliorated the living conditions of the population. Here some landmarks dates: In 1979, the government started the so-called “household- responsibility system” in the countryside, giving some farmers ownership of their product for the first time ( the discussion on this reform can be found in Chapter 2); in 1980, Shenzhen is made the first “special economic zone” (SEZ) to experiment with more flexible market policies and in a matter of years transformed from a fishing village into a manufacturing and shipping powerhouse; in 1992, Deng Xiaoping tours southern China to press for faster economic reforms and quell the influence of Party conservatives opposed to market

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<sup>52</sup> For further information about these theories: Lewis, John W.; Xue Litai (2003). "[Social Change and Political Reform in China: Meeting the Challenge of Success](#) *The China Quarterly* (176): 926–942. [doi:10.1017/S0305741003000559](#)

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liberalization, this tour produces a wave of market growth and some political relaxation; in 1996, China allows the yuan to be convertible on the current account, enabling the free flow of money for imports and exports; in 2001, China joins the World Trade Organization.

China's accession to the WTO constitutes an important part of the process of Chinese development. It is considered as the second part of the reforms' project began by Deng Xiaoping. Moreover, it shows the Chinese new course in terms of economy but also politics and international relations.

The Chinese admission in the WTO is considered as the longest and most arduous accession negotiation of the GATT/WTO history. China obtained the Membership after fifteen years of negotiations, from 1986 to 2001.

It is considered as a unique event, due to the difficulty to finalize an agreement among the country and the WTO's Members.

Furthermore, is unique because China was one of the original contracting parties to the GATT in 1948 but decided to withdraw (even if no official statement is present) few years later due to political problems. As a matter of fact, the readmission process began just in July 1986, when an official statement from the Chinese government was delivered to the Director General of the GATT.

The accession process commences with the submission of a formal written request of accession by the applicant government. This request is considered by the General Council which establish a Working party to examine the accession request and to submit the findings of the Working Party to the General Council for the approval; the Working party is open to all GATT/WTO'S Members.

A working party to examine China's status was established in March 1987 and was chaired by Ambassador Pierre Louis Girard of Switzerland.

According to the admission procedure of the GATT/WTO, the applicant government present a memorandum covering all aspects of its trade and legal regime to the Working Party. This memorandum constitutes the basis for the Working Party work. After examining all aspect of the existing trade and all the legal regimes of the applicant, the negotiations could begin. Multilateral and Bilateral Negotiations which all the Member of the Organization. the result of the Bilateral negotiations is consolidated into a document which is part of the final "accession package". In fact, the accession package consists of three documents which represent the result of the multilateral and bilateral negotiations. Just after the approval of the Accession package and once obtained the General Council of Ministerial Conference's approval, the applicant can sign the Protocol of Accession stating that it accepts the approved "accession package" subject to ratification in its national parliament.

All these passages in the case of China took fifteen years to be completed. Many problems arose even during the Bilateral Negotiations, not all the WTO's Members agreed on China's accession request. Countries like: Mexico, El Salvador but also the U.S and some countries of the European Union had some perplexities about the possible consequences that the Chinese Membership could have caused to their economy. Notwithstanding, only one country refused to approve China's membership: El Salvador.

Contrariwise, the other countries who expressed some concern, at the end approved the membership but, on some condition, which are clearly stated in China's Protocol of Accession. Another important reason why China delayed joining the World Trade Organization were some political turmoil. Domestic or international, some events caused frictions among China and other Countries, which caused even the stop of the negotiations for a period. Finally, the 11<sup>th</sup> December 2001, China became the 143<sup>rd</sup> Member of the World Trade Organization (the discussion of China's admission in the WTO can be found in Chapter 1).

Once in the WTO, a Transitional Review Mechanism was established to review China's compliance with the Agreement. No particular problems were highlighted during the process of domestic adaptation to the WTO commitments. This because, China was almost ready to implement the commitments even before the formal accession, in fact in order to reach the criteria requested by the WTO China had to promote a new series of domestic policies (the analysis of China's internal adaptation to the WTO commitment can be found in Chapter 2).

The impact of the WTO in China brought an overall dramatic economic growth, but not all the sectors enjoyed the same beneficial effects, not in the short-run at least.

One of the most sensitive sectors, which was one of the causes of the long negotiations and frictions among China and the WTO was the agriculture. As stated before, the agricultural sector has always been important for the Chinese economy, a sector which was took into serious consideration by the government. After the admission to the WTO, China began to promote the industrial sector more than the agriculture this caused not only a rise of the unemployment, thus an unbalanced economic growth. Increased regional inequalities and the divide among rural and urban regions are just two of the consequences of the industrialization of the country.

There are many studies conducted by Political experts and economists about the effects of WTO in China, many of them published even before the admission. The majority of these studies agreed on one point: the WTO jeopardize some economic sectors and foster inequality in term of income among

the population, this is why it is mandatory for the central government to promote policies to fight this trend.

Linked to the discussion about the agriculture and the unemployment is the Hukou system. The household-registration system can be described as a second “passport” for the Chinese population. It is a Family registration program, which regulates the population distribution and the rural-to-urban migration. Thus, labor-mobility is deep influenced by this “domestic passport”. The modern Hukou system was formalized as a permanent program in the 1950s.

The system was created to promote social, political, and economic stability. As stated above, China’s economy was essentially agrarian during the early days of the People’s republic of China. Hence, in order to boost the industrial sector, the government prioritized heavy industry. However, to finance this project the central government had to underprice agricultural products and overprice industrial products, to create an unequal exchange among the two sectors. To maintain this imbalance, the government created a system which restricted the free flow of resources, in particular labor between industry and agriculture, and between city and countryside. Every citizen became categorized as either rural or urban. The restriction in this field has been relaxed during the decades, many reforms were enacted. However, many reforms were enacted at a local level and not nationally, this caused a differentiation of the *Hukou* criteria across China.

In 2001 after China joined the World Trade Organization, the *Hukou* system experienced another form of liberalization. Even if, it led to job losses in the agricultural sector, it galvanized the labor-intensive-sector (textile and clothing) causing an increase of labor demand. This is why some requirements as the documentation and the quotas for the rural-to-urban conversion were relaxed.

Despite the relaxation of the requirement, the system still exists but some new policies to deal with it are pending.

Therefore, the process of economic and political openness began by China in the late 1970s which culminated in 2001 with its accession to WTO, changed the country from an internal and external point of view. From an external point of view, China turned from an isolated and closed country to one of the World’s superpower in terms of GDP and in terms of political influence. It is committed to many projects involving international cooperation and security, it is one of the top-player in the international relations of this century.

From a domestic point of view, there are still some challenges with which China has to deal. Even if China has been able to fight poverty with outstanding results, there are still thirty million people who live in poverty. Moreover, the dramatic economic growth in the industrial and services sectors has

increased the interregional inequalities. There is still a huge divide in terms of per capita income among inland and coastal regions. Hence, there are some problems that need to be solved.

Many scholars believe that the efforts made by the government are not enough, it is true that many internal challenges are still present in the country. New adjustments are mandatory for a country which “weights” so much, politically and economically speaking. If China is seeking to become a pillar of the international cooperation it must solve its internal problem. This is why the future Chinese commitments are focused on solving the internal shortcoming: because, projects like the OBOR could not be achieved without a strong China. The leadership of Xi Jinping made promises to be maintained in a not too long future: no poverty by 2021 and a new China by 2049. We just have to wait and see what China will become and what will achieve in few years, by now we can say that the change accomplished is remarkable, a radical change: from a poor, isolated and completely anti-globalization country to an economic and political superpower, engaged in many international projects. Furthermore, the society, is still unbalanced but the improvement of the living conditions has been profound. Thirty years of economic growth allowed the income per capita to grow, hence fighting poverty.

Finally, is someone would ask, do you think the process of economic openness and the accession to the WTO have brought benefits to China and to its population? I would reply: Yes. it was not always easy and new challenges came but we would not have this China if Deng Xiaoping had not decided to opt for a second "revolution".

Furthermore, we could have not used the stability theory if China would have not decided to change. In this dissertation we have discussed about the characteristics of this theory, we have further seen how scholars and government perceive this new China. According to the literature China is not ready to surpass the U.S in term of World's influence, hence to become the next hegemon.

We have shown why, this concern came to the desks of powerful nation-states and scholars; by analyzing the process of economic openness and its new diplomatic project (the parting from the Soviet Union and the decision to join the WTO), we have understood the sensitiveness of the topic. However, by focusing the attention on the domestic situation of China in terms of social and economic policies we have also proved that China has still some work to do prior to be considered the effective hegemon's challenger.

This thesis proposes an analysis of China's openness process with a focus on the pros and cons beginning from Deng Xiaoping's leadership, passing from the accession to the WTO, to Nowadays.



The purpose of this thesis was not to answer to the question if China will surpass the U.S., however, we gave some intuitions about the possibility. It would be impossible to give a certain answer to this question, just time will tell.