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Evoluzione dei rapporti commerciali tra USA e Cina dal 1978 alla presidenza Trump

Abstract

Questa tesi magistrale , facente parte del corso di laurea magistrale in relazioni internazionali comparate curriculum global studies, tratterà l'evoluzione e i cambiamenti dei rapporti commerciali tra Cina e Stati Uniti , in particolare dalla così detta “ Open Door Policy” e dalla istituzione delle prime Special Economic Zones da ricondurre alle idee di Deng Xiaoping, leader “de facto” della Repubblica Popolare Cinese dal 1978 al 1992, sino alla presidenza di Donald Trump , Presidente degli Stati Uniti d'America dal 2017 al 2021. Deng Xiaoping avviò una graduale privatizzazione, capendo che era necessario per il progresso economico cinese decentralizzare maggiormente le attività economiche, dare maggiore autonomia alle regioni e ai privati cinesi e dare a questi ultimi degli incentivi economici per la creazione e lo sviluppo delle loro attività economiche, aprire la Cina ad investimenti stranieri che immettessero capitali nel paese, permettere una significativa crescita dell'export cinese anche grazie ad una svalutazione dello Yuan, portando ad un generale surplus commerciale, anche se, come si vedrà più nel dettaglio in seguito, il surplus commerciale generale è riconducibile all'enorme surplus che la Cina ha con gli Stati Uniti d'America, mentre , contrariamente a quanto si potrebbe pensare, la Cina ha un deficit commerciale con molti altri paesi, soprattutto asiatici. Si spiegherà poi nel dettaglio l'acquisto di debito pubblico statunitense da parte della Cina, che ha finanziato e finanzia tutt'ora in questo modo anche la massiccia importazione stessa degli Stati Uniti. Si farà luce sulle conseguenze dell'ingresso della Cina nella WTO (World Trade Organization) avvenuta nel 2001, che ha abbassato ulteriormente le barriere commerciali e ha quindi agevolato l'esportazione di prodotti cinesi nel mondo. Si esamineranno anche le conseguenze delle sanzioni commerciali americane ai danni della Cina, in particolare durante la presidenza di Donald Trump e le altre riforme economiche introdotte dalla Cina nel corso dei circa 40 anni presi in esame.

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Chapter 1

China abandoned the self-reliance mentality since 1978, when Deng Xiaoping introduced the so called "Open Door Policy", particularly at the "3rd Plenary Session of the 11th Central Committee of the Chinese Communist Party" in December 1978. Before 1978, China's economy was essentially a centrally planned economy, mostly based on import substitution industrialization and in which imports were mostly composed by raw materials and capital goods, additionally the number of imports

and exports was established by the central Chinese government in its five years economic plans. Exports were only means to use foreign exchange for imports, in this way China didn't develop its full export potential (Li & Jiang, 2018, pp. 575–594). One of the first steps and most important ones in order to achieve a gradual opening of the Chinese economy, aiming to taking advantage of its export capability, has been decentralizing the administration and thus granting the possibility to local authorities to establish their own corporations, allowed to trade with foreign firms. Before 1978, the only corporations allowed to trade with foreign firms were state-owned enterprises which were holding monopolistic powers in their respective economic sector. After 1978 instead, each province has been allowed to create its own corporations which could trade directly its products and goods, plus the possibility for them to retain a percentage of the income from trade. Between 1978 and 1994 about 9 million of new capitalist companies of different sizes were created in China. In 1979 the first four Special Economic Zones (SEZs) were created, which offered different incentives for firms to settle in these zones for production and then for export of goods. The aim was to attract foreign direct investments, as a way to utilize China's amazing resources, and attracting skilled workers and technology from foreign countries. The success of this economic reform led to the creation of many other SEZs. By 1985, China completed its opening of the Pacific coastal area to foreign direct investments and to the inflow of technology and skilled workers from foreign countries. This situation led to a significant development difference between coastal areas and inland China, with the coastal areas benefitting more than the last zone. Skilled workers and capitals also converged to coastal areas. The benefits arrived just slowly and to a lesser extent to the inland part of China. Chinese government wanted also to attract foreign technology inflow, and in order to achieve this key objective, it reduced import duties and tariffs on products considered technically advanced and that China was lacking production of. In addition, many students were sent to study abroad, and even engineers to gather significant information, especially in the United States and Japan and West Europe, in order to learn about the latest technology progresses achieved abroad. This was made possible by the improvement of bilateral relationship with the United States, due to the ongoing cold war. The United States started to see China as a potential strategic partner in the Asian region against the Soviet Union. These international political changes made possible a cooperation between the two countries, therefore contributing to develop even commercial relations between the two countries. In addition, Chinese government introduced special laws to protect foreign companies which were importing foreign technology.

In addition to the economic incentives present in these special economic zones, such as tax reduction in order to attract foreign direct investments in these areas, one other main reason for their success in attracting capitals was the relatively low labour cost, compared with the labour cost of other nations. Another crucial aspect of the reform initiated by Deng Xiaoping has been the de-collectivization of the Chinese rural economy, as an important part of the process of decentralization and opening to market forces of its entire economy. The reforms started in 1978 led to a decentralization of the economic authority giving more freedom and responsibility to households in production decisions and even to trade their surplus. The households took the place of the old socialist collective farms as agricultural unit of production (Watson,1988,1–28). Indeed, some households took advantage of the decentralization and of the economic stimulus offered by reforms, starting to plan to sell in the market part of their surplus production, specializing in this way in a commercial field or in another. The newly opened market started to function as an engine for economic change, shaping the structure of agricultural production also. This new and more free economic system led to the gradual creation of wholesale free markets, in which private merchants could deal. These wholesale markets operated outside the central planned system and they generated economic, social, and political effects within the Chinese society of that time. One of these changes was the resurgence of social ties based on market contracts, so important that they led to the creation of a social class composed by merchants, traders, and goods transport operators who started to make a living out of these revitalized professions. Indeed, after the introduction of the reforms, they were finally seen as providing an essential social service in market operations and as playing a positive role in promoting economic efficiency and the commercialization of the rural economy, while before all this changes, they were seen in a negative light, almost as a working class operating outside the law. The occupational rate of the Chinese population shifted considerably from the agricultural sector to the industrial, construction and service sector in the period between 1978 and 2004. This occupational shift had direct consequences on the Chinese population's income structure. Central government also introduced a double price system, allowing industries to sell produced goods and even commodities both at a planned price and at a market price, giving them the freedom of choice and solving the problem of the gap between Chinese domestic market price and international market's one (Huan,1986, 1–18). China has also improved the price competitiveness of Chinese goods in foreign markets through a series of devaluations of the yuan, increasing the comparative advantage for producers who wanted to locate in China for production (Park,1993,51-56). All these changes allowed the agricultural production to increase at

a spectacular annual growth rate, thus increasing exports of agricultural products and also other Chinese goods.

Method of implementation

China introduced its reforms only gradually, in an experimental manner. The example of the SEZs reform introduction is illustrative: Chinese government introduced the reform in only four areas first, and after seeing the good results of the reforms, central government expanded it to other coastal areas. There were many reasons for this gradual and experimental approach to reforms: one of them was to avoid political resistance and eventually even turmoil due to political and social reluctance to embrace the changes. The second reason is quite intuitive, as that is introducing reforms in a few regions or provinces allowed central government to gather information about the success or failure of the reform itself, avoiding the risk of introducing in the whole country an unsuccessful reform. Avoiding the eventual failure of the reform could allow the Communist Party to preserve its image and therefore political consensus. It was crucial in the Chinese transitional phase towards a socialist market economy and a more open and integrated country's economy to maintain political stability, in order to focus on economic and social changes and to increase savings, which would eventually lead to increased investments, in a stable national political environment. With gradual and successful changes, the Party strengthened its credibility, even about its will to go on with the reform process, showing that it was a successful strategy, therefore gaining political consensus and a positive attitude towards reforms by the Chinese society (Hofman, 2018, pp. 53–66). One of the key reasons for the success of the reforms in China has been the local to national experimental policy approach. Local authorities, once obtained the encouragement by the Communist Party to experiment new policies and more freedom and independency from central government to do so, started effectively to introduce a set of new policies. If these policies were successful, then their adoption in other regions was promoted by Communist Party and central government officials, with the aim to eventually expand their adoption to other regions. The career rewards and social positive recognition for successful local policy makers contributed to generate a competition among regions and local authorities, allowing to promote to the higher policy maker levels capable and experienced leaders. While the policy ultimate objective was set by the central government, the policy instrument was found out by local officials through a series of trials and errors.

Chapter 2

The so-called Tiananmen “incident”, the name used to refer to the students’ movement protesting to obtain more freedom and less corruption and inequalities in Chinese society and its violent repression wanted by the central government, is considered to begin in April 15th, when the former General Secretary of the Chinese Communist Party Hu Yaobang died due to natural causes. Hu Yaobang was a close political collaborator of Deng Xiaoping until 1987, when he was deposed from his political office right by Deng Xiaoping, due to his liberal ideas, considered to have led, or at least worsened, the student protests in 1986-1987. Following his death, 1,000 students organized a protest movement for freedom and democracy, in which they denounced the system that deposed him for his liberal view. The students were also complaining about their poor living conditions, feeling that their social class and that instruction in the Chinese society more generally had benefited less than other social classes from the economic reforms started in 1978 by Deng Xiaoping. This relatively small group of students were convinced to stop the protests also with violent repression used by the police and some of the students were arrested. The echo of this abuse widespread among other students and even some workers, who decided to strike in order to join the protestation. The state funeral of Hu Yaobang occurred on 22 April, when over 100,000 workers and students together started to protest in Tiananmen Square against Chinese central government, demanding better living conditions and more freedom. For these reasons this protest movement has been also defined “pro democracy”. The reaction of the central government of this massive protest has been confused. The central government was worried about the possibility that some foreign enemy country was orchestrating and supporting the movement in order to generate political turmoil and instability. Indeed, the Renmin Ribao journal defined the protest movement as a conspiracy. This appellative led to another peak of the protests on April 27, when 200,000 students marched to Tiananmen Square, the central government political centre, a symbol of the oppressive Chinese government from their point of view. Another peak was reached on May 4, the anniversary of the first national protest movement organized by students, occurred in 1919 (Cindy Cox, 1989-1990, pp 129-134). This time, around 500 journalists and even students from outside Beijing joined the protests, which spread to other Chinese cities. But the most important protest peak has been reached between 13 and 23 of May, when the students, feeling that they were ignored by the central government and that their requests were not satisfied,

organized a hunger strike. This action had the important consequence of bringing the population, which has been neutral until this point, to their side. Another important historical event that occurred in those days, precisely on May 13-15, was the visit of the president of the Soviet Union Mikhail Gorbachev, the initiator of Glasnost and Perestroika, reforms that had an important echo throughout the world and even in China. These reforms in Soviet Union perfectly matched the democratic ideals of the young generation of Chinese students, assuming the role of a political model for them to be taken as an example. (Damodar Panda, 2002, pp 33-44). Central government declared the martial law in a document presenting the signature of Deng Xiaoping, sending an ultimatum to leave the Tiananmen Square by 5 am on May 22. In response, students showed that they were not afraid by this threat and they didn't leave the square as ordered by the authorities. The protest movement was brutally suppressed as they didn't respect the given ultimatum on June 3-4, the violence of the clashes caused hundreds of victims, mostly among the manifestants. The exact amount of casualties is uncertain, since different sources report different amounts of them. On June 5 President Bush declared sanctions against China, including the suspension of weapons and military equipment sales from the US government and even all kind of military exchange between the two countries were temporary suspended, and finally a revision of the Chinese students living in the US who requested to extend their period of permanence in the country. (Qingshan Tan, 1993, pp 143-160). At the same period of time, China regain control of the Tiananmen square on 10-11 June, deploying military force and even tanks. On 17 June 1989, eight manifestants were sentenced to death, accused by the Chinese government to be counter revolutionary. In response, The US announced on 20 June the temporary end of all high-level political contacts with China, also trying to put pressure on international financial institutions to suspend financial loans conceded to China for its development. Clearly, the aim of the US was to put pressure on Chinese government in order to change its political internal situation and even societal core values. At this point, China was afraid to lose its MFN (most favoured nation), while the US was evaluating the possibility to don't extend it. This action would result in significant economic loss both for China and the US, as the two nations' economies were already significantly interconnected. The MFN status was reciprocal and was part of the General Agreement on Tariffs and Trade (GATT). In 1979, only a year later after the announcement made by Deng Xiaoping of the open-door policy, the US signed its first trade agreement with China, and the most important feature of this agreement was the MFN condition, that essentially meant trade advantages in bilateral trade relations, such as lower tariff barriers (Yangmin Wang, 1993, pp 441-462). Additionally, other countries around the world expressed their will to keep China's

MFN, as a change of its status would harm their economies too. This fact clearly shows that at that time China was already integrated in the international economic system. MFN was really important for Chinese economy; in fact, it has been crucial for Chinese economic growth during the 1980s. At the end, president Bush managed to get a renewal for Chinese MFN, even if he found a strong internal opposition, especially among a number of member of the US Congress. And still, the US after the Tiananmen massacre adopted a harder line towards China in their bilateral relations. The collapse of the Soviet Union has been an important historical event which changed the political equilibrium in the world and that even generated a sense of insecurity and responsibility in Chinese people, as China remained the last major Communist country in the world. In fact, the US were seeking China's support to balance power especially in the Asian region during the cold war. Since the improvement of the bilateral relations with the Soviet Union, and then after the collapse of the Soviet Union, the US need of China's support became less important. Additionally, the Tiananmen massacre gave the US a pretext to keep pressure on Chinese internal affairs, using the human rights question and its significant economic importance for China's development as leverages to do that (Taifa Yu, 1993- pp 229-247). Despite the Chinese governmental worrying for US interference in Chinese internal questions, the China's need to restore its political image in the international political arena for economic reasons prevailed at the end. In fact, Chinese leaders still wanted to maintain a stable and a peaceful international environment to favour China's development, knowing that the legitimacy of their Communist regime was mostly depending on the state's capacity to offer a good standard living conditions, especially economic, in order to avoid what happened to Soviet Union and other Eastern Europe countries, which collapsed mostly for their worse economic conditions compared to Western Europe countries and the US. The Southern tour, in which Deng Xiaoping reaffirmed the importance of reform process, gave momentum to reforms and it coincided with an improved economic situation in the country after the Tiananmen crisis, thus this improvement allowed the Communist Party to regain control over Chinese society, making it more stable. (Joseph Cheng, 1996-1997, pp 64-111). In 1993 the perfect occasion for a normalization of the bilateral relations with the US showed up in the Seattle summit of the fifteen member countries of the APEC (Asian Pacific Economic Cooperation), including China (James Tang, 1994, pp 6.1- 6-19). This summit was the perfect occasion to improve bilateral political relations between China and the US. President Clinton and Jiang took bilateral talks. This was the first high official level contact between the two countries since the decision of the US to interrupt every contact of this level with China after the Tiananmen massacre. Clinton's presidency revalued the

importance of the bilateral relations with China, both for economic reasons and for the key role of China in the Asian region, considered by Clinton a key region for the US. This reason led to, after years of troubled relations between the two countries after the Tiananmen massacre, to the Seattle meeting and to the lifting of sanctions against China decided in 1989 by president Bush. Even if the strategic importance of China for the US changed due to the collapse of the Soviet Union, the economic importance of China was still relevant and the outbreak of the Gulf war highlighted the importance of keeping good bilateral relations between the two countries. Even if the summit held on 24th November didn't produce concrete results, it was considered positive by both countries, and bilateral talks between the two countries continued in the following months. The reasons for the re-established US will of improving bilateral relations with China are not only economic. US policy changed after the collapse of the Soviet Union, shifting from a policy of containing to a policy of enlargement, which essentially meant trying to enlarge the number of market economies and democracies present in the international political and economic arena. Therefore, additionally to economic interests regarding the trading relation with China, US interests were also political, according with the new adopted policy. It is possible to say that the re normalization of the bilateral relation between the two countries was not a return to the same situation before the 1989 Tiananmen massacre, instead a new kind of relation emerged, due to the internal changes in both countries involved and also to changes in the international politics, especially the collapse of the Soviet Union, which made China the last major socialist country guided by a Communist Party. Both countries were seeking an economic cooperation, but at the same a political competition between these two countries started to arise. Meanwhile, after 1989, China improved its bilateral political relations with other Asian countries and even third world countries, additionally China sought to improve political relations with the Soviet Union. China started also to sell weapons to a number of third world countries, which met a firm disapproval by the US. The diversification of China's international political relations was both a consequence of the isolation imposed by Western countries and of the changed international political and economic environment.

There could be a casual correlation between a significant decrease of Chinese economic growth in the wake of the protests and the Tiananmen crisis, because the crisis chronologically corresponds with a down peak in Chinese economic cycle, particularly with a peak of inflation. (Barry Naughton, 2009, pp 63-78). While Tiananmen may not have been the direct cause of macroeconomic changes, it chronologically corresponds with a watershed between two different economic policy regimes. In fact, there was a clearly distinction between the Chinese economic policy during the

1980s and the one adopted during the 1990s. After Tiananmen, a more stable and strong central political power became a priority for the Chinese government. Therefore, Communist Party created a system in which there was direct personnel control held by the Party, and large central government corporations and local corporate bodies emerged, both with tight relations with the central government. The obvious consequence was a weakening of the private sector and of the household system. However, there seems to be a direct correlation between the Tiananmen crisis and the new adopted policy of limiting private sector and privatization, as well as a strengthened role of the Communist Party in the country's economy, with a tighter control over society. Even if Deng Xiaoping confirmed his will to pursue economic reforms in his Southern tour in 1992, the Tiananmen massacre and, in the same year, the collapse of the Soviet Union, highlighted the necessity for the Communist Party to prioritize both social and political internal stability, which meant for the central government strengthening state control over society, also in the presence of a perceived American attempt to influence Chinese societal values. According to this idea, the reform policy changed especially since 1993, prioritizing re-centralization of fiscal resources, and market unification. The dual track system has been abolished and the prices were mostly determined by the market. 1992 was a year of significant economic growth, and this gave momentum to the reform process. In September 1992, the 14th Party Congress decided to adopt the objective of a "Socialist Market Economy", additionally this decision has been confirmed the next year at the Third Plenum of that Congress, when the congress voted for the adoption of a Socialist market economic structure. A market economy or a planned economy are different means of controlling economic activities, but they are not strictly linked with a political regime or another. A planned economy is considered to be a typical feature of socialist regimes, but in this case, China opted for a market economy, while still being a communist country (Huang Hua, 1993, pp 175-179).

Chapter 3

A Socialist market economy means let market forces function as the basic regulating force which allows the allocation of resources, to subject economic activities to the law of value and to the law of demand and supply, finally in this particular economic structure, all of this process happens under a macro-economic state control (Huang Hua,1993, pp 175-179). This kind of economic structure incentives competition and rewards the best performing and more efficient enterprises with higher returns and resources, while eliminating the inefficient ones.

The main feature of the Chinese's reform path, which has been different from the reforms adopted in Soviet Union and Eastern Europe, was the gradual and flexible approach to reforms and institutional changes. China adopted a gradual opening of the country to the market, a gradual privatization of state-owned enterprises, which was never complete and only a small private sector emerged, and even a gradual and partial privatization of the agricultural sector. Even in the industry sector the contribution of the private sector is only a small percentage of the total industrial output. One interesting aspect of the China's successful reforming path is that China deviated considerably from the orthodox view of a successful reforming path, which was considered to be a very fast transition to market economy, privatization of industry and agricultural sectors, flexible prices and minimal governmental intervention in market operations. The reform process in China occurred as a process with intense interactions among administrations, workers, enterprises and finally consumers. In the Chinese society the desire for a better living standard started to grow and this also drove the reform process. The state had to renounce to part of its revenues, intensifying competition, thus generating financial pressure which pushed Chinese firms towards innovation and cost reduction in order to survive and generating profit in the market (Thomas Rawski, 1999, pp 139-156). The socialist system at the same time both protected hundreds of millions of people from the negative possible features of a market economy, granting them lifetime employment with fixed and stable wages and a number of other social benefits offered from the state. This fact prevented also the society to benefit from the positive effects of a market economy, such as technological innovation and reduction of the costs of production, to improve quality and quantity of production, due to market competition. The workers employed in state owned enterprises were not secure of their job anymore, and the inefficient workers were laid off or they received only partial salary, additionally some of them were forced to attend training school to improve their skills and thus their productivity. With less state protection and more market competition, the number of failed enterprises increased significantly during the 1990s, leading to innovation in the juridical and regulatory state's system. Moreover, the bankruptcy's menace became an

additional driving motivation to increase productivity and decrease production's costs, coupled with a stronger desire for material well-being in the Chinese society. These were adjustments of Chinese society, consequences of the gradual opening to market of the whole Chinese society wanted by policy makers and high-level officials. In brief, the transition started with the open door policy wanted by Deng Xiaoping in 1978 from a central planned economy, with state controlling every aspect of people's social life, towards a market economy produced a number of significant social and institutional changes and adjustments to the new economic situation of the country as a consequence, and all these consequences were not always directly controlled by the central government, but rather were spontaneous actions of other social actors in response to a different economic and social environment created by the reforms. Still, China has not become a capitalist economy. The evidence of that is the absence of national output decline in any year since 1973, decline which happened in other capitalist economies at some point, because they are cyclical. (Roberts,2022, pp 180-197). The World Bank recognized that China's significant growth has been achieved through central state planning and governmental control of investments. China's economy is still mainly under state's control, led by state's investments, state banks and controlled by the Chinese Communist Party which run important companies and definitely plans the economy. China's economic system embedded also some capitalistic features, especially until the Asian economic crisis of 1997-1998, which forced Chinese policy makers to make a significant change from economic liberalization and privatization towards state led investments and welfare state policies and additionally towards an increased number of state-owned firms and banks. There seem to be a marginal correlation between the profitability of Chinese capital stock and investments and real Chinese GDP growth, which means that the country has chosen to direct its investments towards the most productive sectors, instead of the most profitable ones. The correlation turned positive in the 1990s and 2000s, after Deng's reforms, the privatization of a part of its state sector, and the China's entry in the World Trade Organization in 2000. This meant that China became more exposed to the typical cyclical crises of capitalist countries and that the country was giving much more importance to investments' profitability compared to the past decades. Although foreign investments played an important role in China's economic growth, in fact without them China would have suffered trade deficit and foreign debt, and additionally would not have had the same access to new technologies and modernization, foreign investments, foreign capital inflow and foreign ownership remained under the central government's control, with the state-owned sector always playing an important role in Chinese economy. Even though, during the last

30 years, the amount of privately owned enterprises has increased, with also the creation of a stock market and other financial institutions, the majority of investments were still placed under the state's control through publicly owned companies or other institutions under the Communist Party's control. The major Chinese banks were also placed under the direct state's control. Foreign concessions, mixed industrial and commercial companies both present in the Chinese society and in the economic system can be considered capitalist elements, but they were always placed, to some degree, under the Communist party's control. One key feature of China's reforming path has been the SOE's reform, which gained momentum after the onset of the Asian financial crisis that started in Thailand in 1997, and then spread in the Asian region first, ending to negatively influence the world's economy in the following years. China managed to come out from the economic crisis since 1999, but, unlike other countries, without depreciating its own currency (Li,2000, pp 938-957). The Fifteenth Party Congress of the Chinese Communist Party in 1997 launched a specific program of SOEs reform to resolve the problem of the inefficient SOEs present at that time. (Liew,1999, pp 85-194). SOEs were the primary non-agricultural unit of production under the central state control. The lack of market-oriented incentives and especially the absence of competition with other firms was leading, before the reforms, to low SOE's output, which were relying on state's contribution and support. Unlike other socialist countries, this reform did not involve also a rapid privatization in the country. As said before, in fact, the central government wanted to keep a tight control over the country's economy and society. The primary goal of the market-oriented reform was to create a socialist market economy with the state- owned sector as the leading sector over the private one. But, at the same time, a partial privatisation of SOE's ownership was necessary in order to increase efficiency and production. This also created space for private enterprises to gain more importance in the Chinese economy and it enhanced market competition among firms, leading to the failure of the most inefficient ones. Despite these changes, SOEs still maintained their key function of providing welfare instruments to their employees throughout the reform process. Another crucial role of SOEs was to realize important infrastructure projects. The first steps of the reform process were aimed to simply give enterprises more autonomy decision power, lowering state control. Therefore, enterprises could decide what to do with the surplus and keep for themselves a share of the profit gained from production. The next step has been the introduction of the contract responsibility system. Under this new system, enterprises had greater freedom and they were also allowed to sell their output to the market, but they had to buy inputs at market prices, and no longer at state chosen prices. This new system, firstly

adopted only in a few enterprises, has been later extended to almost all SOEs in the country, according to the gradual and experimental Chinese approach to the reform path. Another important aspect of the reforming process has been the TVE (township and village enterprises) reform. In the period between 1978 and 1994 the number of TVEs increased significantly as well as the number of other kind of enterprises, for example the individually owned firms, while the number of SOEs increased only slightly. The reorganization of the social division of work, and the significantly increased unification of the Chinese national market that resulted, were for the most consequences of the newly introduced TVEs. By the end of the 1980s, TVEs were responsible for about 40% of the total industrial production in China and for about the same percentage of the exports of the country. The situation changed for the TVEs starting since the beginning of the 1990s, particularly with the new fiscal reform introduced in 1994, which caused a decrease of the incomes of the provinces, and for the increased difficulty of gaining access to credit in China's reorganized state-controlled financial sector. SOEs still had a crucial role for the enterprises' access to equipment and new technologies, especially from other countries. A second stage of the reform process began with the Deng Xiaoping's Southern tour in 1992, characterized by an emphasis on privatization of SOEs, due to their worsening economic performances. According to this set goal, a new institutional framework for the new enterprises system has been established by the central government, bringing the Western model as corporate system example. A new multi ownership enterprises system gradually emerged in a new regulatory framework. Many workers were laid off in the consequence of the privatization of many enterprises in the country. In fact, they were not protected by the state anymore, so the most inefficient ones were laid off or forced to attend training courses. Additionally, there were fiscal system reforms and trade system reforms during the 1990s, as well as the establishment and then the development of a stock market. The trade reform during the 1990s has been another significant factor for the privatization of the SOEs, additionally that reform was designed also to facilitate the China's entry into WTO. In the period 1995-2003 the number of SOEs declined as well as their labour force, due to the privatization reform process in progress. In particular, the reform of the SOEs accelerated with newly introduced macroeconomic restrictions imposed by the Prime Minister Zhu Rongji, following a set of institutional changes started in 1994. The increased number of privatized firms absorbed a part of the laid off workers and it also reduced the burden cost for the central state of the inefficient SOEs. Generally speaking, one outcome of the reform clearly visible in the first years of 21th century was an improved resources allocation in the enterprises sector. Although the productivity performance of SOEs

improved after the ownership reform, these firms were still performing worse than private enterprises. To resolve the SOEs debts problem and to support the reforming enterprising system the central government decided to reform the banking system. In 1995 the law on People's Bank of China and the Commercial Bank Law were promulgated. The bank system reform still didn't resolve the SOEs debt problem. China created also a new regulatory system in order to protect property rights. In brief, it possible to affirm that the institutional changes which took place since 1978 led to a significant quantitative growth of the Chinese private sector, and at the same time the Chinese state sector enhanced its presence in qualitative terms, strengthening also the political control of the CCP. SOEs employed 70 per cent of the country's manufacturing labour force, and accounted for 60 per cent of the total production of the manufacturing sector, but they were responsible for only a third of the total industrial income, compared to other forms of property and production. Indeed, the labour productivity of the SOEs was only a third of the labour productivity of TVEs, and only a tenth of the productivity of private firms and foreign companies. The cycle of institutional innovations which were started in China since 1994 led to the formation of large state-owned companies, able to cope with an increasing demand by the Asian country for massive infrastructural works needed by China to achieve modernization, urbanization, and connectivity around the country. The new set of institutional reforms was essentially leading to a new system in which only some large and selected state-owned companies would have been administrated by the state. This significant cycle of institutional innovations contributed to the transformation of a significant amount of state companies into SOEs through a process of so called "corporatization". The key concept behind this decision was the slow and gradual disappearance of the state-owned companies to let space for the creation of new SOEs. Another significant goal embodied in the new set of institutional innovations was the separation between ownership and management, particularly with management handled by professionally trained managers. State-owned enterprises gained autonomy about the control over products marketed and over purchased inputs, while more private enterprises were participating in the competition. These facts led to a new economic situation in which a certain amount of goods and assets were purchased and sold in market, rather than in the structures of planned distribution, a typical feature of a planned economy. Consequently, new mechanism for the formation of prices determined by the demand and the supply appeared, while it was still existing and functioning the old system of prices determination by planning. Over time, the share of planned production significantly decreased, while the share of the non-public economy increased, therefore the proportion of prices determined by the market also

increased, and the double track system for prices determination gradually unified in a system in which prices were determined by the market, which essentially means by the demand and the supply (Cai,2015, pp 48). At the beginning of this century, China changed its economic model partly based on import of technology from foreign countries, characterized by a high degree of investments rather than consumption and income distribution. Chinese industrial policy changed, in order to achieve technological modernization and development, particularly the Chinese main goal was to acquire the necessary technical know-how to achieve technological development without depending from the imports of technological products from the United States and Japan. The corporatization of the Chinese SOEs has given them a pivotal role for technical progress and for the management of new and improved forms of planning, which were becoming gradually able to provide resources allocation for massive projects throughout the country. These technological projects required massive investments provided by the state. The most important project launched by China with the goal of achieving technological development was the project called “Made in China 2025”, launched in 2015. The Chinese economy is moving forward towards more advanced levels of output productivity. The Chinese ultimate goal is to organize a new economy based on projects and no longer on the market . That’s why some scholars this new kind of economy “ project economy”. These new forms of planning are features of the socialist sector of the Chinese economy. The evolution of planning in the Chinese economy has been based on three key developments: The first feature was the incorporation of the socialist central planning economy, which was followed by the reforms started in 1978 with the goal to open the country to the foreign investments and market forces, the corporatization of old state-owned enterprises, substituted with the SOEs and SASAC. This shift in the Chinese economy completed the transition from a centrally planned economy to a new kind of economy, which embodied both planning and market economy features in the same economic system. This essentially is what makes the Chinese economic system unique. In the Chinese economic system planning and market were properly integrated, and they both formed the Chinese macro-control system. Additionally, the role of state-owned enterprises and local governments in macro- control, coupled with the integration of market-oriented and different administrative regulation and control had become unique features of China’s macro-control system. (Zhang and Chang, 2016, pp 90). According to Lifeng He, the Minister in charge of China’s National Development and Reform Commission,

We will be the world’s fist modern powerhouse that is not built by following the road of capitalism, but by practicing socialism with Chinese characteristics. The leadership of the

Communist Party of China is the most essential feature of socialism with Chinese characteristics (quoted in *South China Morning Post* 2019).

The Chinese economic system that is emerging is not based on the financialized dynamics which dominate most of the capitalist developed countries, rather, as said above, by a strong macro- control of the central state which adopts SOEs and the state managed financial system as economic tools to mitigate crises, as it happened after the onset of the great financial crisis in 2008, or to launch and manage important national projects, such as the “Made in China 2025” project.

Revolutionary changes occurred in the public Chinese sector generated a new way of production, resulted from the technological development of the public sector of the Chinese economy, the SOEs.

With the accession to the WTO, China was forced to remove the dual price system, introduced many years before in order to protect domestic industries. It is important to highlight that with the China’s accession to the WTO, the country gained stability in its foreign trade, and this stability allowed its economy to grow even more than before. In fact, under the WTO regulatory base system, China had the access to the global market with the protection of the WTO’s membership, while before it, Chinese goods were discriminated in foreign markets, due to the non-membership status of the country and its central planned economy. Therefore, the accession to the WTO assumed also the meaning of a clear intention of Chinese leaders to open the country’s economy to the world’s market and to gradually switch from a planned economy to a market economy, at least in some of its features. I think it possible to consider the China’s accession to the WTO and the transition of its economic system as two related processes.

Chapter 4

The WTO (World Trade Organization) was established in 1995 and it took the place of the GATT (General Agreement on Tariffs and Trade). Particularly, the formation of the World Trade Organization was an important outcome of the Uruguay Round of General Agreement on Tariffs and Trade (GATT). One of the most important objectives of the Uruguay Round was to address some issues of the multilateral system which were standing from a long time in several economic sectors. Additionally, the Uruguay Round tried to change and improve dispute settlements mechanism and to reexamine key GATT articles. Some issues emerged between the United States and the European Union over agricultural trade. A compromise was finally reached in December 1993 and then the final text was signed in March 1994 in Morocco. The participant countries of the Uruguay Round recognized the changes that were occurring in their world’s economy, changes that the structure of the

GATT of that time was not effectively able to adapt to, ending to slowly losing its effectiveness and credibility. The first country to take the initiative for the organization of new negotiations was the United States, supported mostly by Japan and other developing countries around the world. Most of the countries, developed and developing ones, shared the common goal to make the multilateral trading system effective and functioning again, adapting it to the changes occurred in the world's economy of that time. Despite that, disagreements emerged about the introduction of new measures in different fields such as intellectual property rights, services and trade-related investments. The majority of participants developing countries opposed to the introduction of these new measures, arguing that they were advantaging the developed countries. A compromise was finally reached, and the final agreement included the General Agreement on Trade in Services (GATS), agreements on Trade-Related Investment Measures, and on Trade-Related Intellectual Property Rights, finally was reached also the Agreement on Agriculture and Agreement on Textiles and Clothing.

As said above, the most important outcome of the Uruguay Round was the establishment of the WTO, an international organization aimed to promote the liberalization of the world trade. Thus, the WTO provided an organizational feature to a changed multilateral trading system in a changed international economic environment. The WTO Charter has four fundamental annexes, which are mandatory for participant countries. Annex 1 contains the Multilateral Agreements relating to goods, services and Trade-Related aspects of Intellectual Property Rights. Annex 2 contains the Dispute Settlement Understanding, Annex 3 the Trade Policy Review Mechanism, finally the Annex 4 contains the "Plurilateral Agreements", which mostly deals with agricultural matters and government procurements, and its acceptance is optional for the member countries. Article 3 of the WTO Agreement affirms that the WTO will promote the goals of the WTO Agreement, and of the Uruguay Round Agreements. It is also charged with providing a forum for negotiations amongst member countries about their multilateral trade relations, managing the dispute settlement mechanism, and even cooperating with the International Monetary Fund (IMF) and the World Bank to implement functioning global economic policies. The regulation and rules of the WTO are negotiated periodically by its member countries through additional rounds of multilateral negotiations, and through interactions at different WTO forums. The WTO organizational structure is composed by a Ministerial Conference and by a General Council. The Ministerial Conference is responsible for carrying out the functions of the WTO and for organizing a meeting at least once every two years. The General Council manages the WTO. The General Council has also the crucial task of

managing the Dispute Settlement Body (DSB) and the Trade Policy Review Body (TPRB). One important aspect to be highlighted of the new multilateral trading system that emerged with the Uruguay Round is its rules-based nature, and the fact that all negotiated agreements become legally binding instruments. Additionally, the Uruguay Round changed and strengthened the dispute settlement procedures. I am going to describe in a detailed manner the changes occurred in this specific international regulatory mechanism, as it is important to be understood to understand why this mechanism will be often discussed regarding the conduct of China in trade with foreign countries, particularly with the United States and the European Union. The Uruguay Round introduced a new dispute settlement body, charged with the significant task of finding conciliatory solutions using mediation and arbitration. The Uruguay Round established also a binding appellate review process, which specified a single procedure for each trade sector. It was decided to apply time limits for the firms involved to each stage of the dispute settlement. More importantly, a consensus was required to reject a panel report rather to accept it, this should end up strengthening the dispute settlement process. One of the trade sectors more contested to China's behaviour was the Trade-Related aspects of Intellectual Property Rights. In this specific area, TRIPs establish international standards with the aim of safeguarding intellectual property rights and international standards on copyrights, trademarks and service marks, geographical indications, industrial designs, patents, layout designs of integrated circuits, the protection of confidential information, and anti-competitive conducts in contractual licenses. A very important feature newly introduced is the introduction of the MFN (Most Favoured Nation) clause in intellectual property protection. As mentioned, China benefited from the status of MFN in the past years. As a consequence, "the essential provisions of international conventions governing intellectual property rights protection, administered under the guide of the World Intellectual Property Organization (WIPO), have been made universally applicable on a MFN basis, given a binding character, and finally incorporated as intrinsic rights in the multilateral trading system through the WTO Agreement, with its common disputes settlement mechanism". The Agreement on TRIPs established also a Council for Trade-Related aspects of Intellectual Property Rights and it obliges the member countries to enforce domestically the regulation about intellectual property rights. The dispute settlement would be conducted within the integrated dispute settlement procedures of the WTO, which allows to contest retaliation in the goods sector. One important aspect is that the TRIPs Agreement provides rules about issues which were not effectively resolved in the WIPO forums, the most important of which is the eventual acceptance of the patentability of all technological products or

processes in all technological fields. However, despite the new rules introduced, the TRIPs Agreement still does not cover all the aspects regarding intellectual property rights due to different attitudes and approaches depending on the country. In conclusion, the Uruguay Round consists essentially in various agreements in different economic fields. The GATT was an intergovernmental agreement rather than an international institution, and in fact it had contracting parties rather than member states. The Uruguay Round established the WTO, which is an international organization established and regulated by an international treaty, which grants the institutional and organizational effectiveness. The WTO, since its establishment, started to manage different issues regarding international trade, and it administers different multilateral agreements. The idea of establishing an international organization which could have managed the international trading system on the basis of shared rules and obligations among the member countries, with the specific aim of avoiding the uncontrolled trade competition and protectionism had already emerged at the Bretton Woods Conference held in 1944, but such an international organization could not have been established before the WTO. In its place, the GATT managed these issues regarding international trade as a temporary arrangement. The WTO is the successor of the GATT, the international organization dreamed since the 1940s. Additionally, the scope of the subjects managed by the WTO significantly expanded compared to the ones managed by the GATT. As mentioned before, the WTO manages also issues about trade of goods, services, and trade-related intellectual property rights measures. Another significant aspect which occurred with the establishment of the WTO is that it is binding for its member countries to accept its entire agreements, except made for those dealing with plurilateral arrangements. The dispute settlement mechanism has been significantly improved and strengthened as a framework of the WTO, even if some issues are still not well regulated, such as the behaviour of the SOEs in the international trade and in their relations with foreign firms. And still the GATT remains in an amended form as one of the pillars of the international trade system, together with the newly established GATS and the Agreement on TRIPs. The text of the GATT is still part of the Annex 1A of the WTO Agreement.

After a long negotiation which lasted fifteen years China finally joined the WTO (World Trade Organization) at the end of 2001. According to the Protocol on the Accession to the WTO, China has further liberalized market forces and free trade. In order to achieve that goal, China changed its economic regulation, especially regarding foreign affairs and trade. One important change which occurred with the

accession to the WTO was that Special Economic Zones had no longer different regulation about trade and foreign investments compared to other regions of China. Another significant change was the elimination of trade barriers, both tariff and non-tariff barriers, such as import quotas, on imported goods. Privatization of firms will increase rapidly after WTO accession, promoting the role in the country's economy of non-state sector, including the role of foreign owned enterprises, which started to play a more important role in the Chinese economy, especially in China's foreign trade. Additionally, in order to increase market competition, the Chinese central government has ended its monopoly in several economic sectors, such as telecommunications. In other economic sectors, liberalisation of trade services and the increased private firm's participation led to increased competition. To prevent the problem of the unfair competition, new laws were legislated. One of the results of this reforming process has been that the Chinese central government has now less power to participate directly in the Chinese economy, while the private sector has instead much more power than before to do that. Another important reform regarded Chinese Ministries, in fact some of their names and functions were changed, such as the Ministry of Trade. This institutional reform was a significant step by the central government towards marketisation and liberalization. And still, China circumvented some of the WTO's rules to protect some domestic key industries. One other aspect of China's behaviour after joining WTO is its lack of transparency, as some of its laws about trade are not still translated in one or more WTO official languages. In conclusion, even if China joined the WTO and it made great efforts to transform its economy at least to some degree from a central planned one into a market economy, the country maintained its national interests as priorities, and because of the prominent role of the state in regulation, Chinese economic system assumed names as "state capitalism". One of the features of this unique system is a persisting state control over industries considered as strategic, while other non-strategic sectors and industries are subjected to a larger privatization and therefore less state control over them. It is also interesting to highlight that, over the last years, the number of filed disputes under the WTO's Dispute Settlement Mechanism in which China was involved significantly increased, due to an increasing knowledge and experience about international legal regulation. Therefore, the country's legal capacity increased over time, leading the country to be involved in more international legal disputes. Another reason that may contribute to explain this fact is the introduction of more protectionist measures after the great financial crisis of 2008 all around the world. However, the China's WTO accession lead to significant economic growth, especially export growth, with the expanded access to international market provided by the country's WTO

accession and, at the same time, the positive impact on local Chinese firms thanks to a facilitated access to China's domestic market for the rest of the world (Brandt, Van Biesebroeck, Wang, Zhang, 2017, pp, 2784-2820). In fact, China became the world's largest exporter by 2009. This growth in exports led to GDP growth and GDP per capita growth. The great financial crisis hit hard many world economies, but not China. Indeed, China emerged from the great financial crisis stronger than before especially due to the state presence in the national economy, expanding its internal demand and choosing to invest a massive amount of money through public investments during the period of the crisis, which led to a contraction of international volume of trade. Even if China changed its regulatory and legal system after the accession to the WTO, there are many complaints against China's behaviour. More specifically, the most targeted by accuses behaviours are the SOEs behaviour and the forced transfer of technology. Many countries have maintained the presence of SOEs or similar kind of state enterprises in their economic system even after the accession to the WTO, but the core of the issue is that SOEs are not efficiently regulated by the WTO's Accession Protocol and no one of those countries had a similar important role in the international trade and economy as China had and still has. More generally speaking, the WTO Agreement is silent about the state involvement in international trade, as it is the case in a socialist market economy as China is. The other matter of complaints is the transfer of technology. This is not the first time that the US make a complaint about some form of illegal behaviour of Chinese firms, especially when the topic involved in the complaint is technology. In fact, in 1999 the United States accused China of the theft of US technology. For decades The United States were extremely supportive about the technological development of China. Initially, this support came in the form of education and training in US universities for Chinese students who came abroad to gain technical knowledge, and in the form of technology transfer from US companies to Chinese partners in joint ventures. However, a negative perception of Chinese actions started gradually to emerge in US companies in the 1990s, as the US companies started to look differently at the situation, as if they were training their Chinese competitors. Additionally, increasing suspects about Chinese commercial, industrial, and technological espionage started to emerge in the US in the beginning of the twenty first century. In the recent years, Chinese students who are living in the United States started to be perceived as possible spies working for the Chinese Communist Party, looking to steal information about technological progress made in US universities, and Huawei and other Chinese firms were perceived as working for the CCP, suspected of collecting data illegally. In a completely different perception of Chinese students and companies in the US, the complaints came especially from the

US and the European Union. In brief, these countries contest that China obliges foreign firms to transfer technology from their firms operating in China to Chinese firms if they want to operate in the country. China can do that because there is not a bilateral investment treaty (BIT) which protects foreign investments, therefore foreign companies may face any sort of reaction or restriction made by the foreign ownership. Chinese companies force foreign companies to join into a joint venture with Chinese companies in order to obtain similar credit of the Chinese firms. Chinese firms accept the joint venture only if the foreign firm transfers technology to the Chinese company. In conclusion, Partly China did not keep to some of its obligations provided by the WTO Agreement and Protocol, and partly the Protocol of Accession was not enough enforced about intellectual property rights and the presence and scope of the SOEs. All these factors play in China's favour, which can exploit the absence of some obligations and avoid the ones that are present in the Protocol, ultimately causing troubles in its international trading partners, especially Japan, the United States and the European Union. WTO law lacks also effective legislation about the forced transfer of technology that, as mentioned before, China uses by forcing foreign firms to form a joint venture with Chinese firms, transferring them technology, if they want to invest and operate in China.

Chapter 5

The global financial crisis developed slowly in the US economy and it manifested dramatically since 2007- 2008. The money and tax regulation were too loose during the years before the crisis, while Asian countries were providing endless credit to the US through Chinese government purchases of US treasury bills (American treasury bonds), to finance the American significant consumption of Chinese goods. Both countries are economically interdependent with each other in a so called "unsustainable" trade imbalance. This process didn't stop until it was forced to with the onset of the great financial crisis in 2008. The Chinese currency was kept depreciated against the dollar and China was relying on an export-oriented growth, exploiting the well-known US propension for consumption of goods. The onset of the crisis did not revert this economic imbalance, on the contrary the Chinese purchase of American T bills increased since 2009 and so did the trade imbalance between the two countries. An interesting feature of the Sino- American trade relation is that China has an enormous trade surplus with the US, but it has a small trade deficit with the rest of the world, far from the common perception of China as a country which benefits a global trade surplus with other countries that the US.

The global financial crisis of 2008 has had profound effects on Sino American economic relations: after the crisis, China and the US became a de facto G2 group as

the Europe has fallen on even harder times than these two countries. Moreover, the global financial crisis did not reduce the trade imbalance between China and the US. At first, the great financial crisis impacted China's growth, reducing it significantly, as the crisis reduced trades between countries all around the world. Surprisingly, China has had a successful and steady reaction to crisis. The main reason for that was a massive fiscal stimulus and increases in bank lending capitals (Garrett,2011,pp 149-172).But there were also other reasons for the lower impact of the great financial crisis on China compared to the effect it had on other countries of the world, especially Western countries, hit hard by the crisis: China had regulated capital markets and moreover the country had a state owned banking system which had little exposure to Western derivatives. At first, the GDP growth declined due to impact of the crisis on Chinese exports, but China managed effectively the crisis with macroeconomic policy intervention by the central government. The main threat for China's economy during the crisis and after its onset remained inflation. In response to the crisis, China injected a significant amount of money into its economy, leading to a increasing worrying about growing inflation rate. The US response to the crisis was not as much successful as the Chinese countermeasures were. The US real economy recovered quite well, but unemployment rate and housing prices remained partially unresolved problems. Moreover, the US debt and deficit both increased after the crisis. The overall consequence of the great financial crisis has been the narrowing of the economic power gap between China and the US. An important feature of the relation between the two countries, which is considered to make unique the Sino-US economic and trade relation, is the devaluation of the Chinese currency compared to the dollar. This fact gave China a significant cost advantage in labour market, and therefore the devaluation of the Chinese currency, coupled with less other costs for Chinese workers, made investments in China from other countries to significantly increase. The manipulation of the Chinese currency had consequences also in exports of Chinese goods, as their price was cheaper and this contributed to the US massive imports of Chinese goods over the past decades, consequently increasing the US trade deficit with China. China, with some of the profit made with export, bought a significant amount of US treasury bills over the years. This complex economic interdependence between the two countries is considered by some scholars to be unsustainable over the long term and even to have contributed to great financial crisis onset. But, looking at data disposable, the depreciation of the Yuan compared to the dollar is not the only reason behind the trade imbalance between the two countries.



In fact, as the graph clearly shows, there was an appreciation of the Yuan in the period between 2005- 2010. Despite this appreciation, the trade imbalance between China and the US continued to grow larger. One reason behind the increasing trade imbalance between the two biggest world economies might be that most of the products are only assembled in China and then exported. These products are composed with foreign produced high value goods, mostly with goods imported from Taiwan, Japan, South Korea and Germany, assembled in China, and finally exported, figuring as Chinese goods exported abroad in official trade balance sheets. In reality, many US multinational corporations were benefiting by China as an assembly products platform. Another source of income for US multinational corporations was the possibility to produce goods in China to sell them directly in the Chinese market. In conclusion, Chinese significantly growing middle class with its consumption propensity and the cost advantage production opportunity offered are both reasons for US multinational corporations to do not stay away from Chinese market. One interesting question is how much the trade imbalance between the US and China, which was described before, contributed to the onset of the 2008 great financial crisis? Some scholars think that the Chinese trade surplus, especially with the US, explained by its savings surplus, is a major contributory factor for the onset of the great financial crisis of 2007-2008. In fact, these excess savings were turned into large capital inflows into the United States, which kept real interest rates low and therefore led to a credit explosion which financed the household consumption which led to the onset of the crisis. These low interest rates

contributed to the abuse of subprime housing loans, which ultimately caused the great financial crisis to trigger due to inadequate financial regulation. China is considered partly responsible for the mechanism which led to the financial crisis, as the Asian country kept an undervalued exchange rate compared to the US dollar, generated a significant trade surplus which China invested buying US treasury bills, keeping in this way the interest rates low, therefore fuelling the housing bubble. However, there are not strong evidences that corrections to those trade imbalances would have prevented the onset of the great financial crisis, therefore the contribution of the trade imbalance could be not very significant. There are other factors which contributed to the onset of the great financial crisis, such as the lax monetary policies adopted in the US before the crisis, that contributed to the increased investments in subprime loans that led to the housing bubble creation and caused the US account deficit to widen. Additionally, China invested mostly in US treasury bills its trade surplus, which had a low effect on house prices, and anyway the Federal Reserve could have countered the effect by raising the interest rates, but it chose not to. In conclusion, a wrong US monetary policy has probably contributed to the onset of the great financial crisis more than the trade imbalance. Financial flows into the United States does not seem to be a significant cause for the onset of the global financial crisis, rather it appears to be a combination of a too loose monetary policy and inefficient financial regulation in the United States.

Additionally, analysing the disposable sources about Chinese trade surplus in the years before the onset of the crisis, the surplus seems not to be a deliberate strategy, rather a combination of concurrent different factors. There has been a significant decrease in Chinese imports, due to increased industrial domestic production. In addition, after China joined the WTO, the country raised significantly its exports, partly as a consequence of increased outsourcing to China of final assembly production, and there was a sharp rise in savings in the Chinese private sector which was consequence of direct governmental policies. These savings have been invested by Chinese corporates in US treasury bills. The US current account deficit was driven by consumption and investments coupled with a low rate of savings in the country, and that deficit has been financed by savings in surplus countries, such the China was. In conclusion, the role of China in the onset of the global financial crisis consisted in the combination of high savings and an undervalued currency exchange rate. The high savings rate in China and the low rate of consumption financed a high rate of investments . Why was the savings rate that high in China in the years before the onset of the great financial crisis? China's savings rate was the summation of the savings in household, government and corporate sectors. Some studies show that high household savings are

consequences of historic changes in China, including rapid urbanization, industrialization and therefore the falling share of agriculture in GDP. Institutional factors also played an important role in the increasing of savings rate in China, in fact with economic transition towards a social market economy, as seen before, state owned enterprises significantly downsized, which reduced the social safety net of the country, thus leading to increase in savings rate. With the economic transition, one the consequence of the stronger influence of market forces in the country was the increased competition among firms, which led to more failures and more economic efficiency in the firms which lasted in the market, thus leading to increase savings rate in the corporate sector. Additionally, an aging population and a reform of the pension system in China increased the saving rate of the households. The savings of the households are the most significant in percentage of the total savings of the country, but the savings of the corporate sector are the ones that grew the most in the recent years. The reasons for this increase in savings in the corporate sector may be several, such as the increase of profits due to increased efficiency caused by market competition, subsidies offered by the central government may be another possible reason, coupled with a modest wage growth, that ultimately raised corporate profits and thus savings. Savings in the governmental sector grew too in the recent years, due to a tax reform which gave greater responsibility and costs for social security costs to households and corporate sectors, while governmental consumption remained more or less stable, even if in the foreseeable future the costs for health care, education and environment will probably increase. In summary, China's high GDP growth during the last decades has been dependent on the high savings rate, and given that savings have exceeded investments, a large net account surplus has built up. This is a core reason for the global imbalance. As said before, China has been one of the countries least affected by the great financial crisis and the country even emerged stronger than before on the international scenario after the crisis, also given the weakening of the United States and Europe as especially Western countries struggled to handle the consequences of the great financial crisis on their economies and societies. Evidences suggested that countries with a large current account surplus were less influenced by the great financial crisis. China managed to avoid most of the negative consequences of the great financial crisis also because its degree of global integration in the world economy is less than the one of many developed economies, especially Western economies, which in fact faced the most dramatic effects of the global financial crisis. China maintained capital control and thus the country avoided economic and financial instability, and its control over the exchange rate played also a role in mitigating the effects of the great financial crisis. Despite a

decline of FDI and exports in the aftermath of the financial crisis, Chinese banks didn't borrow money abroad and they had a little exposure on subprime loans, for these reasons China mitigated the consequences of the global financial crisis. Additionally, at the time of the onset of the crisis, the economic situation of China was in a good position to steady react of the effect of the crisis: The government controlled 70% of the country's economy, and disposable data shows good macroeconomic fundamentals at that time, low inflation, small budget deficit, small debt, and a large reserve of foreign currencies, therefore China could react steady and effectively to the global financial crisis. In November 2008 China announced a fiscal stimulus equivalent to 13 per cent of its GDP, while the fiscal stimulus in the US emitted by the Federal Reserve was 5 per cent of the GDP of the United States. Additionally, in China most part of the fiscal stimulus came from banks as loans gave to local governments secured on land holdings, while in the US it came from the Federal government increasing the budget deficit. For this reason, the budget deficit in China didn't surpass the 3 per cent of the country's GDP(it was more or less 1 per cent the year before) and government debt was 20 per cent of the GDP in 2009. Additionally, Chinese authorities tried to stimulate internal demand and increase employment which fell after the onset of the global financial crisis. The projects financed by the central government were mostly about building infrastructures in the country, or environmental projects, or subsidies for high technology industries. Economic measures to increase income of low wage social groups were introduced. Chinese local governments had a significant role in borrowing the money, and interest rates were reduced. This monetary easing proved to be too high and it led in 2010-2011 to inflation, forcing the Chinese Central Bank to increase interest rates. After the crisis, China tried to re-orientate its economy from an export -led economy towards consumption-led economic growth, with the objective to reduce its exposure to other possible future external generated economy crises. A policy switch towards consumption in China would also reduce imbalances (surplus) in its current account. For this reason, it is expected an increase in expenditure of budget on education and health care, in order to reduce the savings rate of the households and thus encourage consumption in the country. Another fact which attests a change in the country's economy policy is the increase of outward FDI towards developing countries such as other Asian countries and Latin American countries (Allington, McCombie, Pike, 2012, pp 45-63). The weakened position of the US and the concomitant strengthened position of China after the crisis led to the de facto so called "G2", which means that China and the United States are, after the crisis, the two superpowers of the world, and the interactions between these two countries will be decisive in shaping the international scenario in the decades to come. It is

important to highlight one key aspect of the global economy which changed since late 1970s, that is financialization. Finance capital occupies a dominant position both at the micro level and macro level of a country's economy nowadays. The term "financialization" refers to the shift of the main economy activity and the main source of profits from the industrial sector to the financial sector, additionally the two sectors are separated from each other in the developed economies. Many scholars think that financialization is the inevitable outcome of capital accumulation. In China an antithesis to financialization has emerged, more oriented toward the productive sector rather than the financial sector, employing a considerable rate of financial repression. Additionally, China is aiming at securing a larger role for the state in controlling and regulating the financial system. The existence of financial and productive sectors driven by the state in China led to the possibility for the Chinese government to play a crucial role in putting in place fiscal packages that had been decisive to mitigate the consequences of the great financial crisis in 2008. Even during the trade war engaged by the United States against China, another fiscal package was emitted by the central government. These facts show that the public sector plays a pivotal role in the national economy. Meanwhile, under financialization, the economic and trade activity of the United States have also changed. An important feature of the US economy is a high propension for consumption and a low propension for savings. The economic growth of the US is mainly based on the household's consumption, rather than on the increase of productivity or on the increase of investment consumption. "In fact, according to estimates, since the 1990s, households' consumption accounted for more than 70% of the real GDP growth of the United States. However, the growth of American household consumption was not caused by an increase in workers' real wages, but based on the growth of financial income. The net national account of a country depends on the relation between its savings and investments, as seen before. In order to balance its domestic economy, the United States has had to use foreign savings in the form of trade deficit for a long period of time, which led to the creation and duration over a long time of its trade deficit. With financialization, the contribution of the real economy, mainly the industrial and manufacturing sector, to the GDP of the United States decreased significantly, while at the same time the service sector, mainly the financial sector, of the economy acquired more and more importance. The change of the American industrial structure and productivity causes economic crises to break out more frequently in the form of financial crises, but has also led to the need for the United States to import more goods from foreign countries, because its industrial productivity has significantly declined over the last decades, while the US focused on the exports of financial services and products,

mainly USD assets.”(Wanhuan Cai,2020, pp 256-269). The factors that contributed to the de-industrialization of the American economy persist even now, as the workers’ wages are relatively high compared to the wages of other countries (such as China, especially in the past decades) and the profit margin remains low. It is interesting to highlight that the United States trade structure is based on the export of services and on the import of produced goods. Therefore, the United States has a large trade deficit in the trade of goods, while it has a surplus in the trade of services. The United States is economically benefitting from the use of dollar for foreign investments. By using dollar to invest directly or indirectly, The United States obtains high profit from all over the world. After the end of the Bretton Woods system, the dollar started to be separated from the respective value in gold and the dollar became the dominant currency in a capitalist world economy. After the dollar has become freed from the link with the gold reserves, the United States could print dollars on demand even more than before. This allowed the United States to invest a significant amount of dollars abroad and to import a considerable amount of goods from foreign countries buying them with dollars. Therefore, the United States controls monetary capital, which is the driving force in the capitalist economy of the world nowadays. At the same time, the US economy must bear an enormous amount of economic and trade imbalances, for the reasons explained above. Asian countries use the surplus accumulated with the exports of goods to purchase dollar-denominated assets, such as the US treasury bonds, while the United States relies on the credit that these countries give to it to increase its consumption. This economic mechanism is at the basis of the significant economic imbalance between the United States and other countries, mainly China.

However, despite the significant trade deficit accumulated by the United States, this does not mean that the country is in a disadvantageous position in economic terms. In fact, the import of goods produced abroad and the foreign direct investments reduce the cost of living of the American population and additionally the profits flow back to the United States. The protectionist economic strategy introduced with the Trump’s presidency is also a consequence of the weak industrial productivity of the United States for the reasons mentioned above and a consequence of the trade deficit of the United States with China. Trade war has been a unilateral choice of the US government. But rather than solve the structural problems which stand at the core of the trade imbalance of the US, that are financialization and the weaker industrial productivity of the United States that leads to import more goods from other countries, Trump’s policy can only accelerate the process of financialization of the US economy, which is one of the causes of the economic imbalance of the country. For instance, financial deregulation and tax cuts under the Trump

presidency further encourage financialization of the country's economy, thus not allowing re-industrialization. It is interesting to highlight that if the US reduces the tariffs on high tech goods exports, the country will reduce its trade deficit by a significant percentage. The decrease of the tariffs on high tech goods could be a better solution than the trade war to improve the US trade deficit. (Cai, 2020, pp 256-269).

Chapter 6

Since the China's open door policy introduction in 1978, the GDP growth has averaged a significant 9.6% annual increase between 1978 and 2017. China's political influence, military power and technological power all increased as well during this period. With the spectacular and unprecedented China's growth, the power gap between China and the US narrowed significantly, therefore increasing the competition between the two countries. With the election of the president Donald Trump in 2017, the political and commercial relationship between the two countries took a different direction, coming to the decision of the US President to start a trade war with China in March 2018. President Trump decided to increase tariffs on goods imported from China several times between 2018 and 2019, while China responded increasing tariffs on US goods for the same amount, thus generating a real trade war between the two superpowers. The average tariff rate applied to US imports of Chinese goods increased from 3 percent to 21 percent. The Chinese retaliation in response increased tariffs to Chinese imports of US goods from 8 per cent to 21 per cent on average. A brief truce was followed in by another increase in tariffs decided by the US in May 2019. Tariffs increases continued into the autumn of the 2019, with China retaliating every time. It is important to note that goods for which China has large market shares, such as ICT goods, or goods that, if hit by tariffs would have caused a significant increase in consumer prices, were not touched by the tariffs. China has also renounced to introduce tariffs on semiconductors, while the United States introduced secondary sanctions relating to semiconductors on the Chinese company Huawei in 2020, depriving the firm of some important imports in 2020. By the end of the 2019, US tariffs covered almost two third of total imports from China, while Chinese counter tariffs covered more or less 60 per cent of the total imports from the United States. In January 2020 China and the US signed a deal that prevented further tariffs hikes, but that left most tariffs introduced during the two years before in effect. The Biden presidency didn't increase tariffs, but left the existent tariffs, pursuing the Trump's strategy. Additionally, the United States

expanded over time the scope of the sanctions and restrictions on microchip imports in China. Estimates suggest that the trade between the two countries involved in the trade war has suffered due to sanctions and tariffs introduced. For this reason, both China and the United States tried to find alternative compensatory supply chains. Some countries took the place of China and the United States in exports and benefitted from the trade war, such as Mexico, Vietnam, Thailand. From the consumer point of view, the trade war had the effect of reducing real income both in China and the United States (Moffat and Poitiers, 2024, pp 1-5). The reasons behind this President's decision to start and then pursue the trade war are supposed to be many: one is the will to reduce the US trade deficit with China, the other reason is the Trump's attempt to slow down the China's economic, military and technological advance, which are becoming an increasing threat for the US world hegemony. Trump criticized China also for unfair competition, because Chinese state's subsidies generate an unfair advantage especially for tech Chinese firm against their foreign competitors. It is also true that this peculiar economic feature generates disadvantages as well for Chinese firms, such as low efficiency and unprofitability. For these reasons, the main targeted sectors during the trade war were electronics and IT machinery. One issue of this strategy is that trade imbalance is a structural problem rather than a matter of which trade policy is adopted, unless those policies target the gap between savings and investments. In fact, trade policies alone cannot determine the overall trade balance of a whole country, because a country's trade balance is mostly the result of the difference between domestic savings and investments. A trade deficit arises when the amount of the investments is greater than the amount of savings, which means that domestic demand exceeds domestic outputs (Fiorentini, 2019, pp 369-384). Behind this Trump's decision to start a trade war with China, there is also the will to sabotage the Xi Jinping (President of the People's Republic of China since 2013) 's goal of a both commercially and industrially self-reliant China . What emerges from the disposable data is that personal savings continuously declined during the period from 1980 to 2007, and the US trade deficit persisted over the same period. Therefore, disposable data confirms the correlation between savings and trade account, trade deficit in the US situation. The causes of the saving rate decline over the years in the US, starting from 1980, were income inequality increase, which occurred with the stagnation of the income of average American workers, who, in order to maintain their living standards despite a stagnation of their income, turned to consumer credit. The financial innovation and deregulation occurred in that period contributed to the loosening of households' income constraints. The widespread use of subprime loans was part of this pattern, which ultimately led to the great the

financial crisis of 2007-2008. The strength of the US dollar in the contemporary international trade and finance has also consequences on the sustainability of the US trade deficit. The US do not need to accumulate foreign currencies with exports. The current asymmetrical monetary international situation leads to imbalanced trade net account, because the US have to run trade deficit in order to supply dollars to foreign countries, ultimately for the proper functioning of the world's economy. Additionally, the asymmetric current monetary system makes possible for the US to sustain a longer period of consecutive trade deficits before becoming insolvent compared to other nations. As examined above, macroeconomic features of the current economic system are the causes for the US structural trade imbalance. Trade policies may affect the overall trade balance of a country only if they target the savings or the investments and their difference in the given country. Given this information, are the protectionists trade policies and the so called "Trade War" introduced by President Trump able to affect the trade deficit of the US? Because the international chain of production of many products, especially technology and IT goods, is divided in multiple different countries, tariffs on imports may end up damaging a domestic firm. Looking at the disposable data about the first year of protectionist tariffs introduced by Trump, it seems evident that those policies do not reduce the US trade deficit at all, while they lower instead the world's GDP annual growth. Moreover, the US trade deficit is a structural issue rather than a matter of which policy is adopted. Anyway, after two years of negotiations between the two countries, in 2020 a ceasefire agreement came into force, with a "Phase one" trade deal consisting in the Chinese commitments to import US goods and intellectual property protection. However, the deal did not effectively address the issue of some Chinese industrial policies and subsidies. The US reduced the trade deficit with China by 2020, but its overall trade deficit widened to record levels. This means that the US just changed trading partner for some of its imports, accumulating trade deficit with other countries instead of China. The Trump administration tried to cope with the problem of the forced transfer technology, which is not effectively addressed in the WTO legislation. The Trump administration also restricted commercial activity with Chinese telecommunications company Huawei. The US strategy seems to go towards a "decoupling" with China, or at least The US will probably try to reduce its economic interdependence and even reliance on China's economy, especially in some key economic sectors, such as in some particularly important technology sectors. Additionally, in 2019 Trump administration introduced new laws that would allow the US to exert greater control over foreign investments especially in technology and real estate transactions. The Committee on Foreign Investments in the United States would have greater power to eventually stop foreign investments

in US economic sectors considered key sectors. This decision primarily targets China and the eventual access of the Asian country to sensitive US technology. Another reason behind this decision is the intention of the US to prevent China from getting access to valuable data and collecting it. One other negative consequence for the US of the sanctions it imposed on China is that China started to intensify economic relations in response with other countries, such as Russia. China responded to US sanctions by increasing tariffs on some US goods, but also replacing, in part, the US with other countries in economic trade as trade partners. This is potentially dangerous for the US, as the sanctions the country imposed could end up strengthening economic and even political relations between China and other countries. The beginning of the Ukraine war and the consequent US economic sanctions against Russia accelerated this process, as the two countries are working together to find opportunities and strategies to evade US sanctions and export controls. Additionally, both countries are trying to reduce their reliance on the West, this fact contributed to make their economic relations closer. Both countries are working together to find replacement for Western technologies. Indeed, US efforts were put especially with the objective of slowing China in its technological advance, therefore China is responding and one of the countermeasures is cooperating with other countries, Russia included. For Russia, the Ukraine war increased the importance of China for the country as an alternative market for arms export, as a supplier of components, such as semi-conductors, that the country can no longer acquire from the West due to the sanctions imposed against Russia by the Western countries.

7. The Taiwan dilemma

Taiwan issue became a potential source of conflict between the US and China since the United States started to provide strategic and military support to Taiwan, beginning in the 1950s. For China, the reunification with Taiwan is a crucial matter of national sovereignty and national security, as well as a cultural and historical question for Chinese civilization. China is trying to peacefully annex Taiwan, without ruling out the possibility of an armed intervention. China used many times this threat in the last years to warn Taiwan, with the attempt to put political pressure on the island. The United States is committed to intervene in case of Chinese military attack due to the Taiwan Relations Act. In fact, the United States is a guarantor of Taiwan's security, as the two countries were allied since the times of the cold war. Additionally, the United States is aware of the strategic, political, economic, cultural importance that Taiwan has for China. But why is Taiwan so important for China? Which are the relations between the island and the mainland? To understand the

present political situation, is essential to explain the historical background which shapes the current status quo.

The Communist Party of China won the civil war over the Kuomintang in October 1949, therefore the Republic of China (ROC) led by Kuomintang leader, Chiang Kai-Shek, escaped to Taiwan, while Mao Zedong proclaimed the birth of the PRC (People's Republic of China). Both mainland China, guided by the Communist Party, and Taiwan, guided by the nationalists of the Kuomintang, proclaimed their independence and sovereignty also over the "other China", considering himself the "only China". The United States immediately relocated its embassy to the island. The following year, in 1950, the Korean war worsened the Sino-American relations, as the two countries had taken up opposed sides during that war. The US interest about Taiwan and Chiang Kai-Shek's regime was low, until China decided to participate in the Korean war in 1950. US president Truman ordered the US seventh fleet to relocate to the Taiwan strait, in order to protect Taiwan. From that moment, Taiwan became for the US a base for its operations in that geographical area, with the important objective to prevent Communism from spreading to the Western Pacific area. The US started also to provide technological and military assistance to the island since 1951. In 1954 the US and Taiwan signed the Mutual Defence Treaty, with the major goal to publicly declare the US ready to military intervene in case of invasion of Taiwan. The political situation changed significantly since 1971, with the detente strategy of the US, which recognized the importance to improve its relations with China in order to gain an important ally in Asia against Soviet threat. Additionally, the US hoped to receive aid from China as the country remained for too long involved in a difficult war in Vietnam. Rapprochement with China changed drastically the US relations with Taiwan: the US agreed with China to withdraw its military forces from Taiwan and additionally it recognized the PRC as the only China, not recognizing anymore Taiwan as independent state. The US later abrogated also the Mutual Defence Treaty signed with Taiwan. At the same time, the US maintained commercial and other kinds of unofficial relations with Taiwan. In 1979, the US Congress passed the Taiwan Relations Act, which obliged the US to sell arms to Taiwan to grant its military capability to defend itself in case of attack from other countries. Additionally, the US provided technical assistance to Taiwan to help the island to build its own military industry. Under Clinton presidency, after the Soviet Union's collapse, the China's importance for the US increased. China in fact became a major player in Asian region, and its economic potential growth led the US to adopt a policy of engagement, with the aim to integrate China in international institutions and market. For this reason, the US officially proclaimed that it recognized only PRC as the only China, and it refused to sell to Taiwan more

technologically advanced weapons. At the same time, the US continued to sell especially defensive weapons to Taiwan. The goal of the US was peace and stability in the area. Therefore, when China in 1996 conducted military exercises in the Taiwan Strait, the US sent in response two aircraft carriers in the area. The Clinton's engagement policy towards China was strongly criticized at home, therefore internal political pressures led to the Taiwan Security Enhancement Act (TSEA) in 2000, which raised strong negative reactions in China. The treaty granted US more arms sales to Taiwan and it also provided technical assistance and training. But, when the act had to be voted to make it a law, Clinton was contrary affirming he would have used the veto to block the passing of the act into a law, because China was intended to force a military intervention in response of the eventual passing of the act into a law. The political scenario changed once again with the election of the new President Bush in 2001. The US started to consider China as a political rival in the Asian region. Consequently, President Bush decided to sell to Taiwan more sophisticated weapons for its defence. China reacted with harsh criticism, knowing that an increasing military capability of Taiwan meant a more difficult conquest of the island using military force. At the same time, the US was aware of the Chinese efforts to increase its military capability, and one of the Chinese goals was to eventually use this military capability to conquer Taiwan if necessary. The reasons of the significant importance of Taiwan for China are several: it is a cultural and historical question, in fact Taiwan is considered by China as a rebel province, it is also an economic issue, as Taiwan is one the world's most important semi-conductors producers and has a high pro capite GDP, and finally it is important for security of the China itself, as Taiwan is an island geographically proximate to China. One of the most significant goods imported into China are semiconductors. The importance of semiconductors import is such that the United States decided to sanction microchip imports into China, as seen before. The strength of the Taiwanese semiconductor industry is relevant, as China imports from Taiwan hundreds of billions of dollars of chips every year. This means that, If Taiwan is controlled by China's enemies, it may represent a serious threat for China's security and economic well-being. The strategic importance of Taiwan for China is similar to the importance that Cuba has for the US. Since 2008 the status quo remained substantially the same one, despite a lesser identification with China of Taiwanese population, especially the younger generations, Taiwan had intensified his economic relations with China, becoming drawn into Chinese economic orbit more than before. The economic integration between the two countries was formalized with the establishment of the Economic Cooperation Framework Agreement in 2008. At that point, It seemed inevitable that Taiwan will have to accept an increased

interdependence with mainland China in the foreseeable future, as economic and political Chinese influence over Taiwan are recently increasing. The US, despite its support to Taiwan, is not supportive for an eventual de iure independence of the island. The US goal was indeed to keep peace in the strait. Since President Xi Jinping came to power in 2012, when he assumed the role of the Communist Party of China's General Secretary and Chairperson of the Central Military Commission at the conclusion of the 18th Party Congress in November 2012, and when later he was also elected President of People's Republic of China (PRC) by the National People's Congress in March 2013, China's focus shifted towards the "One Belt, One Road" initiative, which should create new commercial links. This initiative has been presented as a great opportunity especially for developing economies, as the initiative had as main objectives the construction of roads, airways, railways, and other infrastructures in developing countries. For this reason, in those years, the first years of Xi Jinping presidency, Taiwan was no longer the first priority in the Chinese agenda, but still the reunification with Taiwan remained a long-term goal for President Xi. The new elected Chinese political leader also continued the new economic policy started in China after the global financial crisis, trying to reduce the country's export oriented growth, and enhancing instead domestic drivers of economic growth to stimulate China's economy, increasing domestic consumption. By the US side, President Barack Obama was elected in 2009. President Obama was elected in the aftermath of the global financial crisis, which onset was only one year before, therefore to handle the crisis was the first goal in the US agenda at that time. Obama tried to seek cooperation over competition, therefore he tried to avoid any possible source of conflict between the two countries. As mentioned before, China managed to handle the global financial crisis better than the US, and therefore the Asian country went out from the crisis stronger in the international scenario, despite the global financial crisis caused a contraction in international trade which reduced Chinese exports in that period. The US policy towards China and more generally towards Asia changed in the subsequent years, as China, knowing that its international power increased compared to the one of the US after the global financial crisis, became more aggressive with its claims in the international scenario and at the same time the US withdrew from Iraq and Afghanistan. Obama changed the US policy introducing the so-called Pivot Asia, which means that the Asia-Pacific region has been prioritized and therefore the amount of resources used in diplomacy, commerce and security in that area increased with the introduction of this policy. The Obama administration was the first to explicitly elevate Asia to the primary global regional strategic priority. This shift in US agenda was not dramatical, as the US was involved in Asian affairs in the

past decades, but that geographical area was just not a priority for the US before Obama. The main goal of the new policy was to maintain stability and peace in order to allow the development of the region. The US was also looking for cooperation about many important topics, such as environment pollution control. The main reason for the policy shift made by President Obama was the more aggressive behaviour of China in the international scenario after the global financial crisis, which generated concerns about the stability and security of the region. One of the US goals was to keep stability in the area, preventing one country to become dominant in the area. This can explain the policy of engagement adopted by the US towards India, with the hope that India could counterbalance the growing power of China in Asia. The pivot was not a counter China policy, at the opposite the US goal was to engage the PRC and to further develop cooperation between the two countries. The Pivot was an inclusive policy towards China, rather than a confronting one. The Obama's rebalancing policy ended with the rise to power of the President Donald Trump on 20th January 2017. His slogan "America first again" and his threat to impose new tariffs on Chinese products led to imagine a confronting attitude towards China, at least in the commercial and economic sectors. The priority for the US changed, from cooperation, regional stability and security under Obama presidency to American interest and American security as the first priorities in the Trump's agenda. The trade war, as mentioned before, started a few months later, at the beginning of 2018. The competition was not only on the economic front, but also on the geopolitical international scenario. China was defined as a rival in different US reports, as in the Defence Strategy Report made in 2018 by the US Department of Defence, and in the US National Security Strategy report made the year before by the White House. China not only increased significantly its GDP in the last decades, but the country also developed its military power recently, starting to become a threat for the US interests in Asia. China clearly has ambitious goals for its future, with many initiatives, such as the "Made in China 2025" program, which is a Chinese industrial policy with the main objective of enhance Chinese industrial production and technology. American sentiment about China, even in the US population, is becoming more and more hostile. This hostility regroups different kind of people for different reasons: people who lost their jobs or businesses and they attribute that to the Chinese economic competition, people who advocates human rights which were not considered by China in several occasions, conservatives, and militaries. Even in American universities anti- Chinese sentiment is growing, as the US is worried by the possible presence of spies in universities, who wants to steal technology and information from the US to pass that information to the Chinese Communist Party. The Chinese aim on Taiwan was another significant

matter of concern for the US. For these reasons the US budget for military defence has been recently increased. Despite an overall anti-Chinese sentiment in a large part of US population and a new confrontational attitude of the US under Trump presidency, there was not a clear and organized policy. Trump's behaviour appeared erratic, not organized, moreover the various internal US agencies were not coordinated. South east Asia became extremely important for the US in the recent years, both for economic reasons, as there is massive amount of US investments in the area, but also geopolitically, as the maritime routes which allow the commerce between the US and Japan go through South East Asia. The South China Sea became a geographical area of extreme interest for the US, and probably the confrontation between the countries will be displayed for the control of that area in the future. China has narrowed the military gap with the US, but it still remains wide. It is likely that the US will strengthen its military influence over the South China Sea, as the increase in US military budget suggests, also because China is considered by the US to be trying to make the South China Sea domestic waters, as the increase of Chinese military activities in recent years would suggest. Taiwan is considered an island of extreme importance by China also for its geographical position, which could allow China to considerably strength its control over the South China Sea.

The elections held in 2020 in Taiwan resulted in the victory of the Democratic Progressive Party(DPP) and of its candidate Tsai Ing-wen over the Kuomintang, the Nationalist Party, and its candidate Han Kuo-Yu. The reaction of China was displeased, as the DPP is considered by Beijing as the representative party of the separatists' forces in Taiwan. The DPP won also the elections held in 2016 in Taiwan. The Kuomintang party is considered to have a conciliatory position towards China, favouring the economy of Taiwan, while the DPP's political position is about the country's sovereignty and independence, even if that means facing Chinese measures to isolate Taiwan and damage its economy. The results of the election held in 2020 confirms the outcomes of different studies conducted on the Taiwanese population, which revealed that a Taiwanese identity as independent country from China is emerging, especially in the younger generations, and strengthening over the years, while older Taiwanese people still vote for the Kuomintang. In the publicly released US Strategic Approach to the PRC in 2020, the United States clearly affirmed the failure of the engagement approach towards China adopted in the past years until the end of the Obama presidency and the beginning of the Trump administration which changed the policy towards China's expansion, starting a new confrontational approach against the latter. With the return to power of the DPP in Taiwan, in 2016 the US Congress reaffirmed the validity of the Taiwan Relations Act. The Trump administration gave more

geopolitical importance to Taiwan compared to the precedent presidencies. This is part of the US confrontational new policy against the rising power of China. Even the military cooperation between the US and Taiwan strengthened under the Trump administration, trying in this way to balance the rising military power of China and its threat for the region's stability. The US also offered to Taiwan help to protect the island from cyber-attacks coming from China. Taiwan has also to face increasing political and economic isolation in the Asia Pacific due to Chinese political pressure to diplomatically and economically isolate the island. The isolation leads the Taiwanese economy to slowly deteriorate, as Taiwan remains cut out from important trade agreement negotiations, such as the Regional Comprehensive Economic Partnership (RCEP) or the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). One important issue is that Taiwan is not internationally recognized as sovereign independent state except by some small states. Most of the international community does not recognize Taiwan as independent sovereign state, but only as a province of the PRC.

Another factor that changed the political relation between China and the United State was the spread of the COVID virus in 2020, due to the suspect of the United States that China created the virus or contributed to its spread around the globe. China was not transparent and the country didn't share clear information about the virus since the beginning of the diffusion of the virus, and this behaviour increased the suspects of the United States about an involvement of China in the spread of the virus. China, by its side, spread rumors about the origin of the virus possibly caused by a delegation of US soldiers who travelled in Wuhan in 2019. Another theory spread in China about the origin of the virus was that the virus escaped from a US army's medical research institute which was working on infectious diseases. These mutual accusations increased distrust and political tension between the two superpowers.

Notes:

Conclusion

I started analysing the so called "open door policy" started in China in 1978, according with the ideas of Deng Xiaoping, who wanted to open up the country to foreign investments and trade with foreign countries. The method of implementation of these set of economic reforms was gradual and experimental, starting with the implementation of the reforms in the local provinces, and,

depending on the results of the reforms, then eventually extended to other provinces. If a reform had not given the hoped economic results, it would have been abandoned with little economic costs for the country. There were established in some zones of China the so called SEZs, Special Economic Zones, which were initially four areas that offered economic incentives, such as tax reduction, for firms which were interested to establish and operate in those zones. The goal of this reform was to attract foreign capitals in the forms of investments, as well as attracting foreign technology and skilled workers. This reform resulted to be successful and it was then extended to other areas, indeed by the end of 1985 China opened its pacific coastal area and it turned this area into SEZs. The reforms involved also the Chinese agricultural sector, with the de-collectivization of the agriculture and the introduction of the household's responsibility system (HRS). The state kept the ownership of the cultivated lands, but the responsibility for profits of cultivated lands were held by the households, which could decide which products should be grown. Another important feature of the Chinese rural reform was the significant increase of the numbers of TVEs, township and village enterprises. Both the HRS and the TVEs achieved a spectacular growth rate in total production output and they took the place of the old socialist collective farms as units of agricultural production. One historical event, which I described in the second chapter, which could interrupt or slow down the spectacular economic growth that China was achieving was the Tiananmen incident, especially for its consequences on bilateral political and economic relationships between China and Western countries, and with the United States in particular. The Tiananmen incident was a violent and bloody repression of a massive Chinese students' protest against inequalities and corruption in the country, culminated in the brutal repression of the protests on 3-4 June 1989. The reaction of the Western countries was negative, as they considered the Chinese central state decision of using violence against the students as a violation of human rights. The United States declared, the day after the bloody repression, sanctions against China. China, by its side, was afraid to lose its MFN, most favoured nation status, which was giving to China considerable economic advantages in bilateral trade relations. The MFN was one of the main reasons for the Chinese significant economic growth during the first years of the economic reforms introduced by Deng Xiaoping, due its offered economic advantages. Indeed, the United States considered the possibility to revoke the MFN status to China, but president Bush decided to extend it. The United States used a harder line towards China in their bilateral relationship after the Tiananmen massacre, and China considered the changed attitude of the United States as a manner to influence Chinese internal political issues using the human rights issue as a leverage to inference in China's

internal situation. The bilateral relationships remained troubled until the Seattle Summit of the APEC (Asian Pacific Economic Cooperation) in 1993, when the president Clinton decided to lift the sanctions against China and to improve bilateral relationship between the two countries. This decision has been made both for economic and political reasons, as president Clinton recognize the economic importance of China and its significant role in the Asian area. Another reason that contributed was the onset of the Gulf War, which pushed the United States to improve the political relationship with China. During the years between 1989 and 1993, China improved its economic condition. Deng Xiaoping decide to make its famous Southern Tour in South China, during which he reaffirmed the importance of the reforms of the open-door policy. The improved economic condition of the country allowed the Communist Party to regain political control over China. The Tiananmen massacre represented a watershed in the Chinese economic policy, even if the incident may not have been a direct cause for this change. Indeed, during the 1990s, central political control became a strong priority for the Chinese Communist Party, with the consequent strengthening of the public sector and of the direct control of the Chinese Communist Party, and the household responsibility system and the private sector in general weakened at the same time in China. The collapse of the Soviet Union and the protests which ended with the Tiananmen massacre made internal social and political cohesion and stability priorities for the Chinese central government. For this reason, the Chinese central government created a new system in which it held direct personnel control, and in which large public bodies and corporations under the Communist Party's control started to emerge. I think it is important to highlight that in the same period there was a shift in the United State's policy, mainly due to the collapse of the Soviet Union occurred in 1991. China remained the last large and economic significant communist country in the world after the Soviet Union collapse, and the United States changed its policy from containment to enlargement, which means that the United States started to try to enlarge the number of democracies and market economies present in the international scenario at that time. The Chinese internal policy changed mostly since 1993, with reforms aimed to re- centralize fiscal resources and to make the prices to be mostly determined by the market. The dual track system was abolished. The year 1992 showed a significant economic growth, which allowed the central Communist Party to tighten its control over Chinese society and to gain internal stability and cohesion. Indeed, the Chinese Communist Party was perfectly aware that economic and material well-being of the population were crucial for the internal stability and cohesion of the country.

In September 1992, the 14th Party Congress decided to adopt a “Socialist Market Economy”, additionally this decision has been confirmed the next year at the Third Plenum of that Congress, when the congress voted for the adoption of a Socialist market economic structure. China continued to pursue this kind of economic structure even in the subsequent years and decades. The central state kept always a macroeconomic control, even if there was a partial privatization of many economic sectors, including the agricultural one. The economic crisis which occurred in Asia in 1997 has been a significant cause for a change in the internal economic policy in China. Indeed, the reform of the SOEs in the country was launched in 1997 by the fifteenth Party Congress of the Chinese Communist Party. The reform enabled to introduce the contract responsibility system for the SOEs, which gave them more decisional freedom and the possibility to retain for themselves part of the profit gained. Additionally, the aim of this reform was to introduce mixed ownership of the SOEs (private and state ownership). Another important aspect that must be highlighted was the partial privatization of the SOEs, even if the Chinese central government kept the direct control of the largest and most important SOEs, and the SOEs continued to play a crucial role in the national economy even after the introduction of the reform. The reason for this reform was the increasing SOEs’ debts, their bad economic performance and their lower output compared with the private enterprises. The massive privatization of the SOEs caused an increased competition, because the market started to lead the most inefficient SOEs to bankruptcy, as the Chinese central government was not protecting them anymore as it was happening the in the past decades. This meant that also many employees of the SOEs were not protected by the state anymore, leading to an increased number of laid off, or the less productive workers were forced to attend training courses to improve their skills and labour productivity. The reform did not involve only the SOEs, but also the national banking system, which was changed. Since 1978, the institutional and economic reforms which took place in China led to an increased quantitative presence of the private sector in the national’s economy, and, at the same time, the public sector grew in qualitative terms, also allowing the Chinese Communist Party to keep a tight control over the national society and economy. One of the key roles of the SOEs was to manage important infrastructural national projects needed in the country to achieve modernization, urbanization and connectivity. This was one of the reasons which led to the creation of large state-owned enterprises throughout the country. The new set of institutional changes and reforms introduced during the 1990s was leading to a new system in which only some large and selected state-owned companies were administrated by the central state. Over time, the share of planned production significantly decreased, while the

share of the non-public economy increased because of the partial privatization, therefore the proportion of prices determined by the market also increased, and the double track system for prices determination gradually unified in a system in which prices were determined by the market, which essentially means that the prices were determined by the demand and the supply. China became a socialist market economy, achieving a gradual transition from a central planned economic system, started with the open-door policy in 1978. Additionally, At the beginning of this century, China changed its economic model partly based on import of technology from foreign countries, characterized by a high degree of investments rather than consumption and income distribution. Chinese industrial policy changed, in order to achieve technological modernization and development, particularly the Chinese main goal was to acquire the necessary technical know-how to achieve technological development without depending from the imports of technological products from the United States and Japan and South Korea. The corporatization of the Chinese SOEs has given them a pivotal role for technical progress and for the management of new and improved forms of planning, which were becoming gradually able to provide resources allocation for massive industrial and infrastructural projects throughout the country. These technological projects required massive investments provided by the state. Therefore, the SOEs gained significant importance also to manage the Chinese industrial development, which had to lead to an increased technological domestic production, therefore lowering imports of technical goods from foreign countries. The most important project launched in China with the goal of increasing domestic technological and industrial productivity was the project named “Made in China 2025”, launched in 2015. The Chinese ultimate goal is to organize a new economy based on projects and no longer on the market. That is why some scholars called this new kind of economy “project economy,” which embodied both planning and market economy features in the same economic system. This essentially is what makes the Chinese economic system unique. In the Chinese economic system planning and market economies were properly integrated, and they both formed the Chinese macro-control system. The privatization of a part of the state-owned enterprises, the gradual opening of the country to foreign direct investments, the increase of exports, the increased autonomy of the agricultural units of production (household responsibility system, TVEs) shifting from collectivized and central planned units of agricultural production, the reform of the national banking system, are all features of an economic system which gradually opened to the market and to its forces, but in which, at the same time, the Chinese Communist Party kept a strength direct control. Indeed, the central state kept a tight control over the national economy

through the control over investments and through some selected large SOEs directly controlled by the central state, responsible of running significant national projects for the industrial and for the infrastructural development of the country, financed with significant public investments. The Chinese economic system that emerged is not based on the financialized dynamics which dominate most of the capitalist developed countries, rather, as said above, by a strong macro-control of the central state which adopts local provinces and SOEs and the state managed financial system as economic tools to mitigate crises, as it happened after the onset of the great financial crisis in 2008, when the Chinese central state intervened injecting a significant amount of money through public investments into the national economy to mitigate the negative economic effects of the great financial crisis, which hit hard the international economy and the international trade.

Another crucial event for Chinese economic development and growth has been the WTO accession of the country, officially occurred in 2001 after a long negotiation lasted fifteen years. The WTO (World Trade Organization) was established in 1995 and it took the place of the GATT (General Agreement on Tariffs and Trade). The WTO is an international organization which aims to promote free trade and economic liberalization in the world. The formation of the World Trade Organization was an important outcome of the Uruguay Round of General Agreement on Tariffs and Trade (GATT). The accession to the WTO made some regulatory changes necessary for China in order to join the international organization. Particularly, according to the Protocol on the Accession to the WTO, China has further liberalized market forces and free trade as the country had to do in order to join the WTO. Indeed, one important change which occurred with the accession to the WTO of China was that Special Economic Zones had no longer different regulation about trade and foreign investments compared to other regions of the country. Another significant change which occurred with the WTO accession of the country was the elimination of trade barriers, including both tariff and non-tariff barriers, such as import quotas, on imported goods. Another significant consequence of the WTO accession of the country was that the non-state sector, and in particular foreign owned firms, acquired more power and importance in the Chinese economy, especially in foreign trade. Despite the strengthening of the private sector and the conclusion of the state monopoly in some economic sectors of the country, China still managed to circumvent some WTO's rules in order to protect some key domestic industries. In fact, China's behaviour has been contested particularly about property rights and forced technology transfer from foreign countries, especially by the United States. The Chinese central state always kept direct control over the domestic industries considered strategic for the country's economy, while the less

important industries were more subjected to privatization. It is also interesting to highlight that, over the last years, the number of filed disputes under the WTO's Dispute Settlement Mechanism in which China was involved significantly increased, due to an increasing knowledge and experience about international legal regulation. Therefore, the country's legal capacity increased over time, leading the country to be involved in more international legal disputes. The matter of the legal disputes, as said above, were most of the times about forced transfer technology from foreign countries and intellectual property rights protection. The core of this issue is that the Chinese SOEs are involved in the forced technology transfer, and the SOEs are not effectively regulated by the WTO or other international organizations, because there is not an effective international regulation for the state involvement, in this case through the SOEs, in the international trade. The United States and the European Union contested that Chinese SOEs obliged foreign firms to transfer their technology to the SOEs with which they formed a joint venture if they want to continue to operate in China. China can do that because there is not a bilateral investment treaty (BIT) which protects foreign investments, therefore foreign companies may face any sort of reaction or restriction made by the foreign ownership, the Chinese ownership in this case. Chinese companies force foreign companies to join into a joint venture with Chinese companies in order to obtain similar credits of the ones the Chinese firms obtain. Chinese firms accept the joint venture only if the foreign firm transfers technology to the Chinese company. This behaviour of the SOEs has been contested by the United States and the European Union many times, using the WTO dispute settle mechanism, but, as said before, the international regulation is not effective when the state is involved in international trade issues. Another trade sector in which Chinese firms' behaviour has been often contested is the intellectual property rights. In this specific area, TRIPs establish international standards with the aim of safeguarding intellectual property rights and international standards on copyrights, trademarks and service marks, geographical indications, industrial designs, patents, layout designs of integrated circuits, the protection of confidential information, and anti-competitive conducts in contractual licenses. However, despite the new rules introduced, the TRIPs Agreement still does not cover all the aspects regarding intellectual property rights due to different attitudes and approaches depending on the country involved. Another reason that may contribute to explain the increased number of legal disputes is the introduction of more protectionist measures after the great financial crisis of 2008 all around the world. However, the China's WTO accession led to significant economic growth for the country, especially export growth, with the expanded access to the international market provided by the country's WTO accession and, at the same time, the positive

impact on local Chinese firms thanks to a facilitated access to China's domestic market for the rest of the world (Brandt, Van Biesebroeck, Wang, Zhang, 2017, pp, 2784-2820). In fact, China became the world's largest exporter by 2009. This growth in exports led to GDP growth and GDP per capita growth in China. Certainly, the great financial crisis which occurred in 2007-2008 was handled better by China compared to other countries, especially the Western countries. The reason was the impressive amount of money injected by the Chinese central state through public investments and the reduced exposition of the country to the toxic financial products which caused the great financial crisis onset. The consequence was that China came out from the crisis in a strengthened economic position in the international scenario. It is interesting to highlight the economic interdependence between the two superpowers: China and the United States. Indeed, Asian countries, and China especially, were providing endless credit to the US through Chinese government purchases of US treasury bills (American treasury bonds), to finance the American significant consumption of Chinese goods. The Chinese currency was kept depreciated against the dollar and therefore China was relying on an export-oriented growth, exploiting the well-known US propensity for consumption of goods, and the massive amount of goods imported from China. China has been accused by the United States multiple times of manipulating its currency to obtain advantages in trade, in particular to favour the exports of its goods, and in labour market, as the depreciation of the Yuan, coupled with a different regulation for Chinese workers, made labour costs in China cheaper than the costs in other countries, therefore making China an attractive country for foreign investors, giving to China a comparative advantage in the labour market. But the depreciation of the Yuan alone is not enough to explain the significant trade imbalance between China and the United States. Indeed, another important reason that may explain the massive trade imbalance between the two superpowers is that many products were only assembled in China, and then exported. These products are composed with foreign produced high value goods, mostly with goods imported from Taiwan, Japan, South Korea and Germany, assembled in China, and finally exported, figuring as Chinese goods exported abroad in official trade balance sheets. It is relevant to highlight that also the US firms were benefitting from using China as an assembly platform, and the cheap costs of the investments in China were attracting for the US companies, which could sell their products directly in the Chinese enormous market. Another interesting feature of the Sino- American trade relation is that China has an enormous trade surplus with the US, but it has a small trade deficit with the rest of the world, far from the common perception of China as a country which benefits a global trade surplus with many other countries than the US. This is another reason

for the significant trade imbalance in the relation of economic interdependence between the two superpowers. Trade imbalance that was not reduced by the great financial crisis in the long term. On the contrary, the US debt and deficit both increased after the crisis. The overall consequence of the great financial crisis has been the narrowing of the economic power gap between China and the US, leading to the so called de facto "G2", which means that the United States and China were the two superpowers leading the world's economy after the great financial crisis and that their economic power was closer than ever before. After the crisis, China tried to re-orientate its economy from an export -led economy towards consumption-led economic growth, with the objective to reduce its exposure to other possible future external generated economy crises. Indeed, the year after the onset of the great financial crisis, the world's volume of trade declined inevitably affecting China's economy. A policy switch towards consumption in China would also reduce imbalances (surplus) in its current account. For this reason, it is expected an increase in expenditure of budget on education and health care, in order to reduce the savings rate of the households and thus encouraging consumption in the country, using the recently formed and growing Chinese middle class as the main drive of consumption in the country. Another interesting feature of the Chinese economy, which is profoundly different from the US economic structure, is the relatively marginal role of the financial sector in the Asian country, compared to the pivotal role that the financial sector keeps in the US economy. China's economy was far more oriented toward the productive sector rather than the financial sector, with also a high degree of state control and regulation over the financial sector in the country. Indeed, the central role of the state in the financial and productive economic sectors of the country led to the possibility by the Chinese central government to put in place fiscal packages and stimulus which resulted to be decisive in the great financial crisis negative outcomes mitigation. And, as said above, the great and effective management of the great financial crisis allowed China to narrow the economic gap with the United States, ultimately leading to the de facto so called G2. Differently, In the US economy the financial sector plays a crucial role, with also a high propension towards consumption rather than towards saving, with the government playing only a marginal role in the financial activities in the country's economy, which is controlled by the private sector. The main source of economic growth in the US is the household's consumption propension. It is interesting to highlight that the increased US household's consumption has not been caused by an increase in real wages, rather by an increase of the financial incomes. With financialization, the contribution of the real economy, mainly the industrial and manufacturing sectors, to the GDP of the United States decreased significantly,

while at the same time the service sector, mainly the financial sector, of the economy acquired more and more importance during the last decades. The change of the American industrial structure and productivity causes economic crises to break out more frequently in the form of financial crises, and it has also led to the need for the United States to import more goods from foreign countries, because its industrial productivity has significantly declined over the last decades, while the US focused on the exports of financial services and products. The factors which mostly contributed to the de-industrialization of the US persisted even in recent years as the real workers' wages in the United States are relatively high compared to the real wages perceived in the developing countries and in China among the others, making de-localization profitable for private firms. The US economy is largely based on households' consumption, export of services and mostly financial services, and on the control of the monetary capital, as the dollar became the dominant currency in the capitalist world after the end of the Bretton Woods system and the collapse of the Soviet Union. For this reason, the United States can invest a significant amount of dollars abroad and the country can import a significant amount of needed goods from other countries. Despite the enormous trade deficit of the United States, this does not mean that the country is in an economic disadvantageous position in general terms. In fact, the import of cheaper goods from foreign countries makes the general cost of living cheaper for the American citizens and the profits of the investments abroad flow back to the United States. The protectionist economic strategy introduced with the Trump's presidency and the trade war engaged with China since March 2018 are consequences of the weak industrial productivity of the United States, but rather than solve the problem, these kinds of economic policies can only accelerate the process of financialization of the country, thus further weakening the US industrial sector and its productivity, which is one of the main reasons of the trade deficit accumulated by the United States. The trade war engaged by President Donald Trump is considered to be unsuccessful by many scholars in reducing the trade deficit of the US with China, simply because the reasons which cause the trade deficit are structural issues rather than a matter of which economic policy is adopted, unless the policy targets the gap between savings and investments, which is the main cause of the trade deficit of a country. Indeed, a trade deficit arises when the amount of the investments is greater than the amount of savings, which means that domestic demand exceeds domestic outputs. What emerges from the disposable data is that personal savings continuously declined during the period from 1980 to 2007, and the US trade deficit persisted over the same period. Therefore, disposable data confirms the correlation between savings and trade deficit in the US situation. The causes of the saving rate decline over the

years in the US, starting from 1980, were income inequality increase, which occurred with the stagnation of the income of average American workers, who, in order to maintain their living standards despite a stagnation of their income, turned to consumer credit. The financial innovation and deregulation occurred in that period contributed to the loosening of households' income constraints. The widespread use of subprime loans was part of this pattern, which ultimately greatly contributed to the onset of the great the financial crisis of 2007-2008. The strength of the US dollar in the contemporary international trade and finance has also significant consequences on the sustainability of the US trade deficit. The US do not need to accumulate foreign currencies with exports. The current asymmetrical monetary international situation leads to imbalanced trade net account, because the US have to run trade deficit in order to supply dollars to foreign countries, ultimately for the proper functioning of the world's economy. Additionally, the asymmetric current monetary system makes possible for the US to sustain a longer period of consecutive trade deficits before becoming insolvent compared to other nations. As examined above, macroeconomic features of the current economic system are the causes for the US structural trade imbalance. Another reason which led President Donald Trump to the decision of engaging a trade war with China has been the will of slowing down the growth of military, political and economic power of China, which became, especially in the last years, a real threat for the US world hegemony, including the US will of sabotaging the Xi Jinping's goal of an economically and industrially self-reliant China. One other negative consequence for the US of the sanctions the country imposed to China is that China started to intensify economic relations in response with other countries, such as Russia. Indeed, Russia and China started to craft a new economic partnership, and that led to an improvement of their bilateral political relationship as well. The beginning of the Ukraine war and the consequent US economic sanctions against Russia accelerated this process, as the two countries are working together to find opportunities and strategies to obviate US sanctions and export controls. Additionally, both countries are trying to reduce their reliance on the West, this fact contributed to make their economic relations closer. Additionally, Both countries are working together to find replacement for Western technologies, with the aim of reducing their dependence from Western technologies and at the same time increasing their domestic technological production, thus increasing their self-reliance in this specific economic field. The onset of the Ukrainian war and consequent economic sanctions imposed by the Western countries against Russia ended up strengthening the economic relationship between China and Russia, as China became an alternative market for arms export, a supplier of components,

such as semi- conductors, that Russia could no longer acquire from the West due to the sanctions imposed against Russia by the Western countries in response of the invasion of Ukraine made by Russians troops.

Another significant open political and economic question is the Taiwan situation, defined by some scholars the “Taiwan dilemma”. For China, the political reunification with Taiwan is a crucial matter of national sovereignty and national security due to the Taiwan’s geographical position, as well as a cultural and historical significant question for Chinese civilization. China is trying to peacefully annex Taiwan, without ruling out the possibility of an armed intervention. China used many times this threat in the last years to warn Taiwan, with the attempt to put political pressure on the island. The United States is committed to intervene in case of Chinese military attack due to the Taiwan Relations Act. In fact, the United States is a guarantor of Taiwan’s security, as the two countries were allied since the times of the cold war. Obviously, the United States is perfectly aware of the geopolitical, cultural and economic importance that Taiwan has for China. In order to understand the extreme importance of Taiwan for China, it is necessary to explain the historical and cultural background between China and Taiwan first. The Communist Party of China won the civil war over the Kuomintang in October 1949, therefore the Republic of China (ROC) led by Kuomintang leader, Chiang Kai-Shek, escaped to Taiwan, while Mao Zedong proclaimed the born of the PRC (People’s Republic of China). Both mainland China, guided by the Communist Party, and Taiwan, guided by the nationalists of the Kuomintang, proclaimed their independence and sovereignty also over the “other China” considering himself the “only China”. This fact led contributed to the creation of some attrition between the two countries. The US political interest about Taiwan and Chiang Kai-Shek’s regime was low, until China decided to participate into the Korean war in 1950. US president Truman ordered the US seventh fleet to relocate to the Taiwan strait, in order to protect Taiwan from possible military invasions. From that moment, Taiwan became for the US a base for its operations in that geographical area, with the relevant goal to prevent Communism from spreading to the Western Pacific area. The US started also to provide technological and military assistance to the island since 1951. Additionally, in 1954 the US and Taiwan signed the Mutual Defence Treaty, with the major goal to publicly declare the US ready to military intervene in case of invasion of Taiwan by foreign countries. The political situation changed significantly since 1971, with the detente strategy of the US, which recognized the importance to improve its relations with China in order to gain an important ally in Asia against the Soviet threat in that geographical area. In 1979, the US Congress passed the Taiwan Relations Act, which obliged the US to sell arms to Taiwan to

grant its military capability to defend itself in case of attack from other countries. Additionally, the US provided technical assistance to Taiwan to help the island to build its own military industry. Under Clinton presidency, after the Soviet Union's collapse, the China's importance for the US increased. China in fact became a major player in Asian region, and its economic potential growth led the US to adopt a policy of engagement, with the aim to integrate China in international institutions and market. For this reason, the US officially proclaimed that it recognized the PRC as the only China, and it refused to sell to Taiwan more technologically advanced weapons. But, despite the public US declarations, the country continued to sell especially defensive weapons to Taiwan and to maintain unofficial commercial and political relations with the Asian island. The goal of the US was keeping peace and stability in the area. Therefore, when China in 1996 conducted military exercises in the Taiwan Strait, the US sent in response two aircraft carriers in the area, generating political tension with China. The political scenario changed once again with the election of the new President Bush in 2001. The US started to consider China as a political rival in the Asian region. Consequently, President Bush decided to sell to Taiwan more sophisticated weapons for its defence. China reacted with harsh criticism, knowing that an increasing military capability of Taiwan meant a more difficult conquest of the island using military force. At the same time, the US was aware of the Chinese efforts to increase its military capability, and one of the Chinese goals was to eventually use this military capability to conquer Taiwan if necessary. The reasons of the significant importance of Taiwan for China are several: it is a cultural and historical question, in fact Taiwan is considered by China as a rebel province, it is also an economic issue, as Taiwan is one the world's most important semi-conductors producers and the island has a high pro capite GDP, and finally it is important for the security of the China itself, as Taiwan is an island geographically proximate to China. From the geographical point of view, the issue is similar to the importance that Cuba had for the United States at the time of the Cold War, when the threat of Cuba, governed by a Communist regime and supported by the Soviet Union, was real for the United States, as a rival state was near to the US borders. Taiwan, in a similar way, is near to the Chinese borders, and the island has been used by the United States as a base for different kind of operations, including gathering data about Chinese operations and spy actions. Additionally, the strength of the Taiwanese semiconductor industry is relevant, as China imports from Taiwan hundreds of billions of dollars of chips every year. This means that, If Taiwan is controlled by China's enemies, it may represent a serious threat for China's security and economic well-being if eventual changes to the export of semiconductors to China from Taiwan would be introduced. Since 2008 the status quo remained

substantially the same one, despite a lesser identification with China by the Taiwanese population, especially by the younger generations, Taiwan had intensified his economic relations with China, becoming drawn into Chinese economic orbit more than ever before. The economic integration between the two countries was formalized with the establishment of the Economic Cooperation Framework Agreement in 2008. At that point, it seemed inevitable that Taiwan will have to accept an increased interdependence with mainland China in the foreseeable future, as economic and political Chinese influence over Taiwan are recently both considerably increasing. When President Xi Jinping came to power in 2012, The Taiwanese unification became a secondary question in the Chinese agenda, as the “Belt and Road Initiative” took the first place, but still the reunification with Taiwan remained a long-term goal for the newly elected President Xi. President Obama has been elected in 2009 in the United States. Obama changed the US policy towards China and more generally towards the Asian region, introducing the so-called Pivot Asia, which means that the Asian-Pacific region has been prioritized and therefore the number of resources used in diplomacy, commerce and security in that area increased after the introduction of this policy. The main reason for the policy shift decided by President Obama was the more aggressive behaviour of China in the international scenario after the global financial crisis, which generated concerns about the stability and security of the region. The main goal of the US administration was to keep political stability in the area, preventing one country to become dominant in the area. This can explain the policy of engagement adopted by the US towards India, with the hope that India could counterbalance the growing power of China in Asia. The Pivot Asia policy was an including policy, rather than a confrontational one. The Obama’s rebalancing policy ended with the rise to power of the President Donald Trump on 20th January 2017. His notorious slogan “America first again” and his threat to impose new tariffs on Chinese products led to imagine a confronting attitude towards China, at least in the commercial and economic sectors. The priority for the US changed from cooperation, regional stability and security under Obama presidency to American interest and American security as the first priorities in the Trump’s agenda. China not only increased significantly its GDP in the last decades, but the country also developed its military power recently, starting to become a threat for the US interests especially in Asia. China clearly has ambitious goals for its future, with many initiatives, such as the “Made in China 2025” program, which is a Chinese industrial policy with the main objective of enhance Chinese industrial production and technology to increase its self-reliance in several economic fields. American sentiment toward China and Chinese population, even in the US population, became

more and more hostile in the recent years. Despite the increasing anti-Chinese sentiment among the Americans and the more aggressive and confrontational Chinese political and economic attitude, during the Trump's presidency there was not a clear and organized policy towards China. Moreover, the different internal US agencies were not effectively coordinated. It is important to highlight that South East Asia became extremely important for the US in the recent years, both for economic reasons, as there is a massive amount of US investments in the area, and even geopolitically, as the maritime routes which allow the commerce between the US and Japan pass through South-East Asia. The South China Sea recently became a geographical area of extreme interest for the US, and probably the confrontation between the two countries will be displayed for the control of that area in the future. Taiwan is considered an island of extreme importance by China also for its geographical position, which could allow China to considerably strength its control over the South China Sea, and at the same time to protect more effectively its coastal areas.

The elections held in 2020 in Taiwan resulted in the victory of the Democratic Progressive Party (DPP) and of its candidate Tsai Ing-wen over the Kuomintang, the Nationalist Party, and its candidate Han Kuo-Yu. The reaction of China was displeased, as the DPP is considered by Beijing as the representative party of the separatists' forces in Taiwan. The DPP won also the elections held in 2016 in Taiwan. The result of the last elections perfectly reflects the increased desire of independence present in the younger generations of Taiwan. However, Taiwan must face increasing political and economic isolation in the Asia Pacific due to Chinese political pressure to diplomatically and economically isolate the island, with the aim of making the island economically dependent from China, facilitating in this way an annexation of Taiwan without a Chinese military intervention, which could be costly for China, as the United States and even Japan might decide to military intervene to protect the island from foreign military invasions. However, the isolation proves to be effective and leads the Taiwanese economy to slowly deteriorate, as Taiwan remains cut out from important trade agreement negotiations which involves countries in the South East Asian region. One important issue is that Taiwan is not internationally recognized as sovereign independent state except by some small states. Indeed, most of the international community does not recognize Taiwan as an independent sovereign state, but only as a province of the PRC and this fact ends up contributing to the Taiwanese economic isolation.

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