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**THE POST LABOUR-FOCUSED CHINA IN THE GLOBAL ECONOMY:
ANALYSIS OF THE PEOPLE'S REPUBLIC OF CHINA'S
"REVOLUTION" IN THE LABOUR-CAPITAL RELATIONSHIP
WITHIN THE GLOBAL VALUE CHAINS**

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ABSTRACT

La Repubblica Popolare Cinese negli ultimi decenni è stata caratterizzata da un'incredibile crescita economica. Più volte si è parlato di miracolo cinese, termine che però ancora non coincide perfettamente con quella che è la realtà. La RPC, infatti, è in una fase di transizione. Pechino non si è ancora affermata come potenza economica egemonica a livello globale, ma è sulla strada giusta. L'obiettivo di questo lavoro di analisi è quello di comprendere quali misure stiano venendo prese dalla Repubblica Popolare Cinese per affermarsi nel sistema internazionale delle Global Value Chains come attore di Capitale e non più di Lavoro. Partendo dalla storia economica del paese, ho voluto delineare le caratteristiche del rapporto domestico tra Capitale-Lavoro che ha caratterizzato la RPC dal 1949. Inoltre, questa analisi mi ha permesso di delineare le problematiche strutturali della RPC e come esse abbiano influito sul Capitale Umano del paese e, consequenzialmente, sul suo processo di transizione nel sistema delle Global Value Chains. Infine, ho voluto sviluppare una riflessione sulle contraddizioni che esistono tra l'attuale struttura socioeconomica del paese e la sua narrazione, per la quale Pechino si rappresenta convintamente come comunista. Per costruire questa analisi ho utilizzato letteratura di vario tipo, che tocca temi economici, storici, culturali e filosofici relativamente alla Repubblica Popolare Cinese.

INTRODUCTION

In the last movie of the trilogy “Back to the Future” there is an interesting scene where the scientist Doc is analysing an electronic component which apparently does not work. He reads on it that it is made in Japan and immediately states that this is the reason why it does not work. He is implying that what is made in Japan is of low quality. Immediately, his younger assistant and companion of adventures Marty McFly affirms that “the best stuff is made in Japan”. In this scene we have a classic humoristic mechanism: a generational gap, a member of an older generation that cannot understand his younger counterpart and *vice versa*. However, there is more. The reason why Doc and Martin disagree regarding the quality of that electronic component is related to their temporal perception of Japan. Doc thinks about the Japan of the 1950s and 1960s, when the country was in a rebuilding phase after World War II. At that moment, the country of the rising Sun was a country under development, a rising economy. On the other hand, the young Marty has a more contemporary, to the time in which the movie is set, perception of Japan. In the late 1980s and early 1990s, Japan was already a rich country and a technological powerhouse with a well-developed economy. What happened through the decades aforementioned was that Japan improved its position within the system of Global Value Chains.

In our times, another important country is attempting to change its role in the system of the Global Value Chains: The People’s Republic of China. The PRC has been growing at an incredible pace in the last decades and now it represents the biggest threat for the hegemony of the United States of America. Nevertheless, Beijing is still behind its competitor and many more needs to be accomplished. The main objective of this dissertation is to analyse how the PRC is trying to achieve its transition in the GVCs and, therefore, to grasp for a global hegemonic position. At the same time, we will see how this transition is not just an ambition but even a necessity for the People’s Republic of China.

The theoretical assumption at the basis of my dissertation is that the PRC is trying to change the dynamics of its domestic Capital-Labour relationship in order to implement this transition. Specifically, the transition will happen when the PRC

becomes a Capital actor, from being a Labour actor, in the GVC's system. Therefore, my analysis will be developed onto two distinct dimensions of the Capital-Labour relationship: the international one of the GVCs and the domestic one of the People's Republic of China. The reading material I used focus on the historical, economic, and cultural characteristics of the People's Republic of China. These three elements are fundamental especially in order to understand the domestic Capital-Labour relationship of the country. The fact that the PRC is officially still a communist country makes this specific case study particularly complex even on an ideological and philosophical level.

The First Chapter is dedicated to the Global Value Chains as a concept. The main objective is to delineate the features of this economic system within which the People's Republic of China wants to change its role. I subdivide the actors that participate in the GVCs in Capital and Labour actors. The former play a hegemonic role and are the most economically and technologically developed, while the latter tend to be countries under development which aim to uplift their economic condition. Because the GVCs work as a free market model, their participants need and exploit each other, obviously with different purposes and intensities. I wanted this chapter to be an introduction for the rest of the dissertation: my main purpose was to include the majority of the concepts and terms that I used in the other chapters. In this way, after the First Chapter, the reader should have a schematic and clear vision of the aforementioned levels of analysis. It is important to understand that the international and domestic Capital-Labour relationships are inevitably connected.

The Second Chapter can be defined as mainly historiographical. I wanted to show the transformation of the Chinese economy from the late 19th century to the beginning of Deng Xiaoping's era. The first paragraph of the chapter focuses on the Chinese's economy during the late Qing dynasty. I wanted to explain why China did not experience the industrial revolution but rather an industrious one and, therefore, was characterised by an economic underdevelopment in comparison with the Western powers of the time. The second paragraph shows

the People's Republic of China under Mao and the role that Deng Xiaoping played during that period of time. I wanted the reader to completely acknowledge the characteristics of Mao's management of the PRC, so that the comparison with Deng's would have been extremely clear. This paragraph allows the reader to catch some nuances of Deng Xiaoping as a politician: his great experience as a public official in the PRC, his result-oriented approach, the absence of a specific socio-economy ideology attributable to him. From the third to the seventh paragraph, I delineated the policies and reforms implemented during Deng's political era, focusing on the evolution of the PRC's domestic Capital-Labour relationship. In the third paragraph the reader can find the crucial passages that led Deng Xiaoping to seize full control over the PRC. I included the abandonment of the "Two Whatevers" doctrine and, consequently, of the Great Leap Forward and the Cultural Revolution. I wanted to show the internal struggle that characterised the Chinese political milieu after Mao's death and the first steps of the PRC in leaving its isolation. For this paragraph I used as a main source Ezra Vogel's book "Deng Xiaoping and the Transformation of China". My decision to utilise for the most part of the paragraph only Vogel's work can be justified by two characteristic of the book itself: first of all, Vogel developed an extremely clear and accurate chronological representation of what happened in the PRC after Mao's departure, and this allowed me to be equally clear in my own analysis; secondly, I found the quality and variety of the events that the author decided to take in consideration perfectly in line with my own analysis. I found and even used in the Second Chapter other interesting work about the early post-Mao's era and Deng Xiaoping's rise, such as Minq Li's "The Rise of China and the Demise of the Capitalist World-Economy" (2008) or Barry Naughton's "Deng Xiaoping: The Economist" (1993), however I believe that Vogel's work was more complete and insightful regarding this topic, therefore my decision to develop this third paragraph by basically using only this book.

The remaining four paragraphs focus on the measure taken by Deng Xiaoping to progressively implement the so-called openness policy. In the fourth paragraph, I wanted to explain one of the most important measures among Deng's decisions: the creation of the Special Economic Zones (SEZs). The transformation of the

administrative and economic status of the Guangdong and Fujian regions allowed the foreign capitals to enter the PRC, albeit with some limitations. The fifth and the sixth paragraph identify the reforms and policies regarding the economic activities within the PRC: the fifth paragraph focuses on the abandonment of the Dazhai agricultural production model, while the sixth on the creation of the first private economic activities in the PRC. Then, I used the seventh and last paragraph of this Second Chapter to summarise the concept expressed and to pave the way for the topics of the Third Chapter: the post Deng's era and the PRC's structural problems.

I consider the Third Chapter a crucial passage for my analysis. My final objective is to demonstrate that the People's Republic of China is trying to achieve a role transition in the GVCs. In order to do so, I need to indicate how Beijing is planning to do so. It is not just a matter of understanding the means, for instance policies or reforms, but also to where these measures should be directed. In the first two paragraphs I wanted to describe the PRC's economic growth after the end of Deng's political era in the early 1990s. In particular, the second paragraph focuses on the liberalisation policies and reforms that characterised the PRC between the 1990s and the early 2000s. For this paragraph, I mainly used Yanrui Wu's book "China's economic growth" (2004). The reason behind my choice is related to the content of this work. In my opinion, the examples brought by Wu of where in the domestic economy the liberalisations were implemented are extremely interesting and I found the data regarding the PRC's economic growth, from those about the expansion of the different economic sectors to those of the country's GDP, clear and coherent with what I was looking for in my analysis. Moreover, Wu dedicates an important part of his work to the structural inequalities of the People's Republic of China and underlines how those years' economic growth alone did not solve them. The identification of the PRC's structural inequalities is fundamental for my analysis. In the third paragraph I deepened the discussion on this topic. These structural issues are of various nature (economic; quality of life; level of education; health) and they express themselves in the urban-rural conflict. It means that the PRC is historically profoundly divided within its borders. In

writing this paragraph, I wanted to be sure that the reader would understand how much these inequalities shape the country and its Human Capital. The PRC's Human Capital is what I consider one of the key concepts for my analysis. In fact, the whole fourth paragraph is dedicated to the PRC's Human Capital. For this paragraph I mainly used the Glawe and Wagner's study "The People's Republic of China in the Middle-Income Trap?" (2017). I consider this work very helpful for my analysis: the authors clearly demonstrate that the PRC's domestic inequalities directly affect its Human Capital. Beijing needs a Human Capital of a proper quality in order to avoid the other key concept of this analysis: the Middle-Income Trap.

The MIT is an economic condition that the PRC wants and needs to avoid; to do so, Beijing needs to achieve the transition in the GVCs.

The Fourth and final Chapter is dedicated to the measures that the PRC's government has been taking in the last years to implement the transition. I chose to take in consideration policies and reforms implemented in the rural, environmental and education sector. Moreover, I wanted to underline the evolution of the management of the PRC's domestic Capital-Labour relationship. Regarding the first set of policies, I chose to focus on those specific sectors because they are directly related to the domestic inequalities of the PRC. My hypothesis is that Beijing will be able to achieve the transition in the GVCs by improving its Human Capital; however, in order to do so the PRC needs to work in the sectors where the inequalities are stronger and more rooted. Last but not least, I thought it was important to show how, in my opinion at least, the PRC has been preparing its domestic Capital-Labour relationship to make the transition smoother and at the same time to facilitate the management of its socio-economic consequences.

In the Conclusion, I will develop a reflection regarding one of the most complicated issues regarding the People's Republic of China, which is whether the country is actually communist or not. Because Beijing strongly supports the representation of itself as a communist nation, I believe it is worth spending some

time trying to understand if the PRC's socio-economic organisation actually respects this narrative. I will use the findings of my analysis as a starting point.

1 THE GLOBAL VALUE CHAINS AND THEIR IMPACT ON PEOPLE'S REPUBLIC OF CHINA: THE RELATIONSHIP BETWEEN CAPITAL AND LABOUR ACTORS

This chapter will be dedicated to the understanding of the Global Value Chains as an economic system and the actors involved in it. My primary objective will be to pave the way for my analysis by underlining the characteristic of the macro-framework in which the People's Republic of China is trying to achieve its transition. Moreover, the second paragraph will be developed as a bridge between this First Chapter and the Second one.

1.1 The Global Value Chains: origin and characteristics

Globalisation is considered by the scholars a phenomenon old as civilization, existing since when the first cultures of mankind started to trade, exchange and learn from each other. It is a multidimensional (economic, cultural, religious, social etc.) human experience that has always been a part of us and that, naturally, has been evolving. We can subdivide Globalisation in several smaller phases, some of hundreds of years old, others of just a few decades old. The so-called “Second Globalisation” (the one we are living in) is one of these shorter phases and the economists argue that it has its own peculiar characteristics. One of these characteristics are the Global Value Chains (GVCs), a phenomenon so important that for the economist Richard Baldwin they progressively reduced the importance of the WTO in the global market regulation¹ despite the great majority of countries participating in the GVCs are also members of the WTO. I want to stress that not all economists agree on this about the GVCs, but I do share Baldwin’s point of view on them. This chapter aims to understand this intricate system of economic relationships and how the People’s Republic of China has entered it and how they are affecting the country. The traditional and broad definition of the GVCs states that:

“A global value chain or GVC consists of a series of stages involved in producing a product or service that is sold to consumers, with each stage adding value, and with at least two stages being produced in different countries.”²

Therefore, the GVCs are basically a value-add effective fragmentation of production on a global scale. Firms decide to transfer their production in countries where the cost of labour is way smaller than the one in their country of origin. Literature on the topic argues that they came into existence exactly for this reason, because “companies decided that it was more profitable to outsource some stages

¹ John Ravenhill, 2014, “Global value chains and development”, Review of International Political Economy, Routledge Taylor & Francis Group, University of Waterloo, Canada, pg. 268.

² Pol Antras, 2020, “Conceptual Aspects of Global Value Chains”, Oxford, The World Bank Economic Review, pg.553

of the production process”³. From the 80’s, the decade of liberalizations in which the Second Globalisation started, several firms began to transfer their production in the so-called third world countries, which were and are characterised by cheaper labour. Bigger and bigger amounts of capital commenced to flood towards these nations. Obviously, the participation of countries in the GVCs’ system varied for intensity and depth on the basis of their own characteristic, as the level of skills of labour, the natural resources they possessed, their geographical position and the related costs of transportation. For instance, countries of Africa and Latin America are way less involved in the GVCs than European and East Asian nations. In my opinion, the actors involved in the GVCs system can be subdivided in two main groups: the Capital actors and the Labour actors. The former are usually those firms which decide to transfer their production and to invest capitals in the Labour actors, which are those countries that provide the resources and labour force in exchange of capitals.

The effects of the participation in the GVCs’ system are a terribly intricate topic. There is evidence that they allow great economic expansions, with all their positive consequences, and contribute to the diffusion of technological development. Even the workers could experience an increase in their income, and consequently an improvement of their living condition, despite some of them can be marginalised as the least skilled in the job market⁴. Arguably, the main issue behind this economic phenomenon is that the GVCs are inherently inequality producers. The actual impact, positive and negative, of GVCs varies depending “on the participants’ functional specialisation as well as the functional specialisation of their GVC partners”⁵. This means that the GVCs’ effects are unlikable to be standardised, each case study will be different. Also, the relationship that emerges from the GVCs mechanism is fundamentally asymmetrical: the lead firms, that in this case represent the Capital within the

³ John Ravenhill, 2014, “Global value chains and development”, Review of International Political Economy, Routledge Taylor & Francis Group, University of Waterloo, Canada, pg. 265

⁴ Pol Antras, 2020, “Conceptual Aspects of Global Value Chains”, Oxford, The World Bank Economic Review, pg. 560.

⁵ Petr Pleicha, 2012, “Who Benefits from Global Value Chain Participation? Does Functional Specialization Matter?”, Charles University and the Economics Institute of the Czech Academy of Sciences, Prague, Czech Republic, Elsevier, pg. 291.

relationship, find themselves in a position of great advantage in comparison to those countries, that in the relationship represent Labour, where they move their production's chains. Several studies show how during negotiations underdevelopment countries, most of the time, are forced to adapt themselves to the request of the lead firms⁶ It could not be immediately clear why this relationship has developed in this way, but we can try to figure it out: first of all, the fragmentation of production on a global scale gives an enormous advantage to the lead firms by allowing them to have a wide range of choice when it comes to decide to whom assign the production phase. This means that those countries that represent the Labour have to face a huge competition, which will push them to act for their own interest rather than a common one. This is the reason why, during negotiations, they tend to find themselves in a condition of disadvantage. Also, we should not take for granted that most of the governments of these countries would prefer, or that they are even able, to fight for fair working conditions for their citizens over receiving capitals from the leading firms. Last, but not least, it is important to underline the typical nature of the Capital-Labour relationship in liberal economies: Capital exists in a condition of command on Labour; therefore, in these "third world" countries the actors that embody Capital can behave as powerful political entities by controlling Labour in several aspects: rhythm of production, salaries, working conditions etc. Obviously, the sovereign nations that offer the Labour in the relationship could develop and implement political measures to protect their Labour force, but these measures could enormously reduce their appeal within the global market because it would make the cost of Labour rise in their territories.

Anyway, the GVCs, as any other human system, in the future will probably experience changes in their inner balances. The technological development and the rising tensions between the United States (the hegemonic power of our time) and their competitors could change the shape and nature of global production⁷ This means that certain countries could change the role they are playing in the

⁶ John Ravenhill, 2014, "Global value chains and development", Review of International Political Economy, Routledge Taylor & Francis Group, University of Waterloo, Canada, pg. 266.

⁷ Pol Antras, 2020, "Conceptual Aspects of Global Value Chains", Oxford, The World Bank Economic Review, pg. 570.

GVCs. The main issue behind this revolution of the GVCs' *status quo* lays in the cost of researching and implementing the technological developments needed for these changes⁸. Therefore, the firms of the "first world" countries will always have the high ground in protecting their leading position, having more capitals to invest in the field.

One of the few nations with this kind of possibility is undoubtedly the People's Republic of China (PRC), but several challenges are waiting for Beijing on this path of economic "revolution".

Before proceeding towards the analysis of China's case study, it is important to clearly define the political implications of the GVCs' participation. As already stated, all the actors (firms, sovereign countries etc.) involved in this global phenomenon coexist in a condition of competition, even for survival sometimes. Very often, the governments have to develop policies directly related to the GVCs' system. Non-protectionist trade policies and bilateral, or even multilateral, trade agreements are extremely common within the GVCs. On the domestic level, most of the policies related to the GVCs are the ones of upgrading, which could be extensive or intensive: governments will invest money in education, technological research, and infrastructure. The richer countries want to preserve their advantage in the GVCs, the poorer nations aim to make the "jump" to change the role they play and, therefore, avoid remaining stuck in the so-called "middle income trap" or they simply want to take part to a GVC rather than creating one by their own⁹. In economy, the word "trap" refers to a condition of extremely stable equilibrium that cannot be overcome with short-term measures: the system will always come back to its initial condition after a small amount of time. The economic development in East Asia has been divided in several phases: Malthusian phase (M-phase), the government-led development phase (G-phase), the Kuznets phase or the structural changes phase (K-phase), the human-capital development phase (H-phase) and the post-demographic transition phase (PD-phase). The transition from a phase to a higher one means that a country has been

⁸ John Ravenhill, 2014, "Global value chains and development", Review of International Political Economy, Routledge Taylor & Francis Group, University of Waterloo, Canada, pg. 267.

⁹ Ivi., pg. 265.

able to break an economic “trap”; overcoming the “middle-income trap” would result in a passage from the K-phase to the H-phase¹⁰. The PRC, in its journey to world economic hegemony, is facing the challenge of modifying its role in the GVCs, by working on its domestic economy and on its internal Capital-Labour relationship, and to do so it needs to break the “middle-income trap”.

1.2 The PRC inside the GVCs

The case of China, one of the most astonishing economic growth due to the GVC’s participation, is the one of our interests.

Until the 70’s of the 20th century China was economically isolated: the country was alien to the global free market and its domestic economy struggled. The People’s Republic of China’s economy was mainly agricultural, with a very poorly developed industrial sector. Most of the population was working in the fields and the planned economy doctrine, embodied by Mao’s five years plans, seemed ineffective in generating economic growth. We will analyse more in depth the characteristics of PRC’s economy, and reasons why the industrial revolution did not have the same impact on China as the one it had on the West, in the Second Chapter. The only thing I feel to anticipate is that, after Deng Xiaoping’s reforms were implemented, the PRC’s appeal for global capitals did not just come from the cheap costs of its labour, but also from its high quality.

We already identified one of the most important characteristics of the PRC’s economy when the country entered the GVC’ system. Therefore, a question arises: which is the nature of the GVCs’ effect on the PRC?

First of all, it is essential to define, at least in a general manner, what consisted of the reforms of Deng Xiaoping. One of the turning points for the economy of the PRC was the revolution in the Chinese socialist doctrine promoted by Deng.

Since the 1960s Deng Xiaoping was part, together with Liu Shaoqi, of that faction of the CCP (Chinese Communist Party) that argued that the Party should have stopped focusing on the class struggle and instead should have promoted

¹⁰ Fang Cai, 2012, “Is There a “Middle-income Trap”? Theories, Experiences and Relevance to China”, *China & World Economy*, Vol. 20, pp. 51-52.

economic development, without abandoning Socialism. From an ultra-leftist they moved to a pragmatist interpretation of the socialist doctrine¹¹.

In 1979 Deng was effectively in charge of the leadership of the CCP and a season of social and economic reforms began. As already stated, I will focus on the evolution of the Chinese economy in the Second Chapter. Taking in consideration that the Third Chapter will be dedicated to how the PRC is handling its internal relationship labour-capital and its nowadays role in the GVCs, what is left for this chapter is to assess how the PRC posed itself in the labour-capital relationship of the GVC's system after opening itself to the global market.

China entered the globalised market playing the only role possible: an enormous labour hub. The relationship between Labour and Capital changed: if under Mao Labour was a “state-controlled and organised class”, during the reforms the centralised State (the Party) made of Labour a simple tool to attract Capital¹². It means that on a global scale the PRC still was a Labour actor in the GVCs' system; instead, the domestic framework was characterised, and it still is, by a more complex and articulated subdivision: State and Labour as a class were not the same thing anymore, the Chinese political class changed, and Capital was apparently gaining more and more power in the Chinese society. The relationship Labour-Capital in the PRC is commonly defined as State Capitalism.

Since the 1980s, the GVCs' participation has brought several changes, positive and negative, in the People's Republic of China. Regarding the positive outcomes, the most evident change was the incredible economic growth that the country had and has been experiencing. In 2010, China became an upper middle-income country by reaching a per capita GDP of US\$4382¹³ (Fang Cai, 2012). This led to an improvement of the living condition of the citizens, especially of the skilled workers, but there are several downsides for the RPC's economic strategy that could not be immediately obvious. As afore-mentioned, China's competitive advantage in the GVCs came from its capability to provide an enormous amount

¹¹ Minq Li, 2008, “The Rise of China and the Demise of the Capitalist World-Economy”, London, England, Pluto Press, pg. 56.

¹² Eli Friedman; Ching Kwan Lee, “Remaking the World of Chinese Labour: A 30-Year Retrospective”, British Journal of Industrial Relations, pg. 508

¹³ Fang Cai, 2012, “Is There a “Middle-income Trap”? Theories, Experiences and Relevance to China”, China & World Economy, Vol. 20, pg. 56.

of skilled Labour. With the rising wages and the ageing of the population, and therefore the decreasing number of working citizens' number, the PRC has been losing this competitive advantage and its economic growth has been slowing down. Moreover, the whole country is characterised by domestic migration from the rural areas to the urban centres, especially to the special economic zones (SEZ), and by migration towards foreign countries; this depopulation process is contributing to enhance the disparities within the county and to jeopardise the development of an effective planned economy by reducing the amount of labour in the PRC, which makes it more expensive in the global market. In the past, other countries, such as Japan and South Korea, found themselves in similar situations and risked remaining stuck in the middle-income trap. Thanks to the right measures, as investments in research and education, they were able to shift from the K-phase to the H-phase smoothly. The PRC is in the same situation right now and Beijing needs to achieve the shift as quickly as possible to avoid the middle-income trap, in which the country seems already to be blocked in.

Despite having more or less effective examples of this transition from the past, the People's Republic of China will have to find its own way to implement this "revolution" in the GVCs, and domestically, and it depends on two main factors: first of all, this country is extremely peculiar when it comes to its economic and social characteristics. In the Second Chapter I will develop an overview of China's economy during the 20th century before and during Deng's reforms, that will help us to better understand the present situation. Secondly, the People's Republic of China has developed a specific Capital-Labour relationship in its economy (the State Capitalism) coherently, or maybe not, with the political doctrine of the CCP. In the Third Chapter I will analyse which are the political measures that Beijing is implementing to achieve the transition taking in consideration the specific Capital-Labour relationship presented in the First Chapter.

2 AN OVERVIEW OF CHINA'S ECONOMIC HISTORY IN THE 20TH CENTURY

This chapter will be focused on the economic history of China in the 20th century. In order to understand the challenges that the PRC is facing today in its economic transition within the GVCs' system, it is fundamental to define which are the peculiar economic characteristics of this country: in which ways the Capital-Labour relationship developed, how the industrial revolution affected, or did not, the country's economic development, what structural and contingent economic features characterised China during the 20th Century. In the first paragraph I will assess the reasons why China did not experience an industrial revolution by using Giovanni Arrighi's "Adam Smith in Beijing" (2007). Then, in the following paragraphs, I will dissect, focusing on certain pivotal events, the evolution of the PRC's economy from Mao to Deng Xiaoping through Ezra Vogel's point of view in his book "Deng Xiaoping and the transformation of China" (2011).

Once we have determined all these elements, the work of analysis of the Third Chapter of how the PRC is transitioning from a Labour focused to a Capital focused economy will be easier.

2.1 China and the Industrial Revolution: the high-equilibrium trap issue

As aforementioned in the First Chapter, before Deng's reforms the PRC struggled to transform its economy from an agricultural one to an industrial one, despite having a huge amount of labour force. It did not just depend on the inefficiency of Mao's five years plans, but from the fact that China was never really touched by the Industrial Revolution itself. This concept is well explained by Giovanni Arrighi in his book "Adam Smith in Beijing" (2007).

It is interesting to see how during the 18th, while the western countries were characterised by conflicts between each other, domestic turmoils, revolutions and general instability, the Chinese Empire of the Qing's dynasty was experiencing a golden age characterised by general prosperity, peace and an incredible population's growth. Several European intellectuals and philosophers, such as Leibniz, Voltaire and Quesnay saw China as "model state" economically, on an administrative level and even morally¹⁴.

Therefore, it may seem surprising that in the 19th century the western powers became the hegemonic entities of the world, a role they are still playing nowadays, and the Chinese Empire began to slowly deteriorate until its definitive end during World War II. Economically what happened is called "The Great Divergence": the industrial revolution allowed the western countries, not all of them obviously, to achieve an economic and technological development that separated them from the other countries of the world. These gaps manifested themselves in history through the conquest of the rest of the globe, or at least most of it, by the western powers. The Chinese Empire was one of the victims, incapable of keeping pace economically and militarily; the two concepts are strongly correlated, with the United States and the European powers.

There are several reasons that can explain why China was not really touched by the industrial revolution and its advantages, and disadvantages, until Deng's reforms. We need to analyse this concept more deeply to understand its roots in the Chinese system.

¹⁴ Giovanni Arrighi, 2007, "Adam Smith in Beijing", England: London and USA: New York, Verso, pg. 3.

As we have seen, Arrighi (2007) argues that China was experiencing a growth without development that later caused “The Great Divergence” with the Western powers. China’s population was growing rapidly, and wealth was widespread all over the country, but that was it. There was not a real development. To quote Arrighi , “Europe was growing along an evolutionary trajectory headed towards unlimited economic improvement, while China was growing along an “involutionary” trajectory of growth without development characterised by decreasing returns to the increasing number of days worked annually.”¹⁵ Arrighi (2007) argues that both the economies of China and of the Western powers were working following Smithian Dynamics: the core of this economic concept is that in an economic system growth depends on the increase of production (Labour) specialisation, which is what determines a nation’s wealth for Smith, that is caused by an expansion of the market. Then, the economic growth generates an expansion of the market and the process keeps reproducing itself, until it reaches the limits, structural and institutional, of the economic system and the economy remains stuck in a high-equilibrium trap. The main difference between the Western powers and China was that the first were able to break the Smithian Dynamics through the industrial revolution, while the latter remained stuck in the trap. What allowed the Western powers to achieve the Industrial Revolution, and therefore to break the trap, was how the Capital-Labour relationship developed: in these countries economic expansions were characterised by labour shortages that led to a capital surplus. This surplus generated the Industrial Revolution. On the other hand, China’s economic expansions were characterised by labour surplus and capital shortage, which pushed the country towards the high equilibrium trap. China, but in general East Asia, between the 16th and the 18th experienced an “Industrious Revolution” rather than an Industrial one. We are still referring to a market-based economy which allowed China to escape the Malthusian trap, therefore the incredible population growth, and it is not to be intended as an introductory phase to the Industrial Revolution. They are two completely different phenomena characterised by different developments of the Capital-Labour relationship. The

¹⁵Ivi., pp. 24-25.

Industrious Revolution generated in China an economic model incapable of producing naturally huge amounts of capital and that was based on a small-scale domestic economy, not a class-based one. Each household was the economic unit of the country and millions of workers developed advanced and various working skills, rather than being specialised in only one. The root of the highly skilled Chinese labour force lies there. The structural differences do not end here: certain cultural and social characteristics of China, and in general of East Asia, allowed trade and innovation's costs and risks to remain low. The outcomes, anyway, were technological developments for a Labour-intensive economy, enough to employ all the members of the households. Again, we have proof that China was following a completely different path from the West¹⁶.

The fact that China during the 18th century was experiencing a period of great wealth did not mean that the country was ready to become a hegemonic actor on a global scale; its intrinsic economic conditions, as we have seen, were completely different from those of the countries that in the same age experienced the industrial revolution.

These economic features also characterised countries of East Asia, such as Japan. An interesting aspect of the Industrious Revolution was that it gave to the nations where it happened a set of tools for which, when the right conditions appeared, they were able to fill the gap of the Great Divergence in a record time. They were able to merge their labour-intensive models to the capital ones of the West once they opened themselves by progressively converging to it. Japan and South Korea were among the first, as we have seen in the First Chapter, then others came, such as China. Their effective growth model met a development model and adapted to it, and the Chinese experience is a primary example: an enormous country characterised by a huge and extremely skilled working population began an astonishing path of economic development once it allowed foreign capital to enter its borders. Many things had to change for this to happen, the households ceased to be the economic backbone of the Yellow River nation, workers have become more and more specialised, gathered in factories to work shifts established by actors (the lead firms) alien to the CCP. The People's Republic of China seemed

¹⁶ Ivi., pg. 32

to have taken an absurd path, to have abandoned the revolution, to have betrayed socialism and the proletariat. Now, we need to analyse in depth the decisions and reforms of Deng Xiaoping regarding their economic, philosophic and political dimension.

2.2 The People's Republic of China's economy under Mao and the rise of Deng Xiaoping

In 1949 the People's Liberation army, after having defeated the Nationalist counterpart, definitely seized power in China. Mao Zedong and the Chinese Communist Party established the People's Republic of China, a new actor ready to play an important role in the global chessboard. Or at least, this was Mao's intention. The first decade of life of the People's Republic of China did not exactly follow a path of glory and hegemony.

The Chinese Communist Party and Mao had to face several challenges since the early years of their government on China: on one hand the whole nation needed a process a reconstruction after the mayhem that World War II was for China, considering that several cities were completely destroyed, millions of people died and even more were living in conditions of poverty and extremely discomfort; on the other hand, the whole country needed to be completely reformed, in its organisation, on a social and economic level coherently with the Socialist ideology.

Before introducing and analysing the reforms of Deng Xiaoping I want to give a clear, despite general, idea of which were the characteristics of the People's Republic of China during Mao's era.

The process of reorganisation of the Chinese's society and economy was not immediate. For instance, the process of nationalisation of enterprises did not start consistently until 1956. In the previous years a good amount of China's industry output (around the 40%) was still coming from private enterprises. Even the countryside begun to be touched by this process of transformation, but less effectively. In the early 1950s the CCP started to implement redistribution policies which initially did not really change the *status quo* that characterised rural China: despite the powerful landlords' ownings were seized and redistributed among the

landless peasants, an actual equality was not immediately reached. Disparities and privileges did not cease to exist from day to night¹⁷.

It is important to underline that the Chinese Communist Party's members did not unanimously agree on how to wage these reforms and, in some cases. For instance, certain high-level members of the Party thought that technological development was necessary to achieve a collectivised agricultural system in the country; on the other hand, others thought that strict limitations of the small-scale economic activities (the aforementioned household economic units) of the citizens could have generated some dangers for the Revolution¹⁸. As we can see, the main issue the Party faced was how to manage the huge amount of Labour and scarcity of Capital that characterised China. The People's Republic of China seemed to have inherited the same economic features that left behind the Qing Empire during the Industrial Revolution.

In the countryside, the means of production were collectivised. The farmers, so the Labour, were organised mainly in cooperatives of agricultural production with a few exceptions of farmers organised in agglomerated households. During the Great Leap Forward (1958-1960) hundreds of thousands of these agricultural cooperatives were merged in agricultural communes. Agricultural production's outcomes were standardised and expected to follow a certain pace. Even the industrial sector was organised in a centralised and state-controlled manner; in the early years of the PRC the aid of the USSR was fundamental for China to modernise, some could argue even to create, its secondary sector¹⁹. I do not want to focus on the results of the reorganisation of the Chinese economy, rather on the Capital-Labour relationship that was established in the People's Republic of China at that time. In Mao's China the Labour, embodied by the workers in factories and the farmers in the fields, found itself in a dominant position over the Capital factor. On the other hand, the Capital, represented by the means of production, was given by the central government, which overlapped with the Chinese Communist Party, to the labour force. The latter used the means of

¹⁷ Minq Li, 2008, "The Rise of China and the Demise of the Capitalist World-Economy", London, England, Pluto Press, pg. 27.

¹⁸ Ivi., pg. 28.

¹⁹ Ibidem.

production following the rhythms established by the government, and not by those established by political and social actors that embodied the Capital itself. It is important to underline that the CCP was the political representation of the Labour force, at least on an ideological level, and that the decisions of the Party were taken in the interest of the workers. For instance, in 1956, during the 8th congress of the CCP, the party leaders declared that the exploiters' class ceased to exist in the country²⁰. One of the main issues that arose was that in Mao's China the Labour-Capital relationship was not very different in comparison to the one within the Qing's Empire. Surely the means of production were different in nature, but even the PRC lacked that excess of Capital necessary to achieve economic development and not just economic growth.

Mao's political and economic decisions, especially the Great Leap Forward and the Cultural Revolution, have always been extremely controversial topics for the scholars. I do not want to demonstrate if Mao's reforms were effective or disastrous for China, it is not useful for the purpose of my dissertation. What I want is to analyse the changes in the Labour-Capital relationship in the PRC starting from an objective historical fact: the Chinese Communist Party and Deng Xiaoping distanced themselves from Mao's Cultural Revolution, but without abandoning certain traditional features of the Chinese Revolution²¹. Before analysing the reasons behind the decisions of the Chinese Communist Party and Deng Xiaoping and how they affected the People's Republic of China, I think it is necessary to do a little biographic *excursus* on Deng's political career in the CCP.

Deng Xiaoping was, since 1949, one of the high-level members of the Chinese Communist Party. After the revolution, in a few years, he was able to climb the hierarchical scale of the Party: in 1953 he became Minister of Finance, then in 1954 he was appointed as Secretary General of the CCP Committee. During Mao's era, Deng reached the peak of his *cursus honorum* in 1956, when, right after the eighth Congress of the Chinese Communist Party, he was appointed as

²⁰ Ivi., pg. 31.

²¹ Giovanni Arrighi, 2007, "Adam Smith in Beijing", England: London and USA: New York, Verso, pg. 368.

General Secretary of the Central Committee. He kept this position until 1967, when he was purged, twice, during Mao's Cultural Revolution. We can already see from where Deng's aversion for a part of Mao's legacy came from.

Before his purge, Deng performed different tasks within the framework of the Chinese political class. Most of them were economy related, and between 1957 and 1966 Deng took part actively in important decisions for his country. For instance, as a Minister of Finance he supported the introduction of incentives in the Chinese taxation system or, right after the crisis sequent to the Great Leap Forward, he directly oversaw and managed several rehabilitation measures for the economy²².

One of the biggest issues related to Deng Xiaoping is the definition of his economic viewpoint. Despite many documents on his economic decision-making activities surviving until our days, there is a lack of information regarding specific and well detailed socio-economic theories from Deng himself. A part of his contribution to the "70 Articles on State Industrial Enterprise Work", document for which he was punished during the Cultural Revolution and in which Deng expressed his idea that economic problems needed a systematic and authoritarian approach, today we do not have much left of his ideological legacy during the Mao's era²³.

While Mao was the Chairman of the CCP, the political-economic orientation of the policies implemented in the People's Republic of China changed several times: periods of great economic growth were followed by huge economic crisis, as well as the great collectivisations and the organisation of the socio-economic system (the Five Years plans) in a centralised manner were alternated by moments of economic rehabilitation and liberal, despite non radical, reforms. In this chaotic roller-coaster of economic policies, we cannot find an independent theoretical standpoint, either economic or political, that we can attribute exclusively to Deng Xiaoping. Deng always participated in the implementation of the policies, no matter what their content, indicated by the establishment with great pragmatism

²² Barry Naughton, 1993, "Deng Xiaoping: The Economist", Cambridge University Press on behalf of the School of Oriental and African Studies, pg. 493.

²³ Ivi., pg. 494.

and vigour. These two features always characterised him as an administrator, but that was it. He almost never gave an ideological contribution, a part of his position on Chinese Socialism shared with Liu Shaoqi mentioned in the First Chapter. A very good example of this was his role during the Great Leap Forward: Deng participated with great commitment and showing great support both during the implementation of the campaign and in the framework of the economic recovery plans post-Great Leap Forward²⁴. In this occasion, and in several others, he played a relevant role from different stances of the same issues. Like the Homeric Ulysses, Deng seemed to be an *ανηρ πολυτροπος* (a multi-faceted man), capable of adapting to the situation and being effective. Certainly, he had the opportunity to accumulate a lot of experience during Mao's years.

What transpires from Deng Xiaoping's *modus operandi* is that the Chinese politician was absolutely coherent regarding his approach to work (commitment, organisation, regularity etc.) but he was a shapeshifter when it came to the theoretical shell of the methods. The most important thing was to achieve the result, the final objective. It is renowned his quote "it doesn't matter if a cat is black or white, so long as it catches mice"²⁵.

This perspective on the political figure of Deng Xiaoping, therefore, makes his reforms of the late 1970s to appear less radical, not for the system in which they were applied rather for by whom they were developed and promoted.

It is arguable that Deng's unorthodox *modus operandi* was one of the biggest points of rupture with Mao that later led to his purge during the Cultural revolution. For instance, in 1962 Deng supported an experimental policy regarding the management of the labour force in the countryside, which was to shrink the farmlands to households (a shift in the economic units in the countryside basically). Mao was infuriated with Deng and declared that he was deviating too much from the orthodoxy established by the Party. The interesting thing was that Deng did not theorise the content of the policy by himself, but he was simply taking in consideration certain considerations that Mao made just a year before regarding the organisation of Labour in agriculture. This example is

²⁴ Ivi., pg. 495.

²⁵ Ivi., pg. 496.

proof of two previous statements: 1) Deng Xiaoping basically did not left us any original socio-economic theory, but just a very characterising approach to the State management; 2) Deng worked following a sort of results oriented incremental approach, based on attempts and adaptations, while Mao tent to be more rigid e strict to the orthodoxy he established as Chairman of the Party.

The ambiguous, and conflictual, relationship between Deng and Mao went on until Mao's death in 1976. After being purged for the first time in 1969, in 1973 Deng was recalled to Beijing and there he quickly regained his lost power. In 1975 he was second only to Mao in the hierarchies of the Chinese Communist Party. Deng seemed not to be there to implement policies thought and designed by other, he was ready to finally leave his own "watermark" on the governance of the People's Republic of China. These years can be considered an important turning point for our analysis: there, we can see the first glimpses of the reforms of the 1980s. For instance, in 1975 he strongly promoted several policies, mainly focused on a fast economic growth, that carried distinct elements of Deng's ideological originality. He stopped to be a simple administrator, a policy implementer, a mere technician: he was ready to become a leader in the Party²⁶. His new ambition did not pass unnoticed and in 1976 he was purged again. This new exile from the Chinese establishment did not last long; in 1977 he was able to return from the exile and he gained, again, a relevant amount of power. By 1978, every single policy needed Deng's approval before being implemented and in 1979, after Deng formed a sort of triumvirate with Chen Yun and Li Xiannin, a season of important economic reforms begun²⁷. Mao was dead and nobody in the Party could oppose Deng. This is the starting point of our analysis, the moment when China opened itself to the world the Capital-Labour relationship of this country forever changed.

²⁶ Ivi., pg. 498.

²⁷ Ivi., pg. 500.

2.3 Deng Xiaoping's reforms: a new economic path for the People's Republic of China through Ezra Vogel's analytical point of view

An interesting difference between Mao and Deng was how they decided to present themselves within the framework of the Chinese Communist Party. Mao was the Chairman of the CCP, the face, the soul and the mind of the Revolution itself, he built for himself a cult of his personality and he did not spare those who tried to oppose his view. On the other hand, Deng, even when he was the most powerful figure in the whole Chinese political establishment, always preferred to keep a more hidden role; he did not want to hold the most important political offices in China, he chose to play the role of the supervisor over the policy processes and wanted to be sure they followed his schemes.

In the post-Mao era, the first important achievement of Deng Xiaoping was to make the CCP change its strategic focus on the economic level: in 1978 Deng, in the framework of the Third Plenum, strongly supported that the PRC needed to start implementing policies aiming to the economic development of the country. Even though he was not the first and did not a particularly eloquent statement, in the past Zhou Enlai already stressed this necessity, Deng was the one able to make the Party understand the importance of this change of direction for China²⁸.

For Deng Xiaoping the economic development of China could begin only through working on two specific features: scientific and technological development and the construction of a "responsibility system". The first concept is pretty simple: technological advancements allow a country to achieve economic development through the improvement (quantitative and qualitative) of the production's outcomes and the reduction of its costs. On the other hand, Deng was referring with the concept "responsibility systems" to the relationship between the political establishment and the Labour force: it was necessary that the work leaders and factory managers became more independent in the management of their production units and that the Party Committee moved its focus from supervising the day-to-day activities of factories to the development of organisational and economic macro strategies for the country²⁹.

²⁸ Ivi., pg. 501.

²⁹ Ivi., pg. 498.

The new strategy of Deng was not related only to a new organisation of the People's Republic of China domestic economy. The country needed to open itself to the world. Until then, China had an open relationship with a very small number of countries, all of them communist. Even the high-level officials of the Party could not travel freely. The year 1978 was a turning point for this specific issue; Deng understood that China needed to build new international connections. For instance, that year several delegations of the Chinese communist party started to visit countries all over the world. Li Yimang, deputy head of the International Liaison Department of the Communist Party, visited Romania and Yugoslavia. The interesting aspect of the latter visit was that Yugoslavia was considered by the Chinese establishment as an "unorthodox" or "revisionist" communist party, incompatible with the Chinese interpretation of socialism. After that event, this definition of Yugoslavia was lifted. Another relevant and historic journey was the one of the Gu Mu's delegation. Gu Mu was a very high-level official of the Party who worked in the framework of economic policies. This trip, in which the delegation visited France, Switzerland, Germany, Denmark and Belgium, had a huge symbolic and practical meaning for the People's Republic of China: it told the world that the country was ready for something new, for a new path in its history³⁰.

The Gu Mu delegation's trip had some profitable outcomes: several of the European countries visited expressed their will to lend money and technology to China. Also, the delegation's members were shocked by the fact that those capitalist countries were very different from the perception they had in China. The members of the delegation were surprised by the wealth that characterised, even among the working classes, these nations and by how much their representatives were welcoming towards the Chinese delegation. In his report on the journey to the Politburo, the Gu Mu delegation gave a positive depiction of the West and stressed that the European countries were ready to invest in China to benefit from the incredible productive potential that the country had³¹.

³⁰ Ezra F. Vogel, 2011, "Deng Xiaoping and the Transformation of China", Massachusetts: Cambridge, and England: London, THE BELKNAP PRESS OF HARVARD UNIVERSITY PRESS, pg. 280.

³¹ Ivi., pg. 283.

In my opinion, we can define the first years of the post-Mao era as those of the “epiphany”. The establishment of the Chinese Communist Party started to understand that reality was more complex than they thought, and that growth and development could be achieved in ways considered unacceptable in the past.

Deng was enthusiastic after hearing Gu Mu’s report and insisted that the suggestions contained in the document, even that of accepting monetary loans from foreign countries, should have been followed as soon as possible. The Chinese leaders saw in the textile industry the right starting point for this economic “revolution”, mainly because the sector was not very effective production-wise and a quick development would have shown the world what the PRC was capable of, and that would have attracted investors. This new phase for China, in order to start and successfully develop, needed the right structural condition: not only the country had to own the adequate industrial system to do so, but it was necessary to create a bureaucracy that allowed foreign investors, so capitals, to operate in the People’s Republic of China³².

As we can see, China was about to play a certain role in the global economy, that of the Labour actor, and allow new subjects, the Capital bearers, in his domestic system with all the following consequences.

The strategy for the new economic era of China was developed in the 1978 “Forum on Principles to guide the Four Modernizations”. This strategic meeting, that lasted from July to September 1978 and was subdivided in twenty-three conferences, aimed to identify which were the right measures to begin the season of economic reforms. The outcome of this “Forum” was a powerful statement: the People’s Republic of China, in order to achieve a high level of development by 1985, should have imported US\$18 billion worth of goods to use to modernise the economic system. Before entering into the specifics of the reforms and economic policies of the PRC, I think it is important to underline that Deng did not actively participate in the “Forum”. At the time, he was focusing on other topics, such as education, science, technology etc; Deng just read the reports of each meeting³³.

³² Ivi., pg. 284.

³³ Ivi., pg. 285.

This behaviour, which could seem disinterested, several times characterised Deng Xiaoping and we will see other examples of it.

The Party officials who participated in the Forum were all, or at least most of them, extremely enthusiastic of the outcome. The reports of the Gu Mu's delegations generated a general sense of positive thinking and they saw hope and glory in the next ten years for the People's Republic of China. Anyway, the majority of them did not let themselves be overwhelmed by these new feelings and sensation; the party officials decided that the entrance of the foreigners, and their capitals, in the Chinese economy should have been mitigated by the governments. Skilled appointed members of the Party would have become gatekeepers and overseers in the framework of these economic reforms. One of the most cautious officials was Chen Yun, who insisted on the necessity of the mitigation of the Chinese institution in the Chinese economy's opening process. He was also one of the Party members that at the time of the Great Leap Forward expressed his doubts on the great faith poured onto the economic plan. In 1962 he was purged by Mao. On the other hand, Deng Xiaoping show an extremely positive mindset regarding the topic and, joking, asked why just 18billions and not more³⁴.

The moment that *de facto* started the season of Deng's reforms was the Third Plenum of the 11th Party Congress. The meeting was opened by Chairman Hua Guofeng, who also defined the main topics to discuss: the economic agricultural plan for the 1979-1980 biennium. The Plenum was decisive because it definitely determined the winner, politically wise, between Hua Guofeng and Deng Xiaoping. Chairman Guofeng was an interesting figure: he was the one that, after Mao's death, ended the Cultural Revolution and made the Gang of Four to be arrested, and at the same time was a firm believer of the "Two Whatever's". The "Two Whatever's" was a publication written by Chairman Guofeng himself in 1977, where he stated that the only plausible path for the People's Republic of China was to follow blindly the instructions given by Chairman Mao. Deng saw in this theory a huge limitation for his economic reform plans. Hence, since when it was published, he attacked the "Two Whatever's", but never directly Hua

³⁴ Ivi., pg. 287.

Guofeng, by saying that it was not what Mao would have wanted for his beloved country. The 1978 Third Plenum was the context where Hua Guofeng understood that the “Two Whatevers” did not have the support he hoped from the high-level members of the Party. The more reformist point of view of Deng Xiaoping prevailed³⁵. The theoretical principle that prevailed over the “Two Whatevers” was the so-called “Practice is the sole criterion for judging Truth”. The principle was developed by a philosophy student, Hu Fuming, in 1978 and was taken in consideration by the Party officials who opposed Hua Guofeng. The principle brought a more dynamic and incremental interpretation of Marxism, where it was possible to make changes in the doctrine and the only way to find the truth on the effects of a decision was to see the impact on society. It was almost the perfect opposite of the granitic “Two Wathevers”. Anyway, what happened in the 1978 Third Plenum did not lead to an absolute concentration of power in Deng’s hand. Following Marshal Ye’s suggestions, who strongly believed that one of the biggest issues of Mao’s governance was that he held too much power, Deng always tried to cooperate with the other Party’s members and even with Hua Guofeng, despite their ideological divergence³⁶.

2.4 The establishment of the Special Economic Zones

The first radical step for the economic revolution China had to implement was to start allowing goods, and therefore Capitals, to enter the country. The two main decisions to take in this specific framework were how and where. The answer was the creation of the four Special Economic Zones in the regions of Guangdong and Fujian. These areas became the only ones authorised to open themselves to the world market and the way they were structured gave some advantages to the political establishment of China.

In my opinion, the best way to think of the SEZ (special economic zones) is as parts of China under glass domes. Under these glass domes, the Capital-Labour relationship worked differently from the rest of the country: there, capitalistic economic activities were allowed, which can be translated in economic

³⁵ Ivi., pg. 292.

³⁶ Ivi., pg. 303.

developments as well as increasing inequality among the citizens. At the same time, the features of everyday political life could have been affected: in the Capitalistic states those who held the capitals had more influence and obtained more political power. Therefore, citizens accumulating capitals could have become a threat for the Party. Hence, it was important that the SEZs were isolated from the rest of China.

These peculiar characteristics of the SEZs aimed to attract foreign investments. The Guangdong region, in particular, was not chosen by chance to implement this revolutionary policy. In that area of China, the southeast of the country, Hong Kong was located. At the time, the city was still under British control and, obviously, its economy was regulated following the rules of the free market. For Beijing, Hong Kong always created a huge number of problems related to migrations: for decades thousands of young Chinese citizens escaped to Hong Kong attracted by the higher living conditions and the economic opportunities that the city offered.³⁷ This phenomenon caused a reduction of the working force in the region, and, at the same time, it was a symbolic defeat for the People's Republic of China: Chinese youth preferred the capitalistic and Western economic and social model proposed by Hong Kong and escaped by the Marxist one of the PRC. For a long time, the central government in Beijing tried to contrast this migratory trend through restrictive measures, such as border controls and the prolonged detention of the arrested transgressors. Deng Xiaoping had the opportunity to analyse closely the problem in 1977, when the Central Military Commission met him in Beijing and explained to him thoroughly the problem of the illegal migration towards Hong Kong and how they were not able to stop it despite all the deterrents (arrests, detentions etc.). Deng understood that the solution was not to be found in the limitations, rather in the creation of a proper alternative. Moreover, the south-eastern coastal areas of Guangdong and Fujian were historically among the richest of the whole country. Hence, the Special Economic Zones were created, a useful tool both to begin the economic development of the People's Republic of China and limit the migration to Hong Kong (and all the related side effects). The last main issue to start the "engine" of

³⁷ Ivi., pg. 484.

the SEZs was the lack of foreign currencies needed to import the technologies from abroad to renew the Chinese industry. Deng proposed, as a solution, the creation of collection facilities to gather a great quantity of agricultural products to sell in order to gather the money needed³⁸.

The four Special Economic Zones (three in Guangdong and one in Fujian) were officially created in 1979 after months of intense bargaining among the high-level members of the Chinese Communist Party. Deng Xiaoping, Gu Mu, Hua Guofeng and Xi Zhongxun (Xi Jinping's father) with great patience and perseverance had been able to impose their point of view.

The four SEZ, especially those in the Guangdong region, became “economic laboratories” for Deng Xiaoping; there he could implement economic experiments and, coherently with the “Practice is the sole criterion for judging Truth” principle, verify their effectiveness, their positive and negative effects, and their social implications directly on a sample of the Chinese population. It is important to stress that some of the high-level Party officials were a bit worried that these new “Special Zones” would have tried to gain more autonomy even on a political level. This is why Chen Yun underlined the importance to call them “Economic”, just to avoid any kind of misunderstanding³⁹.

Since the early beginning of his era of reforms, Deng received some accusations to have betrayed the Revolution and the Maoist ideology, but his perception was different: despite he did not openly oppose private economic activities, even on a larger scale than the household dimension, he thought that the Chinese Communist Party had to maintain a dominant role in the country, without letting “alien” powers (such as foreign governments or simply powerful investors) to interfere with the Chinese domestic politics. In his economic design for China, it meant that the State would have kept owning enterprises, the economy would have still been characterised by planning and that politicians such as himself or Hua Guofeng would have not exploited this situation to enrich themselves⁴⁰.

³⁸ Ibidem

³⁹ Ivi., pg. 493.

⁴⁰ Ivi., pg. 491.

In the successive decades, the Guangdong and Fujian regions experienced an incredible economic development: the number of factories rapidly increased, the city's skyline radically changed with the construction of skyscrapers and, last but not least, the region's population saw a huge increase. Millions of citizens from other regions, those without the SEZs, began to migrate to Guangdong and Fujian, for the same reasons their young people had migrated towards Hong Kong⁴¹. In my opinion, we can already identify two possible problems related to the creation of the SEZs: 1) the domestic migration caused a progressive depopulation, of which the PRC is still suffering, of the already less populated and poorer regions of the country. They were losing more and more workforce and the country started to experiment a new level of economic domestic disparity; 2) the political officials of Guangdong and Fujian, especially of the former region, became more and more greedy for power.

For instance, during the 80s, the two officials who perpetrated the day-by-day work, after Deng initiated the season of economic experimentation, to allow the development of Guangdong's industry were Ren Zhongyi, party secretary, and the governor Liang Lingguang. In 1982, a circular established that particularly expensive decisions taken for the industrial development in Guangdong needed to receive approval by Beijing. The two officials appointed, especially Ren Zhongyi, and their subordinates on several occasions tried to go around Beijing's authority. Deng decided not to limit or purge them; instead, during a meeting in Beijing with many high-level members of the Party, he told Ren and Liang to experiment on economic level in Guangdong and to develop policies on the basis of their experience⁴². Moreover, Wan Li, another high-level member of the Party, explicitly said to them that if the directives coming from Beijing did not fit the needs and characteristics of Guangdong, or Fujian, the officials should have modified them on the basis of the local features. Once again, Deng opted for a non-interventional attitude economically speaking. He gave room for action to the officials in Guangdong and Fujian, allowing them to implement experiments coherently with the characteristics of their regions. In this way, the officials did

⁴¹ Ivi., pg. 498.

⁴² Ivi., pg. 499.

not feel oppressed by the central government in Beijing and conflict was avoided. Moreover, the officials did not want to be too bold in their policies, despite the almost total lack of tight restrictions coming from the central government, because they were scared to be persecuted by that part of the country who hated the “capitalist”⁴³.

The experience of the SEZs was fundamental for the People’s Republic of China not just for the purpose of economic development, but it also was a “school” for the officials working in Guangdong and Fujian. Because of the fact the PRC had been isolated from the world market for a very long time, the officials managing the SEZs had to learn almost everything regarding a market economy from scratch. They learnt that a lightened bureaucracy increased the appeal for foreigner investors, that things such as customer service and reliability were game changers in an economy of competition, but they also understood that planning, already part of their set of skills, could turn extremely useful also in a free market. Guangdong and Fujian were not just the new economic engine of the country, they became a knowledge-development hub where it was possible to experiment new models of economic organisations, and therefore new models of the Capital-Labour relationship.

2.5 Abandoning the Dazhai: a new agricultural production model

Another economic sector where important reforms were implemented was the agricultural one. The People’s Republic of China, during Mao's era, was always characterised by a shortage of agricultural products. The Government struggled to feed the millions of Chinese citizens and even with the reduction of the number of farming collectivised, whose number was increased during the Great Leap Forward, things did not really change. A growth of production was detected, but it was not sufficient to avoid that a part of the population starved.

During the 1978 Third Plenum, one of the topics of discussion was the dimension of the productive units in the agricultural sector: some officials suggested that the solution to help this branch of the economy to develop was to downsize its production units to the level of the households; on the other hand, some of the

⁴³ Ivi., pg. 500.

Party leaders were convinced that collectivization was the direction to maintain⁴⁴. Eventually, the decision taken was to absolutely not assign the production, and therefore the means for it, to the households. As in the case of the SEZs, the main issue was the balance of powers. By allowing the household to have means of production, and therefore Capitals, the Party would have given them the possibility to start accumulating wealth. Through wealth, the farmers could have started gaining more and more power, threatening the hegemonic role of the Chinese Communist Party in ruling the country. This was not acceptable.

One of the few high-level officials who did not oppose the idea of the households as productive units in agriculture was, obviously, Deng Xiaoping. Despite the prohibition expressed during the Third Plenum and the already existing policies that protected the collectivist Dazhai model, Deng was still able to demonstrate on the field the effectiveness of the downsizing thanks to the work of Wan Li, the party secretary of the Anhui province.

Wan Li became secretary of the province in 1977, appointed by Hua Guofeng. The Anhui province, at the time, was extremely poor and its population starved. The collectives were not able to produce enough to feed the whole population and the previous secretary of the province, being an orthodox Maoist, never took in consideration the idea of implementing the downsizing of the collectives. Wan Li started to conduct studies of analysis on productivity throughout the Anhui province and developed the “Provincial Party Committee Six-Point Proposal”⁴⁵. This plan, structured in six points, aimed to restructure the economy in the Anhui province through some radical decisions, such as the downsizing of the agricultural productive units, the “compensation” of the workers on the basis of their productivity and even allowing them to conduct some private economic activities. Almost all the other party officials working in the Anhui province refused the idea of implementing the plan, knowing that it was against the laws that protected the Dazhai collective model, even though there were no direct references to it in the document. He received support from a small number of party members, but among them there was Deng Xiaoping. Deng saw Wan Li’s plan as

⁴⁴ Ivi. pg. 550.

⁴⁵ Ivi., pg. 577.

something that needed to be experimented and justified his position by saying that the inhabitants of the poorer mountainous regions, such as the Anhui province, had the right to at least try to survive in any way. Wan Li found himself before a difficult decision and took the boldest, at least in my opinion, direction: he implemented his six points plan.

The downsizing of the agricultural production unit was not implemented in the same way all over the Anhui province. In certain counties, those more affected by the starvation issue, the plan was followed more intensely. Already after a few weeks of its implementation, which started at the beginning of 1978, Wan Li's strategy began to give some relevant results. The rest of the year was characterised by a great tension within the party on the agricultural production topic. As already mentioned, the Third Plenum underlined that the Dazhai model was the one to follow and the already frightened Anhui officials felt even less safe than before in giving their support to Wan Li. The household production model was defined by the most "capitalism" and even Deng himself did not feel fully comfortable to promote the new model all over the country, despite being a great supporter of it. What changed everything was the hard data coming from the Anhui province. After Wan Li's model was implemented, the area achieved incredible results in all the production cycles after 1978. Starvation, the endemic problem of Anhui, slowly became a disappearing issue. Even Beijing could not ignore it. For instance, the results obtained in 1979 were published by Wu Xiang in a report on the Anhui province with the full support of several high-level officials working in the Chinese capital⁴⁶. The attitude towards the "six points" strategy was slowly changing and in 1980 Deng finally felt ready to start the downsizing procedure on the national level. Deng knew that the new strategy still did not have full support within the Party, but during the Fifth plenum of 1980 this issue was resolved. Many strategic changes were made, supporters of Wan Li's plan were put in important positions related to the agricultural sector. The reforms were taken to a point where, in 1982, the communes, backbone of the Maoist economic ideology, were dismantled⁴⁷. Anyway, it is important to understand that the downsizing of

⁴⁶ Ivi., pg. 560

⁴⁷ Ivi., pg. 563

the agricultural units did not mean that a free market was established in the People's Republic of China. The SEZ's were created for that purpose.

The downsizing of the production units generated great results and the agricultural production increased enormously. To be fair, it is important to stress that this reform was implemented alongside an improvement of technologies in the Chinese agricultural sector, especially of fertilisers. Moreover, the reorganisation of production in this sector inevitably produced changes in the Capital-Labour relationship (at the domestic level). Initially, the central government of the PRC committed itself to buy everything produced by the households. This incentivized the new production units to work harder, knowing that they would have been fairly compensated for their work. In 1984, agricultural production reached figures never seen before and the central government found it impossible to maintain its promises: the obligation to buy everything produced by the household was lifted. The reaction of the farmer was, in my opinion, very interesting for our dimension of analysis: the year after, 1985, they decided to reduce the production in order to generate a rise in demand (the central government still needed to feed millions of citizens) that led to an increase of prices⁴⁸. The farmers could behave in this way, as if they were in a free market economy, because they held both the Labour and Capital factors; on the other hand, the central government (i.e., the Party) had the power to regulate them through the tool of law, and in this specific case the government imposed the rationed distribution of foodstuffs. After the collective action of the farmers, the agricultural production reached the 1984 levels only in 1989.

2.6 Entrepreneurship during Deng's era

During the Deng's era, several reforms were implemented even in the entrepreneurial sector. Under Mao, the only admitted model was that of the state-owned enterprises. All the factories of the PRC were controlled (from the production rhythms to the resources allocation) by the state and their modernization highly depended on the aid coming from the USSR. As aforementioned, the first important steps were the attribution of responsibility in

⁴⁸ Ivi., pg. 565

the day-by-day activities to the factories managers (a sort of authority re-allocation) and the creation of the SEZs. These measures, for Deng Xiaoping, were not enough. It was necessary, to allow China to experience an actual economic growth, to implement more radical changes in the Chinese industrial sector.

As mentioned in the First Chapter, China had historically a strong and well spread tradition of manufacturing production carried on by small size factories or even the households; this peculiar characteristic was what blocked China in the high equilibrium trap and, and at the same time, gave the country to develop a highly skilled labour force. It was time to start exploiting the full productive potential of the country. As a matter of fact, in 1978 there were millions of people in China that were “underemployed”, which meant that their productive capacity was not fully used. In other words, there was a misuse of the Labour factor. The great agricultural collectivisation under Mao dragged millions of young Chinese citizens in the countryside, but with the failure of the Dazhai model and the dismantlement of the collectives they had the opportunity to, progressively, return to the urban areas. These changes had, inevitably, some social issues related to the: we have to imagine millions of people, as I said mostly youth, that in a very short time found themselves unemployed, so no more underemployed, and therefore without their basic needs immediately provided by the State. Social unrest was rising, and a solution was most needed. In 1979 the Chinese citizens, even outside the SEZs, were given the permission to open little businesses, such as food shops. These small economic activities were defined as “household enterprises”, the same unit as in the countryside, and began to proliferate in cities all over China. This phenomenon developed so quickly that several concerns started to haunt the hearts of the CCP high level officials, and among them even Deng Xiaoping. Naturally, when the opportunity to carry on economic activities based on the model of the free market is given to a society, something also happens in the framework of the Capital-Labour relationship. The Chinese citizens who opened the allowed shops began to accumulate wealth and, consequently, they could expand their activities. This generated the need for a new work force and, therefore, these small new owners started to employ other

citizens. The exploiting dynamic “master-worker” spread in cities all over the country and this is why the CCP was worried: Capitalism may have begun to resurge in China. Despite being worried, Deng Xiaoping did not lose his calm and, once again, suggested to just let things develop by themselves. He wanted to see what effects could be generated if the reform was left untouched. Deng had it his way and only in 1987 some limitations (such as the number of employees) to these new economic activities were implemented⁴⁹. Communism did not fall in China, but for sure it was different for shape and content from that imagined by Mao.

2.7 A new Capital-Labour relationship

The 1980’s can be defined as a preparatory decade for the incredible growth that China experienced during the 1990’s. Deng Xiaoping was able to deeply root his “non approach” to the state management in the CCP. Even after the end of his political era, his way was the one followed. Defining China economically is particularly difficult. Deng Xiaoping was able to create a model, an exact projection of his ideas, that still today seems impossible to put in a specific socio-economic category. The purpose of this dissertation is to inquire how the PRC’s Capital-Labour relationship is changing both in the framework of the GVCs and Chinese domestic economy not from Mao’s model, but from Deng’s one. Therefore, we must define the relationship in the aforementioned dimensions. During Deng’s era, the People’s Republic of China decided to play the role of a Labour actor in the Global Value Chains system. The capitals’ flow into the country was, anyway, controlled and regulated by the Party. In fact, the SEZs’ mechanism did not allow foreign investors to enter the country from where and when they wanted. They had to pass through the Guangdong or Fujian regions and this way, despite the SEZs were characterised by a great economic freedom, the central government could act as a gatekeeper, avoiding that “wild” capitals, therefore money and means of production, allowed some citizens to gain political power and to challenge the Party. This could have happened in the SEZs, but they were confined. On the other hand, the Capital-Labour relationships that developed in the Chinese domestic economy was for sure more articulated. During Mao’s

⁴⁹ Ivi., pg. 572.

era, the political establishment (i.e., the Chinese Communist Party) was the embodiment of the Chinese workforce. It means that the proletariat, at least on a theoretical level, was governing the country and the Capital factor was under the full control of the Labour one. The allocation of resources and means of production, the rhythms of production and the general management of the workforce were controlled by the government. After Mao's death many things changed and the CCP and the Chinese proletariat stopped, through a struggle within the Party, being perfectly overlapping. The process was not immediate, and it needed several radical reforms in the Chinese economic, and consequently social, system. Apart from the aforementioned downsizing of the units of production in the countryside or the allowed creation of small business in the cities, other forms of liberalisation happened, but it is important to understand that the CCP never lost the steering of the country. Differently from other communist countries during their liberalisation processes, in the People's Republic of China the State sector remained one of the most important parts of the economy. The most relevant kind of industries were under the control of the Government and, to be fair, until 1992 the CCP never officially declared that the market economy was an objective for China⁵⁰ (Barry Naughton, 1993). It was, and still is somehow, a slow and incremental policy process. Hence, the Capital-Labour relationship did not develop as in a normal market economy. The Chinese government created specific context, aside the SEZs, where the relationship could develop normally but imposed strict rules to avoid that "capitalism" spread all over the country, and at the same time it kept under his direct control the strategic sectors.

Nowadays the challenge for the People's Republic of China lies in the fact that the role played by the country in the aforementioned dimension is not suitable anymore. In order to avoid the so-called middle-income trap and that private actors gain too much political power, the PRC needs to change the Capital-Labour relationship both at the domestic level and in the GVCs' system.

⁵⁰ Barry Naughton, 1993, "Deng Xiaoping: The Economist", Cambridge University Press on behalf of the School of Oriental and African Studies, pg. 510.

3 FROM A LABOUR-FOCUSED TO A CAPITAL-FOCUSED ECONOMY: THE CHALLENGES FOR THE PEOPLE'S REPUBLIC OF CHINA

What the People's Republic of China did, on the economic level, since the 1970s can only be defined as astonishing. Deng Xiaoping, with some other members of the Chinese Communist Party, was able to start an economic growth, undoubtedly helped by some structural characteristics of their country, that will be remembered; but it is not enough for Beijing to become an interesting case study for the economists of the future. The People's Republic of China wants to be the protagonist of the world's history by becoming the hegemonic power on this little rock floating in the void that we call home. To do so, the plan of the Yellow River country is to grasp the control of the global economy and establish an economic Empire, differently from the United States, the nowadays hegemonic power, that expresses their global domination through a military thalassocracy.

As for any other ambitious dream, the PRC is facing some obstacles in achieving its objective. The most relevant is that you cannot dominate the global market if your economy is still Labour-focused. In a free market system (either domestic or international), who dominates at the political level is the one who controls the Capital. Beijing needs to become a Capital actor in the Global Value Chains, and at the same time to find a way to conciliate this new role with its political doctrine. Theoretically, the People's Republic of China is still a communist country.

This chapter will be the core part of this work of analysis. I will stress what measures have been taken by Beijing in the last decade to perpetrate this gradual transition from a Labour-focused to a Capital focused economy. The first paragraph will be dedicated to the PRC's development after Deng's withdrawal from political life in the early 1990s. It is important to understand how Deng's legacy, which was more of an attitude rather than an ideology, influenced the Party in its political decisions. The second paragraph will be dedicated to the analysis of how the economic growth that China experienced during the 1990s and the 2000s influenced the Capital-Labour relationship in the country. The third paragraph will focus on the domestic inequalities of China and characteristics of

the PRC's Human Capital, while the fourth and last paragraph will be dedicated to the Middle-Income Trap as an economic phenomenon and the presence of the PRC in it. These policies won't be just economic, but also on social issues (welfare, urbanisation etc.). Their impact on the Capital-Labour relationship will be taken into consideration both on the global and domestic level. Because of the PRC's ideological identity, this dichotomy will be an omnipresent element.

Last but not least, I want to leave the reader a personal thought which, I believe, is important to keep in mind. The People's Republic of China, right now, finds itself on a slippery slope. Every single step can make a difference. To paraphrase Al Pacino's character in the movie "Any given Sunday", every single decision, policy, or reform can lead the country either to life or death. Maybe it is a dramatic perception of reality but allow me to put this in perspective: the People's Republic of China is one of the most populous countries in the world. Almost a billion and a half of human beings. This billion and a half of human beings need to eat, need fresh water, need energy and, more in general, need a good perspective for their future. The government of the PRC is in front of a sliding door for Chinese history: the success or the failure of the transition process will determine the destiny of this billion and a half of people. No mistakes are allowed now that the stakes are so high.

3.1 Deng Xiaoping's legacy in the economic growth of the PRC

In 1990 Deng Xiaoping officially retired from Chinese political life. From that moment, he would never be appointed again for an official role within the PRC's political milieu. A part of his tour of the south of China in 1992, which was organised by the Chinese government for propaganda purposes and to attract foreign investments⁵¹, Deng Xiaoping did not participate in any other relevant political activity for the rest of his life.

Superficially someone might think that Deng Xiaoping had already become part of history, but this is not the truth. Deng Xiaoping's legacy survived and thrived in the successive decades after the end of his political career. The season of reforms did not stop in 1990. As Barry Naughton (1993) argues, Deng Xiaoping's experimental approach to economic reforms kept being followed by the CCP. This approach was called "crossing the river by groping for steppingstones"⁵². It consisted in a series of attempts and experiments implemented not following a specific long-term plan. During the 1990s and the early 2000s Beijing still mainly followed Deng's approach, apart from the establishment of the goal of a market economy in 1992.

In this and subsequent paragraphs, I will analyse the economic growth of the People's Republic of China during the 1990s and the 2000s, by underlining its characteristics. Moreover, I will focus on the PRC's Capital-Labour relationship on both the domestic and global level during those years. It is important to fully understand the starting point from where the PRC is trying to change the Capital-Labour relationship.

For the People's Republic of China, the 1990s were years of great economic growth. The country experienced an average rate of growth of 10.4 % per year during the decade. Even though the growth rate slowly declined towards the end of the 90s, in 2001 it was still 7 % and in 2002 it reached 8 per cent. Wu (2004) argues that this constant and astonishing growth depended on several factors. One of them is the inflow of foreign capitals into the PRC. The amount of foreign

⁵¹ Yanrui Wu, 2004, "China's Economic Growth", London, UK. New York, U.S.A, RoutledgeCurzon, pg. 58.

⁵² Barry Naughton, 1993, "Deng Xiaoping: The Economist", Cambridge University Press on behalf of the School of Oriental and African Studies, pg. 510.

capital entering the country exponentially rose after 1990 and in 2002 the People's Republic of China overtook the United States as recipient country for foreign direct investments (FDIs). It is already possible to see a continuation pattern with Deng's reforms of the late 1970s and early 1980s: in order to have economic growth the Capital factor is a necessity. Under Deng's, the FDIs could have entered China only through the special economic zones (SEZs). The SEZs worked as filters: in the rest of the country the Capital factor of production was allocated and organised, in his relationship with Labour, under the direct control of the central government. Wu (2004) argues that between the 1990s and the early 2000s the PRC's government tried to enhance the export of the country, following in this way the East Asia model of economic growth, in order to achieve a higher level of development⁵³. Measures to obtain a stronger liberalisation in the country's domestic policy were implemented. Beijing hoped that these measures, besides the skilled and cheap Labour the country could offer, would have added appeal to the PRC for the foreign investors. It worked and in November 2001 the PRC became an official member of the World Trade Organisation (WTO).

By using Yanrui Wu's book "China's Economic Growth" (2004), in the next paragraph I will stress which reforms and policies allowed China to achieve a certain economic development and how these measures influenced the Capital-Labour relationship within the country.

3.2 China's economic growth through Yanrui Wu's analytical point of view

In his book "China's Economic Growth" (2004), Yanrui Wu analyses the People's Republic of China economic growth from the beginning of the 1990s to the early 2000s. The author argues that the incredible economic expansion experienced by China in those years depended on several structural changes⁵⁴ that characterised the country's policies. As already mentioned in the previous paragraph, the PRC could benefit from an enormous amount of foreign capital flooding into its economy. In his work, Wu explores how this Capital factor was put in relation

⁵³ Yanrui Wu, 2004, "China's Economic Growth", London, UK. New York, U.S.A, RoutledgeCurzon, pg. 5.

⁵⁴ Ivi., pg. 1.

with the domestic Labour factor of China; that is which sectors of the Chinese economy saw an expansion.

Coherently with the process that started under Deng Xiaoping, the measures to foster the openness of China kept being implemented even during the 1990s. The deeper participation of the country in international trade led to economic growth. Obviously, the Capital factor entering China needed to be employed within the domestic economy of the country. Hence, the importance of the Capital-Labour relationship. What determines the quality of the Labour factor in a country is the Human Capital. Human Capital is a broad term which refers to the sum of skills and capabilities that the citizens (the workforce) that a country owns, and it can determine the competitiveness of a country's economy in a market system. The better my workforce is, the more competitive I can be. It is important to remember that, very often, the quality of Human Capital is not necessarily homogeneous within a country. I will explore it in more depth later.

Now, the main question should be “how this Capital factor was employed in the 1990s PRC?”. During the decade, Labour productivity rose rapidly in China. The sector that experienced the biggest expansion was undeniably the secondary one, while the primary and the tertiary did not keep the same pace⁵⁵. Productivity was an extremely important element in the economic growth that characterised East Asia at the time, and it was the same even for the PRC. During the 1980s several reforms were implemented in the PRC in the sector of enterprises and urban economies. In the same moment, the agricultural system was reformed with the abandonment of the Dazhai model. Despite being both experimental, there were some consistent differences between these two packages of reforms. The former was more complicated and needed more time to produce positive outcomes. Initially the PRC's secondary sector experienced a reduction of efficiency in production, but in the 1990s, when the reforms started to generate positive outcomes, the productivity recovered. This element plus some other measure that removed price distortion made the PRC at the beginning of the 1990s an ideal recipient for foreign investors⁵⁶.

⁵⁵ Ivi., pg. 4.

⁵⁶ Ivi., pg. 41.

In the secondary sectors, the Chinese workers were employed in two kinds of enterprises: the village and private enterprises (TVPs) and the state-owned enterprises (SOEs). The former developed both in the rural and urban areas, but mainly in the cities. They were the natural evolution of the traditional household-based economic activities. Despite the aforementioned reforms which reduced productivity efficiency, the TVPs became extremely important for the growth of the People's Republic of China already in the 1980s, and in the 1990s they employed more workers than the state-owned enterprises. By 2001, the PRC's citizens working in the TVPs were more than twice of those working in the SOEs.⁵⁷ It is important to acknowledge that the consistent increment of workers employed in the TVPs did not happen by chance. During the 1990s, the Chinese government, among the other numerous industrial reforms, decided to implement a reallocation of many workers out of the system of the state-owned enterprises. Basically, a significant portion of the Chinese workforce was given the opportunity to start working in the TVPs. In 1997, the World Bank declared that this operation of reallocation produced gains that accounted for half of China's growth during the decade⁵⁸. In my opinion, this reform is an exemplary demonstration of how the central government of Beijing was able to control the Labour factor in the relationship with the Capital factor. In a Western country, where the socio-economic model of the free market was in force, a mass reallocation of the workforce would not have been possible. Obviously, I am not saying that the Chinese model was better than the Western one, I am just stressing one of the many ways through which the differences between those two models are expressed in history.

Regarding the state-owned enterprises, despite the decrease of workforce employed in them, they were still playing an important role in the Chinese economy. One of the constant and peculiar characteristics of the economic management by the PRC's central government is that the strategic economic sectors must remain for a certain degree under state control. At the same time, it does not mean that these strategic sectors cannot experience a certain degree of

⁵⁷ Ivi., pg. 2.

⁵⁸ Ivi., pg. 41.

deregulation. In his work, Yanrui Wu presents two interesting case studies: the deregulations in the communication sector and those in the energy sector. In my opinion, it is worth to focus on these two examples for two main reasons: they are both strategic sectors; they both give us the opportunity to see how the PRC's government managed the Capital-Labour relationship within them.

During most of the 20th century, the Chinese telecommunication sector was extremely underdeveloped. Despite the necessary infrastructures to create a telecommunication network were already built on mainland China in the 19th century, they did not spread enough to make telecommunication services a common good for the majority of the population. Things started to change in 1979, with the first reforms of the Deng's era. Then, during the 1980s and the 1990s the sector experienced a great expansion.

Wu argues that the expansion of the telecommunication section was mainly driven by an increase in demand. The economic liberalisation reforms, that were implemented in the People's Republic of China since the 1980s, allowed millions of citizens to leave the countryside and to move to the urban areas. They were not obliged to work in the agricultural communes and the creation of the TVPs offered job opportunities. Once they moved to the cities, they wanted telecommunication services. Hence, the demand increased, and the expansion of the sector happened. Moreover, after mainland China's borders were opened, the foreign investors, and in some cases even tourists, visiting the country contributed to enlarge the demand of telecommunication services⁵⁹.

It would be an understatement, however, to attribute the growth of this sector only to the demand factor. In the early 1980s the Chinese government acknowledged that the development of the telecommunication sector played an important role in the overall growth of the national economy. The high-level officials of the Party educated themselves through the study of several foreign research⁶⁰. Therefore, the central government understood that some structural reforms in the sector were needed. Until 1998, the management of the telecommunication sector was under the control of several governmental entities. The Ministry of Posts and

⁵⁹ Ivi., pg.82.

⁶⁰ Ibidem.

Telecommunications (MPT) was the most important government institution involved and it owned the majority of the Chinese fixed lines. At the same time, other governmental entities, such as the Ministry of Railways or the Ministry of Electric Power, owned and managed “private” societies⁶¹. In 1994 two relevant decisions were taken: the major national provider became China Telecom, always under the control of the Ministry of Posts and Telecommunications, and a new society was created, the China United Telecommunications Corporation, also known as Unicom. The central government wanted to allow the establishment of Unicom for a simple reason: the Party’s official understood that the sector needed deregulations and competition in order to grow, and Unicom could have challenged China Telecom’s monopoly. Unicom was owned by several state entities and the MPT, China Telecom owner, was the regulatory body in the whole telecommunication sector. Hence, a real fair competition between the two societies was not actually feasible. It was clear that the regulatory system needed to be reformed if a proper competitive environment was wanted in the sector. In 1998 the MPT, the Ministry of Electronic Industry (MEI) and the State Radio Regulation Commission were combined to create a new state entity: the Ministry of Information Industry (MII) The MII was the only body to have a regulatory power, from price setting to licensing, in the telecommunication sector. At the same time, China Telecom was subdivided into four independent societies. In this way, the telecommunication sector was not characterised anymore by a monopoly, China Telecom’s one, and a real *super partes* regulatory body was created⁶². Now, competition and foreign investments seemed more practicable. However, state control remained strong in these societies. Some form of deregulation already happened when China Telecom and Unicom were put on the stock markets, both on the domestic and offshore level. Despite the majority of their shares were under the control of state bodies, it was possible to acquire portions of these societies⁶³. Regarding the possibility of providing a service, there were some severe limitations for foreign societies. They could not directly enter the Chinese

⁶¹ Ivi., pg. 85.

⁶² Ibidem.

⁶³ Ivi., pg. 89.

domestic market, but they could sell items to Chinese companies or cooperate with them in manufacturing telecommunication products. Nothing more, nothing less. This case study presented by Wu is extremely interesting, in my opinion, because it shows us how the People's Republic of China wanted to regulate the Capital-Labour relationship in the sector: a hybrid form between a market economy and a state-planned economy. The Capital factor could not wander freely in the Chinese economic system, boundaries were established in order not to lose its control. It is even more interesting to analyse which solutions were taken by the foreign investors and the Chinese societies, which embodied the Capital factor, to escape the limitations created by the PRC institutions. For instance, Unicom created a model of common enterprise called "Foreign-Chinese-Chinese" (FCC). This system allowed foreign companies to go around the limitation imposed by the PRC's government and to directly provide telecommunication services until 1997, when the central government imposed new regulations to block the system. However, there were proofs that foreign companies were directly involved in the Chinese telecommunication market even after the tightening of measures⁶⁴. Wu concludes the paragraph regarding the deregulation of the Chinese telecommunication sector with two statements: in the early 2000, despite several deregulation, most of the sector was still under control of the State; the telecommunication sector did not develop homogeneously in the country, but the Chinese regions were characterised by a great inequality.

The other case study developed by Wu is the one regarding the deregulations in the energy sector. Energy is a fundamental factor in the growth of a country, both for the well-being of the inhabitants and the development of the industry. When the People's Republic of China started to experience consistent economic growth during the 1980s, one of the first issues that arose was an energy shortage. The energy production system of the country could not sustain that pace of growth. It was clear that reforms in the regulation systems were needed, hence since the late 1980s several structural changes begun to be implemented⁶⁵.

⁶⁴ Ivi., pg.90.

⁶⁵ Ivi., pg.95.

As for the telecommunication sector, the central administration for the energy sector was restructured. The objective was to achieve a more efficient structure. In 1998, the regulatory powers, previously held by government ministries, were reallocated to three institutions: the State Development Planning Commission (SDPC), the State Economic and Trade Commission (SETC) and the Ministry of Land and Natural Resources (MLNR). The SETC was the institution characterised by a greater increment in its powers. In fact, the State Administration of Coal Industry (SACI), the Department of Electric Power (DEP) and the State Administration of Petroleum and Chemical Industries (SAPC) were put under its regulatory control⁶⁶. After the hierarchy of the regulation system was reformed, it was time to implement changes regarding the energy enterprises. The PRC central government acted on the price's regulation of energy. For instance, during the 1980s the "dual-track" pricing system was introduced: it allowed the energy providers to sell a part of their service (i.e., energy products) to an unregulated price, on the basis of the free market's mechanisms. Further regulations were implemented during the 1990s⁶⁷. However, the deregulations did not affect the whole sector in the same way. In the PRC from the 1980s to the early 2000s, the period of time that Wu took in consideration for his work, energy as a good of consumption was characterised by soft and not particularly radical deregulations. The central government always kept a strong control on the sector⁶⁸. Even regarding the sources of energy, the deregulations of prices did not happen homogeneously. Coal, a very important resource for the PRC of which in 2001 became the world's largest producer, had its price deregulated in two distinct phases: during the first, from 1983 to 1990, the "dual-track" system was introduced, while during the second, started in 1993, the coal market was fully deregulated⁶⁹. A different path was taken for the regulation of oil price. In the early 1980's the "dual track" system was introduced for this energy source, but in 1994 a step back was made. The system was abandoned because it made domestic oil more expensive than the one offshore, which led to peaks of import in certain

⁶⁶ *Ivi.*, pg.96.

⁶⁷ *Ivi.*, pg.97.

⁶⁸ *Ivi.*, pg.99.

⁶⁹ *Ivi.*, pg.98.

areas of the country. A solution was found in 1998, when the central government decided to keep regulated the price of oil but to set it on the international price, in order to maintain competitiveness with the global market.⁷⁰

Another interesting regulation example is the one of natural gas. The PRC central government, for most of the period analysed by Wu, kept the gas prices very low. Mainly, because gas was not consistently used as a source of energy. Towards the end of the 1990s the central government decided to lift the state subsidies that kept its cost low, but the domestic price of gas remained still lower than the international one⁷¹.

Wu concludes its focus on the energy sector with an interesting, but brief, analysis of the development of clean energy sources in the People's Republic of China. This concept is not directly related to the deregulation processes, and consequently on the Capital-Labour relationship of the country, but it opens an interesting perspective on the effects of China's economic growth on the population. In fact, the economic growth from the 1980s to the early 2000s, caused by the previously mentioned reforms and deregulations, led a part of the Chinese population to have its economic condition enhanced. This portion of the PRC's population was the one living in the urban areas, which were the most industrialised and, therefore, the most polluted. We are talking about a vicious cycle, where the measures taken to foster the economic performance of the country generated both more pollution and an increase in the quality of life for a part of the Chinese citizens. Moreover, the latter factor produced a raise in domestic consumption, which in turn contributed to pollution. The People's Republic of China, in 1997, was the largest producer of sulphur dioxide (SO₂) in the world, mainly because of the enormous quantity of coal consumed per year by the country, and by 2030 the country is expected to also become the largest producer of CO₂. At the time of Wu's work, it was already the second, right behind the United States⁷². Therefore, the central government decided it was time to start developing the sector of sustainable energy, through the implementation

⁷⁰ Ivi., pg.99.

⁷¹ Ibidem.

⁷² Ivi., pg.100.

of structural reforms of the energetic sector. It is important, however, to fully understand why the central government of the PRC defined pollution a national issue. First of all, it caused direct damage to the country's economy. A study of ERI (2000) demonstrated that the costs of environmental damages affected the 7 % of the PRC's GDP⁷³. In the long run, the advantages coming from economic growth thanks to industrial development could be overtaken by the environmental costs of the growth itself. Another, and perhaps more complicated, reason was that pollution decreased the well being of citizens, but not homogeneously all over the country. As already mentioned, the inhabitants of urban areas were the most hit by pollution, due to the fact cities were characterised by a strong and fast industrialization in the period of time analysed by Wu. It also means that in the PRC, urban households rapidly saw their incomes growing. The inhabitants of urbanised areas became richer. Wu is pretty clear about unequal growth in the country, but it is important to understand the reason behind this phenomenon. Basically, mainland China had always been characterised by a structural inner inequality. Historically, the coastal regions of the country, and in particular certain cities such as Beijing, Shanghai and Tianjin, had always been richer and more developed than those of Central and Western China. Wu argues that the economic growth from the 1980s to the early 2000s on one hand surely allowed each region to get wealthier, but on the other hand it did not really produce an economic convergence all over the country. Hence, inequalities survived⁷⁴. The root of this inequality could be that coastal China had always been more urbanised. It is obvious that a season of economic development that advantaged urban economies could have not generated a regional economic convergence given the structural characteristics of mainland China.

The purpose of this work, as I have already said, is to stress how the People's Republic of China is trying to change its role in the GVCs system: from a Labour actor to a Capital actor. In order to do so, the country needs to work on its domestic Capital-Labour relationship, by finding a proper balance between social and

⁷³ Ibidem.

⁷⁴ Ivi., pg.62.

economic needs. The structural reforms analysed by Wu, mainly openings and deregulations, allowed a great quantity of the Capital factor to flood into the country. The consequence, as we have seen, was an incredible economic growth. Anyway, this was not enough. In the early 2000s, the People's Republic of China was still a Labour actor in the GVCs. Moreover, the central government showed not to have a full control over the Capital factor entering the country. There are examples of foreign actors that were able to enter the Chinese socio-economic system, which could represent a menace for the political stability of the PRC. For instance, the previously mentioned "Foreign-Chinese-Chinese" joint venture model in the telecommunication sector. Last but not least, the 1980s-2000s Chinese economic growth highlighted the inner inequalities of the country. The PRC's central government needs to solve them, through structural reforms focused on the domestic Capital-Labour relationship, in order to enhance the quality of its human capital and to have all the proper tools to face the biggest challenge for the PRC so far: overcoming the infamous Middle-Income Trap, which risks of ruining the transition plan of the PRC.

The next paragraph will be dedicated to the understanding of the relationship between inner inequality and human capital and their implications in the Middle-Income Trap.

3.3 Domestic inequality and Human Capital: challenges for the People's Republic of China

The transition that the People's Republic of China wants to achieve is certainly a complex and multi-step process. In the first paragraph of the first Chapter I described the several phases that characterise the economic growth of a country. It is important to understand that for a country the passage from a phase to another, in one direction or another, is not just, economically speaking, a level-up or a downgrade. We are talking about an overall transformation of a country: economy, social features, infrastructure, scientific development, education etc. It is undeniable that a country existing in one of the high-level phases tends to have more wealth, which could allow said country to play a hegemonic role globally. Even in the Global Value Chains system. At the same time, a country could still

thrive in one of the lower phases. Its population could live in a condition of general wellness. The main difference is made by the specific characteristics of each country and by the narration of itself. The latter concept deserves a few words. Nowadays, the hegemonic power of the world is the thalassocracy that we call the United States of America. Maintaining the role of hegemonic power is an intense and fatiguing effort. The United States perseveres in its Imperial role because the narration they have of themselves both gives them the opportunity to do so and forces them to do so. The People's Republic of China is in a similar situation. The narration that Beijing built of itself in the last decades is partially forcing the country to grasp for the transition of role in the GVCs' system. At the same time, the PRC in the last decades invested so much energy in its run for development that not being able to achieve it would be considered a failure *tout-court*. It is fundamental to analyse the structural issues of the PRC in order to understand how, hence through which measure, its government wants to achieve the transition in the GVCs.

First thing first, I want to dissect the domestic inequalities of the People's Republic of China. As already mentioned in the previous paragraph, Yanrui Wu (2004) states pretty clearly that the economic growth from the 1980s to the early 2000s did not really resolve the domestic structural inequalities of mainland China. Traditionally, the country is subdivided in three main areas: coastal China, central China, and western China. This traditional subdivision of the country is based on the economic differences of mainland China, and no other relevant factor.



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The inequality should not be reduced to a simple “rich vs poor” relationship, which still needs to be taken into consideration. Its core nature is more a “countryside vs urban areas” conflict. Then, it is true that in mainland China urban agglomerates tend to be way richer than the rural areas. It is also true that most of the cities in mainland China were and are located in the coastal regions. Deng et al. in their paper “Geographical transformations of urban sprawl: Exploring the spatial heterogeneity across cities in China 1992–2015” (2020) develop an interesting study on the expansion of urban population in the People’s Republic of China from 1978 to 2018. They focus, especially, on the period of time that goes from 1992 to 2000, but they also report data on mainland China’s urbanisation that refer to the years 2010 and 2015. From the 1980s, due to the abolition of the agricultural communes and the partial liberalisation of the urban economies, mass migrations brought peoples from the countryside to the cities.

⁷⁵ Map created with datas from Yanrui Wu, 2004, “China’s Economic Growth”, London, UK. New York, U.S.A, RoutledgeCurzon, pg. 54.

Deng et al. (2020) argue that the rapid increment of the number of inhabitants of the cities and their surprisingly fast industrialization made Chinese cities less liveable and produced a natural redistribution of the urban population⁷⁶. However, this redistribution did not bring people from the cities back to the countryside. The urban economy gave too many opportunities. Cities started to spread and sub-urban agglomerates developed. The paper shows that the sub-urban phenomenon in mainland China characterised mainly the coastal regions. Hence, the structural differences between regions of the country persisted, and maybe even enhanced. Coastal urban areas, being already more populous, were the first target for the Capital factor. The Capital factor attracted people from the countryside, that we can call workforce or Labour factor. These contingencies and the structural characteristics made coastal mainland China even richer and more industrialised. In my opinion, this is a very dangerous place for the People's Republic of China. First of all, to have such a strong domestic inequality is ideologically problematic for a communist country, despite some members of the Chinese Communist Party crafted the term "Socialism with Chinese Characteristics" very early on. Moreover, the central government in Beijing should not forget the history of the PRC: Mao's revolution started in the countryside, where most of his followers were from. It was the poor workers, I do not want to use the work proletariat, of the central regions' countryside against the rich bourgeoisie of the coastal cities. What if a new revolution starts following the same dynamic? All things considered, we have seen that the inner conflict of mainland China had always been countryside vs urban areas, which translates in poor vs rich.

Another issue, directly related to one of the domestic inequalities, is the quality of the Human Capital within the People's Republic of China. Human Capital is an important factor for the economic growth of a country. If said country is characterised by relevant structural differences in the quality of Human Capital between its regions, it is possible that a national process of economic growth does not happen homogeneously. First of all, we have to determine what Human Capital precisely is. With the concept Human Capital, we refer to the number of

⁷⁶ Yu Deng et al., 2020, "Geographical transformations of urban sprawl: Exploring the spatial heterogeneity across cities in China 1992–2015", Elsevier, pg. 1.

skills and capabilities that characterise a person or a group of individuals. In our dimension of analysis, the group of individuals we are taking in consideration is a whole nation: the citizens of the People's Republic of China. The Human Capital is embodied by the workforce of a country; hence, in the Capital-Labour relationship within a country, it contributes to the quality of the Labour factor. However, the quality of Human Capital can even generate a positive effect on the Capital factor. The more capable my population is, the higher are the odds that a new technology or innovation is created in my country. Innovations can produce know-how, which can lead to an advancement of the national Capital factor, i.e. better means of production. Better means of production, or simply a better understanding of their use, give a country great advantage in the economic global competition. Human Capital is extremely important for the People's Republic of China in order to accomplish its transition through the phases of economic development and, consequently, in the GVC's system. Fleisher et al. (2009) argue that the quality Human Capital is highly related to the quality of education that a country can provide⁷⁷. The equation is extremely clear: the more, and better, my citizens are educated, the higher the quality of my Human Capital is. This assumption is very important. It means that theoretically any country can improve its Human Capital by investing in an upgrade of its education system. Easier said than done. The case of the People's Republic of China is particularly problematic. In their work "Human Capital, economic growth and regional inequality in China" (2009), Fleisher et al. show some worrying data regarding the education system in the PRC. For instance, they report that "in 2004, the government expenditures on education were 2.79% of GDP and had been below 3% in most years since 1992, much lower than the average of 5.1% in developed countries"⁷⁸ and that "the annual growth rate in new college enrolment between 1999 and 2003 was 26.6%. However, by 2003, the proportion of those with at least some college in the national population was still quite low, at 5.2%."⁷⁹ For Glawe and Wagner, the root of the poor figures of the People's Republic of China in the education

⁷⁷ Belton Fleisher et al., 2009, "Human Capital, economic growth and regional inequality in China", Department of Economics, Ohio State University, Columbus, United States, Elsevier, pg. 215.

⁷⁸ Ivi., pg. 216.

⁷⁹ Ibidem.

sector are related to certain structural issues of the country's education system itself. The topic is well analysed in their study "The People's Republic of China in the Middle-Income Trap" (2017). Their work's aim is to verify if the PRC is actually in the Middle-Income Trap, a topic which we will discuss in the next paragraph, and the possible implications existing between this phenomenon and the quality of China's Human Capital. The authors confirm what previously affirmed: the PRC's percentage of population with at least a secondary education is pretty low, but they also try to explore the reasons behind these data. The period of time taken in consideration in the study is from 1950 to 2010. During these sixty years, it is undeniable that the level of schooling in the PRC was increased. Glawe and Wagner affirm that "the education indicators show that the PRC has improved significantly since the 1950s"⁸⁰, but at the same time there are "stagnating (or even negative) trends in secondary and tertiary education indicators since the 2000s"⁸¹. The PRC's performance in the education sector seems to be even worse if the country is compared with the other states of East Asia. The data reported by the authors show that, in 2010, the People's Republic of China had just 22.9% of its whole population with a completed secondary education. Japan and Taiwan had a similar percentage respectively in 1965 and 1980⁸².

Even for the education sector, the rural-urban contrast is the main framework in which inequalities, within and between regions, exist in the PRC. The regulations established by the central government, in fact, create domestic barriers that enhance the disparities between rural and urban areas. Glawe and Wagner refer to the *hukou*, or household registration. This system, basically, "limits access to social welfare benefits and public services"⁸³ to a citizen only where his or her household registration is established. It means that, for instance, if a family lives in a rural area and the parents want their children to go to school in a nearby urban area, they simply can't. The *hukou* system allows them to benefit from the public

⁸⁰ Linda Glawe; Helmut Wagner, 2017, "The People's Republic of China in the Middle-Income Trap", ADBI Working Paper, No. 749, Asian Development Bank Institute (ADBI), Tokyo, Japan, ADBI Institute, pg. 19.

⁸¹ Ibidem.

⁸² Ibidem.

⁸³ Ivi., pg.20.

services, even school, only in the area where they have registered their household. The 2015 data presented by the authors show an abyssal difference between the two kinds of territories: in the rural areas “only 6% of [...] children entered senior high school at later ages and only 2% attended a university subsequently” while “63% of their urban counterparts enrolled in senior high school and 54% studied”⁸⁴. Obviously, these data do not mean that in the People’s Republic of China the inhabitants of the urban areas are inherently more talented than those of the rural areas. We are before, again, a vicious cycle related to the structural issue of mainland China. As we have seen, in the PRC the rural areas are, and have been for a long time, structurally poorer than the urban areas. This difference in wealth has a direct influence on the quality of the public services provided to the citizens. Moreover, the *hukou* system makes everything more complicated for the households. If they want to have access to better services, the only solution is to change the household registration by moving from one area to another.

The higher rate of school abandonment in the rural areas is a consequence of the endemic poverty that characterises said territories and the structural problems of the PRC’s education system. Zhang et al. analyse the issue in their paper “The human capital roots of the middle-income trap: the case of China” (2013). The western and central regions, which are also the more rural, of the PRC are strongly affected by high percentages of students dropping off school, both high schools and junior high schools. In the PRC, in order to attend a public high school it is mandatory to pay tuition. Unfortunately, this tuition is extremely high, especially when compared to the neighbouring countries of the PRC, and it is not affordable by most of the population of the rural areas. On the other hand, junior high schools do not have any tuition⁸⁵. Despite that, in the rural areas the drop rate is still very higher than the one in the urban areas. Once again, rooted poverty plays a major role. In these areas, unskilled workers, as children of junior high schools’ age, have the opportunity to find jobs that pay more or less 2000/3000 yuan per month⁸⁶. We are talking about a small amount of money, but it can make the

⁸⁴ Ibidem.

⁸⁵ L. Zhang et al., 2013, “The human capital roots of the middle income trap: the case of China”, Beijing; China, Stanford; USA, Agricultural Economics, pg.153

⁸⁶ Ibidem.

difference for a poor household. Therefore, sending a child to junior high school instead of working is still an economic loss, even without any kind of tuition. Moreover, the students of rural areas in mainland China tend to have worse scores than their urban counterparts. Again, these data do not mean that the people living in the urban areas are naturally more predisposed to study, but rather that the quality of the public service provided in the rural areas in education is not as high as the one in the cities. The PRC's education system has some structural inequalities. The school facilities and the teachers are way worse in the rural areas. The fact that children are forced to learn in dilapidated schools and that their teachers are not properly prepared for their educative tasks undeniably negatively affect the quality of education they receive⁸⁷. Despite the PRC's central government have allocated economic resources to attempt to resolve these education structural issues in the last years, the inequalities seem not to have been erased⁸⁸. Zhang et al. argue that the problem needs to be taken in consideration from an even wider perspective. Poverty directly affects the health of people living in the Chinese rural areas. Because of their precarious health conditions, the children of the rural households are less predisposed to learn in a proper way⁸⁹. In their study, the authors bring the example of two specific medical conditions, anaemia and intestinal worms, and their consequences on the topic we are discussing. On one hand, iron deficiency anaemia is a very debilitating condition caused by malnutrition, a consequence of poverty. It causes fatigue and attention deficits, which clearly can negatively affect the capability of an individual to carry on any kind of activity. Even learning. The disparity of children affected by anaemia between urban and rural areas is alarming. For instance, "a recent study in Shaanxi province run by the provincial Centre for Disease Control found anaemia in as many as 40% of freshmen in a rural junior high school"⁹⁰ and "a study in Guizhou found anaemia rates to be as high as 50–60%"⁹¹. The authors strongly stress that these are just two small case studies and cannot be taken as

⁸⁷ *Ivi.*, pg.154.

⁸⁸ *Ibidem.*

⁸⁹ *Ibidem.*

⁹⁰ *Ibidem.*

⁹¹ *Ibidem.*

representative of the whole nation despite being worrying. However, Zhang et al. conducted an independent study to detect the level of diffusion of anaemia among the students of Chinese rural areas. The sample was of 283 schools, for a total of 12,768 students. What Zhang et al. found confirmed that anaemia is an endemic problem of rural mainland China. Just 4 of the 283 schools taken as a sample presented a rate of diffusion, among their students, of anaemia equal to below 5%. For the WHO, anaemia must be considered a serious issue for a population when its rate of diffusion is over the 5%⁹². If we translate the data collected through the study in “administrative subdivisions” terms, 41 rural counties of mainland China were affected by a 5% or bigger diffusion of anaemia among their students. This medical condition has to be considered, at this point, a problem for the quality of the national Human Capital in the PRC. The other health issue analysed by Zhang et al. is the intestinal worms. This medical condition contributes to weakening the Chinese Human Capital. Moreover, the intestinal worms’ problem stresses a huge deficiency of the PRC’s health system. During the 1960s, the central government in Beijing developed the figure of the “barefoot” doctor. These figures received basic medical training and were sent in the rural areas to improve the health situation in those territories. The barefoot doctors helped to prevent and contrast dangerous medical conditions and illnesses, such as the intestinal worms. Unfortunately, the system collapsed during the 1980s because of a lack of funding and the barefoot doctors disappeared. The rural areas became even more isolated from the urban ones and several medical conditions, even the intestinal worms, rapidly resurged⁹³. Zhang et al. decided to conduct a study in order to detect the level of diffusion of intestinal worms among the citizens of the Chinese rural areas. The study was set in the provinces of Guizhou and Sichan and involved preschool and elementary school children from 6 rural counties. Interestingly, the children were selected randomly, independently from their social extraction⁹⁴. The outcome of the study showed that a very high percentage of the considered

⁹² Ivi., pg.155.

⁹³ Ivi., pg.156.

⁹⁴ Ivi., pg.157.

population suffered from intestinal worms to the point that by following the WHO guidelines the only solution would be a mass treatment.⁹⁵

All the issues I have descriptive regarding the rural areas of the People's Republic of China are the perfect ingredients for one huge national problem: endemic domestic inequality. It means that the odds that these issues resolve by themselves is basically none, and the only possible solution are top-down structural reforms and policies promoted and implemented by the central government. Even a good local government cannot carry on the effort to change these structural problems. In the second Chapter, I brought the example of the agricultural reform developed by the appointed governor of the Anhui province. In that specific case, the experimental reform, which consisted of the abandonment of the Dazhai productive model, generated a positive outcome and the agricultural productivity in the province was enhanced. However, we cannot compare the two kinds of reforms: on one hand, the reform in the Anhui province simply readjusted the Capital-Labour relationship in the agricultural sector: the collectivisations were abandoned for the households' productive units; on the other hand, the reform needed to erase the inequalities between rural and urban areas of mainland China are way more complex. Their objective should be to remove those obstacles in the path of achieving an improvement in the quality of the rural Human Capital.

In fact, until the public education service and the quality of life (i.e. the health of the citizens) is not improved in the rural areas, we cannot expect that they naturally fill the development gap with the urban areas. Poverty forces the inhabitants of the rural areas to sacrifice education: going to school, even when it is not extremely expensive, is seen as time taken away from working, which represents an income and consequently surviving. For the inhabitants of the PRC's mainland, often the only possible solution is to move towards more urbanised areas, but the social costs are too high: first of all, the depopulation of the rural areas could cause a relevant economic damage to the PRC. If too many people leave these provinces, it means that a lot of natural resources and land would remain unused. Secondly, the overpopulation of the urban areas generates two main problems: on one side,

⁹⁵Ivi., pg.158.

a general decrease of the quality of life, which could degenerate in social malcontent and, eventually, in protests. For the central government it could be extremely troublesome if the most productive and economically dynamic provinces of the country became crawl spaces and fertile soil for dissident movements. On the other side, a dangerous dynamic that characterises market economies could develop: the affirmation of the sub-proletariat class. As we have seen in the previous paragraphs, most of the Chinese economic sectors are still under State control (State Owned Enterprises), but at the same time to a certain extent private economic activities are allowed, especially in the urban areas. Within the framework of these private economic activities, despite all the regulations and limitations imposed by the central government, an increment of the disposable workforce, so of its offer, could give the opportunity to those who hold the Capital factor to start lowering the wages. Because of competition, the workers could start accepting these new wages, slowly contributing to the creation of a poorly paid sub-proletariat. Having a relevant percentage of its population exploited in plain sight could represent a dangerous ideological oxymoron for the People's Republic of China.

3.4 The People's Republic of China in the Middle-Income Trap: The Glawe and Wagner's analysis

This paragraph is extremely important for my dissertation. As I said in the previous paragraphs, the People's Republic of China is heading towards an important sliding door in its history. The decisions taken by Beijing, obviously balanced with the contingencies that happen in History, will determine the role that the country will play in the future. In its path to become a Capital actor in the Global Value Chains system, the biggest challenge for the PRC is the Middle-Income Trap, or better to say escaping the Middle-Income Trap. In order to work on the topic of the MIT, in this paragraph I will mainly use the Glawe and Wagner's paper "The People's Republic of China in the Middle-Income Trap?" (2017). First of all, we have to determine what we are talking about when we refer to the Middle-Income Trap. The Middle-Income Trap is an economic condition in which a specific category of countries could find themselves. It characterises

those nations that experienced an incredibly rapid economic growth, such as the PRC, and have been able to achieve the status of middle-income country. However, after having achieved this new level of economic development, their economic growth quickly decelerates to the point they cannot reach the degree of development of the high-income countries. They are now blocked in the Middle-Income Trap, and to escape from this invisible cell is easier said than done. The authors states that “some typical examples of MIT countries are Malaysia and Thailand in East Asia and Brazil and Colombia in Latin America”⁹⁶. However, the Middle-Income Trap should not necessarily be considered the worst-case scenario; in fact, a country stuck in this specific economic condition is not doomed. Moreover, the authors affirm that “the majority of articles agree that [...] this phenomenon affects a significant part of the world”⁹⁷. Hence, it would be a mistake to define the Middle-Income an economic disaster per se; this phenomenon should be put in relation with the characteristics of the country taken in consideration. The citizens of a country blocked in the Middle-Income Trap can still live in a condition of general wealth and their quality of life could still be very high. Obviously, the existence of inequalities is related to the intrinsic characteristics of the country, and not because the nation is in the MIT. The main problem with this economic phenomenon is that it is an enormous obstacle for a country that wants to play a hegemonic role globally. In order to understand this assumption, we should move our analysis to the framework of the Global Value Chains. In the first Chapter, I subdivided the countries participating in the GVCs in two kinds: the Labour actors and the Capital actors. The Labour actors are usually embodied by the low-income countries, which thanks to their cheap labour have a tremendous appeal for foreign enterprises and investors. The foreign direct investments (FDI) they receive allow these low-income countries to economically develop. This is the same process the People’s Republic of China went through. The Capital actors are, most of the time, high-income countries. These nations tend to be characterised by high economic and social standards, and they usually

⁹⁶ Linda Glawe; Helmut Wagner, 2017, “The People’s Republic of China in the Middle-Income Trap”, ADBI Working Paper, No. 749, Asian Development Bank Institute (ADBI), Tokyo, Japan, ADBI Institute, pg.2.

⁹⁷ Ibidem.

are hegemonic powers. Their governments often can afford to invest an important percentage of the national GDP in education and research, which allow them to develop know-how and new technologies. Owning these two elements is fundamental to preserve a global hegemonic role in the GVCs. However, we have previously seen that many countries in the world are neither low-income nor high-income, but rather middle-income. What is the role of the middle-income countries in the Global Value Chains system? Considering the middle-income economic phase just as a transition phase from the low-income one to the high-income one would be reductive. As I said, a country could find its fitting dimension in being a middle-income economy. At the same time, it is undeniable that being a middle-income country in the GVCs system involves some disadvantages. The role that a middle-income country usually plays in the GVCs is a hybrid one: because of its economic features it can play both the roles of Labour actor and Capital actor. If the objective of a country is to become a high-income state, time is a dangerous enemy. A middle-income country in order to achieve the status of a high-income country needs to implement important reforms in its domestic system. The most important thing is to have an economy capable of making the transition, but to do so many aspects of the state may be reformed. However, the reforms needed may be extremely radical and complex and they could take too much time to produce the hoped-for outcome: leaving the middle-income category. I want, now, to describe a possible scenario. There is a country that we will call X. X can be defined as a low-income country: poor economic performances, not a very developed industry, its citizens' quality of life is low when compared to richer countries etc. X's government decides it is time to make an important change: the country enters the GVC's system. Because X is a low-income country, it plays the role of a Labour actor. In fact, its cheap Labour is extremely appealing for foreign investors. Thanks to the capitals entering its domestic economy, in a matter of a few decades X becomes a middle-income country, with all the positive implications of it. X's central government decides that it is not enough, more can be achieved with the right decision. X will become a high-income country. This is an important passage: there is an intention. The country's government starts building a narrative of itself, proposed mainly to its

citizens, where the country will be a global hegemonic actor. For X time starts running. After becoming a middle-income country, X notices that some things are changing: first of all, its economic growth is slowly decelerating. Its Labour factor is not cheap as before and some low-income countries are presenting themselves as hostile competitors, by offering cheaper and similarly skilled labour in the GVCs' system. At the same time, high-income countries, GVCs' Capital actors, brutally defend their hegemonic position. Through research, innovation, investments in the education sector they want to remain the keepers of the "state of art". X needs to put an incredible effort to "fight" on these two economic frontlines. The expectations created by the governments' narration (becoming a hegemonic power etc.) are now very high. If I add some more specific features to this imaginary nation, such as deeply rooted domestic inequalities and issues with the quality of its Human Capital, what I obtained is the case study of a very specific country: the People's Republic of China.

Nevertheless, I acknowledge that I still have to demonstrate if the PRC is already or is about to enter the Middle-Income Trap. Once again, Glawe and Wagner's study on the PRC in the MIT runs to my aid. Their conclusion is that the People's Republic of China is not yet in the Middle-Income Trap, but the country could still enter it if the proper reforms are not taken for the country's economy⁹⁸. In order to determine whether the PRC is about to enter, is already in or will never enter the Middle-Income Trap, the authors develop their analysis starting from the two technical definitions of MIT: the absolute definition and the relative definition, both based on empirical evidence.

The former definition states that "a country is in the MIT if it stays for more than 28 years in the lower-middle-income range (LMIR) or for more than 14 years in the upper-middle-income range (UMIR), where LMIR stands for the income range between \$2,000 and \$7,250 and UMIR stands for the income range between \$7,250 and \$11,750"⁹⁹. This empirical definition to determine whether a country is in the Middle-Income Trap or not was developed by several scholars. It was obtained through the analysis of a substantial sample: the economic data, from the

⁹⁸ Ivi, pg.31.

⁹⁹ Ivi., pg.4.

Maddison database¹⁰⁰, of 124 countries. Despite understanding the logic behind the approach (if a country remains in an income-range for too long, it means that its growth slowed and it is blocked in the MIT), I still find it too rigid. By applying this definition to the People's Republic of China, the authors recognize that the country is not in the MIT. In fact, the PRC was able to leave the lower-middle-income range in less than 28 years, and regarding the upper-middle-income range it is too early to determine if the country is blocked in that income-range. However, Glawe and Wagner decide not to stop in their analysis. The authors choose to apply the same definition but using data of different origin: for instance, in one case they apply economic data coming from WEO, in another data from the PWT and in yet another data from the IMF. Their calculations give different results on the basis of the data used; the PRC may be already in the MIT, not yet in the MIT, about to enter the MIT etc. The authors state that the standard MIT definition does not allow them to determine the relationship between the PRC and the MIT.

Hence, the necessity to use another definition: the relative one. Instead of using just the rigid MIT definition employed for the absolute approach, the authors decide to use different MIT definitions, databases, and growth projections. The ratio behind a relative approach is to keep in consideration the characteristics of the country that constitutes the case study, in this case the People's Republic of China. Once again, the outcomes of their analysis are not homogeneous: even through the application of relative approaches, it is not possible to definitely determine the relationship between the PRC and the MIT¹⁰¹. Glawe and Wagner understand that both the absolute and relative approaches have evident limits, generated by the fact that they are empirical approaches. For instance, one of the first obstacles that they have been facing in studying the PRC in the MIT is the definition of the Middle-Income-Range, both in the absolute and relative approach. All the studies and scholars they take in consideration give significantly diverse definitions of the MIR, which directly influence the determination of

¹⁰⁰ Ibidem.

¹⁰¹ Ivi, pg.8.

“when” the MIT is¹⁰². Another relevant problem is the GDP’ data. In their analysis Glawe and Wagner, as we have seen, try to use data coming from different databases or took in consideration MIT’s definitions (obviously not what the MIT is, but rather when it is) developed from different databases¹⁰³. The outcomes differ too much. The absence of standard GDP’s data to work in the field of the MIT is a tremendous limit. More specifically for the relative approaches, the GPD’s data need to be from a very long period of time, around 50 years, in order to determine whether a country is in the MIT at the moment of the analysis¹⁰⁴. Glawe and Wagner, despite recognizing the limits of the empirical approaches, take a curious decision: they do not abandon the results obtained by their analysis so far, but they decide to incorporate them with new elements: the possible triggering factors of the Middle-Income-Trap¹⁰⁵. In fact, the results of the majority of the empirical studies seem to agree, somehow, on the fact that the PRC is not yet in the MIT, which still remains a risky possibility. The authors hope that the triggering factors’ approach could help to dissipate the ambiguity generated by the empirical approaches. The way through which Glawe and Wagner identify the triggering factors, which are eighteen in total, is extremely interesting: knowing that “the identified triggering factors are not theoretically grounded”¹⁰⁶ per se, they justify their choice by using the studies they have analysed so far on the MIT. Through a comparative reading of those studies, they narrow down what can be considered a triggering factor for the MIT. Among the identified triggering factors, we can find export structure, openness, TFP growth and many more. The authors apply these factors to the case study of the PRC in order to understand the relationship of the country with the MIT. One of the triggering factors on which they focus the most is the Human Capital, and the reason is that “the importance of human capital in the economic development process of a country is emphasised in the standard growth literature”¹⁰⁷. In the previous paragraph (3.3) we saw the

¹⁰² Ibidem.

¹⁰³ Ivi., pg. 10.

¹⁰⁴ Ivi., pg. 11.

¹⁰⁵ Ivi., pg. 12.

¹⁰⁶ Ibidem.

¹⁰⁷ Ivi., pg. 16.

importance of the Human Capital for a country's growth and its direct relation with the structural characteristics of said country, such as its domestic inequalities.

Through the integration of the findings from the empirical approach and the study of the triggering factors, Glawe and Wagner found that the People's Republic of China is not in the MIT and the passage to a higher Income-range is a realistic option, but that the risk of falling in the Trap is still a possibility. What will make a huge difference will be the policies and reforms implemented by the central government in Beijing. It is now time to see what are these crucial decisions that the PRC's government is taking in order to allow the country to achieve a new status in the GVC's system.

4 THE TRANSITION PROCESS: THE POLICIES THROUGH WHICH THE PRC IS CHANGING ITS ROLE IN THE GVCs' SYSTEM

In the previous Chapter we saw how the People's Republic of China's economic growth continued after Deng Xiaoping's resignation. We determined that the PRC definitely became a middle-income country, and we took in consideration all the implications related to this economic upgrade: first of all, the PRC preserved many of its domestic problems, whether they were economic, social, or environmental, despite its incredible economic growth. Secondly, we defined the concept of Middle-Income Trap and its roots, proving, among the other things, the PRC is not yet in the Trap but there is a consistent risk that this will happen. We were able to understand why the PRC needs to accomplish its transition in the GVCs' system and that there is a correlation between this economic phenomenon and the domestic issues of a country.

This fourth Chapter focuses on the measures, mainly policies and reforms, that the PRC's government has been implementing in the last years in order to achieve the transition in the GVCs' system. The Chapter is subdivided in three paragraphs, each dedicated to a macro-sector of political intervention. In the decision process that led me to choosing these three specific sectors, I highly kept in consideration the outcomes of the analysis developed in the third Chapter. The first paragraph will focus on the environmental and rural policies and reforms implemented in the last years by the PRC's government. The second paragraph will analyse the reforms in the Chinese education system, which we have seen to be a soft spot of the PRC. Last but not least, a paragraph will be about the policies and reforms that have modified the domestic Capital-Labour relationship of the PRC in the last years. Both in the first and third paragraphs I will try to take in consideration the Capital-Labour relationship within those sectors.

4.1 Environmental and rural reforms

Before starting to analyse the environmental and rural reforms implemented in the last years by the PRC's government, I want to justify why I chose to focus on this specific sector. First thing first, it is important to acknowledge that an intrinsic connection exists between the environmental dimension and the rural one of a country. These two sectors continuously influence each other, and every government needs to find the right balance for the well-being of its citizens. The proper environmental policies allow a country to preserve the quality of life of its citizens and at the same time to safeguard its natural resources, such as soil and freshwater; to have a conspicuous number of natural resources, maybe even of high-quality, strongly contributes to the development of the agricultural sector of a nation. At the same time, the right rural policies and reforms allow to obtain positive production outcomes while respecting the ecosystem of a country. In the case study of the People's Republic of China, this relationship is particularly complex. In the paragraphs 3.3 and 3.4, we have seen that the domestic inequalities of mainland China expresses themselves in a rural-urban conflict. The fact that rural areas are far behind, in many aspects, the urban areas affect the quality of the Chinese Human Capital, which is an extremely important element for the transition the PRC is attempting in the GVSs' system. Hence, policies and reforms that can enhance the economic performances of the poorer areas, the rural ones, of the PRC must be of our interest.

In paragraph 3.2, thanks to the work of Yanrui Wu (2004), we have been able to delineate a general perspective of the PRC's astonishing economic growth in the post Deng's era. One of the aspects on which we focused was the energy sector: the more the country's economy grew, the more energy was needed. The impact on the Chinese environment was, and has been, devastating: the economic-development drive pollution strongly reduced the quality of life of Chinese citizens, especially in the urban areas. There has always been the general idea that the Chinese government never really cared about the environment or its citizens' health, that economic profit was the only important thing and environmental regulations were ignored because it would have posed an obstacle to Chinese

economic expansion. For many people, the first word related to China is pollution. Does the PRC really care so little about the environment? Well, obviously the truth is a bit more complicated.

The main cause of the Chinese pollution problem is industrial expansion. For the last decades, since the beginning of the openness policy in the late 1970s, the country has been characterised by a rapid development of its industrial sector which contributed to a rapid urbanisation of several areas. Cities represent an administrative dilemma for the People's Republic of China: urban centres are the core of the Chinese economy, after all they contribute the most to the national GDP, but at the same time they are the major contributor to the national pollution production. All these elements combined brought the People's Republic of China to become “, in 2007, the top global greenhouse gas (GHG) emitter. Its carbon dioxide (CO₂) emissions have almost tripled between 1990 and 2007¹⁰⁸.” These data are extremely worrying. The PRC's government recognised the necessity of changes in order to protect the well-being of its citizens. A new objective was set for the People's Republic: to transform their economy into a low-carbon emissions one. Easier said than done, considering two factors: 1) it is a challenge, technologically speaking; 2) the PRC still needs to accomplish the transition in the GVCs' system, and a low-carbon economy could slow down this process.

The PRC, despite all the economic liberalisations implemented in the last decades in the country, maintains still today a “planning” approach. The main tools used to manage the country are still the Five-Years Plans. Within the framework of the Five-Years Plans, major decisions are taken, even those related to the environmental reforms and policies. For instance, the first time when environment was defined a topic of concern was in the framework of the 6th Five-Years Plans (1981-1985)¹⁰⁹. The central government understood that it was time to implement policies for the protection of the environment, such as the “Water Pollution Prevention and Control Law” of 1984¹¹⁰. The Chinese government's

¹⁰⁸ Xiumei Guo et al., 2013, “China's Shifting Policies towards Sustainability: a low-carbon economy and environmental protection”, *Journal of Contemporary China* Vol.22, Routledge Taylor&Francis, pg. 429.

¹⁰⁹ Ivi., pg. 435.

¹¹⁰ Ivi., pg. 436.

environmental awareness kept growing year after year, step by step with the country's economic development, and in the early 2000s a turning point was reached. In fact, during the 10th Five-Years Plans (2001-2005) several measures were taken. For instance, the PRC's government "promulgated seven environmental protection laws and over 120 regulations to ensure a better protection of the ecology for the world's largest population¹¹¹". Moreover, the Environmental Impact Assessment Law was approved in 2003. Then, in the framework of the 11th Five-Years Plan (2006-2010) the environmental topic became an important part of the Chinese government's agenda. The 11th Five-Years Plan established targets related to the reduction of pollution; for instance, "it set an energy intensity reduction target of 20% and a major pollution reduction target of 10% by 2010 against the 2005 level"¹¹². It is appropriate to say that the 11th Five-Years Plan, where the greatest environmental effort was made by the Chinese government, was fundamental for the transformation of the PRC in a low-carbon economy. The 12th Five-Years Plan presented an even more balanced approach to the environmental topic. However, the top-down regulations and policies developed within the Five-Years Plans are not the only tools used by the PRC's government regarding environmental issues. International cooperation and environmental domestic education have been playing an important role in the PRC.

Regarding the first dimension, it is important to acknowledge that the PRC has been cooperating for a long time with foreign countries and international organisations on environmental protection. For instance, the UNPD (United Nations Procurement Division) has a long story of cooperation with local authorities and administration in the People's Republic of China, especially for the creation of environmental programs¹¹³. The PRC is also a very appealing subject for projects developed in the frameworks of international cooperation. Since the approval of the Kyoto protocol, more and more countries have wanted to develop with Beijing clean development mechanisms projects, otherwise

¹¹¹ Ivi., pg. 437.

¹¹² Ivi., pg. 432.

¹¹³ Ivi., pg 439.

known as CDM projects. The functioning of this kind of cooperation is pretty clear: two countries share knowledge and technologies in order to achieve a common objective, which in this case are new methods of “respectful-towards-the-environment” development. Someone could argue, and I say rightfully, that the PRC does not seem a proper candidate for this kind of operation. The country is not famous for owning the state of art of environmental-friendly technologies or production models. Hence, why do many foreign countries want to cooperate with the People’s Republic? To make the idea, in 2010 the 39% of the CDM projects developed globally were set in the PRC¹¹⁴. Well, the answer is directly linked with the topic of my dissertation. Because of the fact the People’s Republic of China has been one of the most important rising economies of the world, the richer countries (i.e., the capital actors in the GVCs) find the PRC an appealing partner for these kinds of cooperation. Suffice it to say that the other countries that participated the most in CDM projects in 2010 were India, Brazil and Mexico, all rising economies¹¹⁵. The numbers of CDM developed in the PRC in the last years has been growing vertiginously and this system may represent a winning condition in the global economic competition for Beijing. In the meanwhile, the PRC’s government has been carrying on activities related to the environmental education of the citizens. The purpose of an activity of this kind is to ensure that environmental protection is not pursued only through top-down regulations or reforms, but it is the spontaneous behaviour of the country’s citizens, properly educated, that contributes to the national well-being. In 1996, the PRC’s government developed an educational program called “Platform for Action, the National Environmental Publicity and Education”. The program was carried on until 2010, with relevant strengthening’s phases in 2001 and 2006, and aimed to create environmental awareness among Chinese citizens. This process was implemented through several tools, from the introduction of new school textbooks to the cooperation with environmentalist NGOs¹¹⁶.

¹¹⁴ Ivi., pg. 440.

¹¹⁵ Ibidem.

¹¹⁶ Ivi., pg.

It is, now, necessary to demonstrate that environmental policies and regulations do not represent an obstacle for the transition that the PRC is trying to achieve in the GVCs' system, but instead they may even favour this process. Someone could argue that when a central government imposes limitations regarding emissions, for instance, this decision affects the industrial sector of a country, and it could slow down its economic development. Some scholars firmly support this perspective. For instance, Xinzheng Shi and Zhufeng Xu, in their study "Environmental regulation and firm exports: Evidence from the eleventh Five-Year Plan in China" (2018), develop the idea that the environmental regulations of the 11th Five-Years Plan had slowed the PRCs' economic development by reducing the export's potential of the country. On the basis of their findings, the authors argue that these environmental limitations decreased the appeal of the PRC in the global market. Nevertheless, the authors stress that this collateral effect of the environmental regulations is stronger on those Chinese firms which were not yet in the global market, but it was practically non-existent for those already integrated in the system.¹¹⁷ Although I found this analysis interesting, I think it is intrinsically limited. The authors do not really take in consideration the effects of the environmental policies in the long period and only focus on their, possible, economic effect. Another study that tries to underline some problems related to the environmental policies implemented by the PRC in the last years is the paper "The economic consequences of environmental regulation in China: From a perspective of the environmental protection admonishing talk policy" (2020) by Zhihua Tian et al. In this case the authors try to investigate the actual effectiveness of environmental policies and limitations, in particular taking in consideration the EPAT, also known as the "environmental policy admonishing talk" policy. The EPAT was developed and implemented in 2014 by the Chinese Ministry of Ecology and Environment (MEE) for a very specific purpose: to improve the performance of

¹¹⁷ Xinzheng Shi; Zhufeng Xu, 2018, "Environmental regulation and firm exports: Evidence from the eleventh Five-Year Plan in China", *Journal of Environmental Economics and Management*, Elsevier, pg. 198.

local authorities in implementing environment-protection measures¹¹⁸. What the authors try to show, through their research, is a relevant “implementation gap” between the Chinese central government and its local authorities. The Chinese local authorities showed the tendency to implement environmental policies very zealously, but without a real respect of the balance between economic growth and environmental protection that the PRC is trying to achieve. The authors stress that, the “EPAT policy casts a shadow over the economic development at the city level of China”¹¹⁹, because it tends to interfere with the industrial sector. However, neither of these two studies actually demonstrate that the environmental policies and reforms will ruin the transition of the PRC in the Global Value Chains’ system. On one hand Xinzheng Shi and Zhufeng Xu admit that their study focuses on environmental measures’ short-period effects and only regarding the obstacles that Chinese firms may face in trying to enter the global market¹²⁰; on the other hand, Zhihua Tian et al. state that there is clearly an administrative problem related to the central-local authority in the People’s Republic of China, in particular caused by the vastity of the country, but they are not able to prove that the Chinese environmental strategy is damaging the country in its transition process¹²¹. At this point, our question remains unanswered: do the PRC environmental policies slow, or even obstacle, the country’s transition process in the GVCs’ system? The study “Does stricter environmental regulation enhance the global value chains position of China’s industrial sector?” (2021) by Jin-Chao Wang et al. comes to our aid. This work not only demonstrates that environmental policies and regulations do not generate obstacles in the transition, but they actually are facilitating it. The authors approach the issue in a pretty traditional way: they underline that the recent rapid economic growth of the People’s Republic of China has generated the necessity to develop and implement measures for environmental

¹¹⁸ Zhihua Tian et al., 2020, “The economic consequences of environmental regulation in China: From a perspective of the environmental protection admonishing talk policy”, Wiley, pg. 1724.

¹¹⁹ Ivi., pg. 1731.

¹²⁰ Xinzheng Shi; Zhufeng Xu, 2018, “Environmental regulation and firm exports: Evidence from the eleventh Five-Year Plan in China”, *Journal of Environmental Economics and Management*, Elsevier, pg. 199.

¹²¹ Zhihua Tian et al., 2020, “The economic consequences of environmental regulation in China: From a perspective of the environmental protection admonishing talk policy”, Wiley, pg. 1731.

protection, in order to contain the levels of pollution in the country. However, the general feeling on these measures cannot be defined as positive: there is a significant fear that they may impact the PRC's industrial productive performance and, consequently, affect the country's role in the GVCs¹²². In their study, the authors were able to prove that these measures not only do not represent an obstacle for the PRC, but they may also improve the country's industrial sector position in the GVCs. The hypothesis on which this study is based is that environmental regulations and policies create challenges for the Chinese firms. Basically, their traditional methods of production become not compatible with the emissions' limitations and the environmental protection's measures imposed by the central government. Therefore, Chinese firms are forced to innovate themselves and their production systems. Despite a increase in the production's costs, the new innovation should increase the competitiveness of Chinese firms in the Global Value Chains' system¹²³. The methodology used for this work is as follows: the authors calculated the position of the PRC's industrial sector in the GVCs' system in a time span of twelve years (2003-2014), on the basis of the latest value-added decomposition method¹²⁴. In other words, it means that the authors took as a starting point for their analysis the concept that within a certain Global Value Chain there are several phases, of different quality, in which the firms of a country perpetrate their productive activity. Thanks to certain triggers that lead to advancement and innovation, the firms of country can reach better phases of a GVC contributing, in this way, to enhance the role of the whole country in the GVCs' system itself¹²⁵. Jin-Chao Wang et al. demonstrated that the environmental regulations promulgated by the PRC's central government could work as innovation triggers, which have been helping the PRC to enhance its industrial sector in the GVCs¹²⁶. The fact that this specific sector could be affected would allow the country to enhance its position in the whole GVCs' system.

¹²² Jin-Chao Wang et al., 2021, "Does stricter environmental regulation enhance the global value chains position of China's industrial sector?", *Petroleum Science*, pg. 1899.

¹²³ Ivi., pg. 1900.

¹²⁴ Ivi., pg. 1906.

¹²⁵ Ivi., pg. 1900.

¹²⁶ Ivi., pg. 1907.

The other policies and reforms I want to analyse are those in the agricultural sector. As aforementioned, the rural economy played an extremely important role for the economy of People's Republic of China, but the fast industrialisation that characterised the country since the late 1970s progressively reduced the importance of the sector. In paragraph 3.3 we have seen how the rural areas of mainland China have been, and still are, structurally much poorer than their urban counterparts. To implement proper and effective rural reforms and policies is fundamental for the PRC. In this way, the central government may be able to lift a consistent portion of the country's population from the condition of poverty, by strengthening the agricultural economic sector. These changes may lead to an improvement of life-quality and, directly, of the national Human Capital, which is an extremely important element for the transition that the country is trying to achieve in the GVCs. In the second chapter, we acknowledge that the PRC has a long history of rural reforms. From Mao to Deng, the Capital-Labour relationship and the production models were changed several times; a good example is the abandonment of the Dazhai for the households' production model. It is now time to dissect the Chinese rural reforms of the last few years, keeping in mind that the People's Republic of China is a strongly industrialised country. First of all, we begin our analysis from some data. The People's Republic of China has a relevant problem with food production. In the last years, the country has demonstrated to be not self-sufficient when it comes to food production. The People's Republic of China "has met the food demand of nearly 20 percent of the world's population with 'only 5 percent of the world's freshwater and 8 percent of its arable land'¹²⁷. Therefore, rural reforms are needed not just for the transition in the GVCs' system, but also for the "survival" of the country itself. In the last twenty years, the overall strategy of the PRC's central government has been to create the proper socio-economic environment for an industrialised economic sector. For instance, in 2002 the central government started to implement the "Tax for free Reform" which brought to the removal of agricultural tax in 2006¹²⁸. However, in my

¹²⁷ Yongji Xue et al., 2020, "Rural Reform in Contemporary China: Development, Efficiency, and Fairness, *Journal of contemporary China*, Routledge Francis&Taylor, pg. 266.

¹²⁸ Ivi., pg. 273.

opinion, one of the most important measures taken by the PRC in the rural sector are the Land Consolidation Programs, also known as LCPs. The LCPs have been constantly implemented in the last twenty years and their main objective is to contrast the so-called “land fragmentation”. The plan consists, basically, in creating a more centralised and industrialised agricultural sector which could satisfy the country’s needs¹²⁹. Moreover in 2015, always in the strategic framework of land consolidation, the central government issued a new “*rights on land*” reforms package which transformed “collective land tenure to three interrelated but separable rights to govern ownership, contractual, and use rights of land tenure”¹³⁰. The idea was, again, to favour the birth of an industrialised agricultural sector. One of the most interesting aspects of these reforms is that the PRC’s central government is trying to achieve this agricultural industrialisation not just through technological advancement. Instead, the main objective seems to be the reshaping of the Capital-Labour relationship in the rural sector: the progressive abandonment of the household’s productive units in favour of a more centralised, but not collectivised or necessarily state-owned, model. At the same time, the PRC’s central government created tools that allowed the small-scale farmers not to be completely crushed by the larger competitors in the agricultural sectors. In 2007 the Farmer Cooperative Initiative (law was enacted. This legislation created the mechanism of the farmer professional cooperatives (FPCs), through which small farmers could receive state support in order to maintain their competitiveness in the market¹³¹. In my opinion, this decision is not to be considered as in contrast with the agricultural industrialisation process. The latter, in fact, is a long-term objective. In the meanwhile, the officials in Beijing need to find a way not to impoverish even more the rural population and, consequently, to create social tension. The FPCs are, for instance, a suitable solution for this purpose. Last but not least, it is proper to take in consideration the Grain for Green (GFG) projects, namely the junction point between the environmental and agricultural reforms of the PRC. The GFG, as a projects’ framework, was

¹²⁹ Ibidem.

¹³⁰ Ivi., pg. 274.

¹³¹ Ivi., pg. 275.

developed and implemented for the first time in 1999. Since then, its projects have been extremely helpful for the purposes of environmental protection and poverty alleviation in the Chinese countryside. These state-funded projects have been constantly contrasting ecological deterioration in mainland China and the endemic poverty that characterises certain areas of the country¹³².

I want to conclude this paragraph with an anecdote that shows how important for the People's Republic of China and deeply connected with each other the environmental and rural reforms are. In 2018, Chairman Xi Jinping proposed the doctrine known as "Two Mountain Doctrine"¹³³. This strategy was clear: the People's Republic of China's economic growth cannot be achieved at the expense of environmental protection. Sustainability needs to be a priority for the PRC. This specific doctrine perfectly exemplifies why environmental and rural reforms are so important for the PRC's transition in the GVCs' system.

4.2 Education reforms

In paragraph 3.3 we analysed the structural domestic inequalities of the People's Republic of China. The pattern of these inequalities is clear: rural areas tend to be, in general, much poorer than their urban counterparts. Moreover, Chinese rural areas are characterised by a lower level of education. This information refers both to the number of people with a certain level of education that lives in that area and to the quality of the public education service provided by the state. Last but not least, we have been able to determine that education, in terms of population's schooling and quality, has a strong influence on the quality of a country's Human Capital. The more and better my population is educated, the higher is the quality of my Human Capital. This strong correlation between these two factors is highly problematic for the People's Republic of China. In fact, the country of the Yellow River needs to own a proper Human Capital in order to fully achieve the fundamental transition in the Global Value Chains' system. Therefore, reforms and policies in the education system can be considered one of the ways through which Beijing wants to attempt the transition. However, it must be clear that these

¹³² Ivi., pg. 276.

¹³³ Ibidem.

measures do not just consist in building new scholastic infrastructure, increasing the quality of the teachers or renewing the educational programs. Although they are all important objectives, in order to enhance the quality of a country's Human Capital it is necessary to work on the *forma mentis* of the whole population. It is a quite complex concept, but we have already seen a good example of it in paragraph 4.1. In the last years, the PRC's central government has been educating the Chinese citizens to environmental awareness, which can result in a radical change of attitude towards the environmental topic by the population. The whole amount of the individual behaviours results in an advantage for the community. First of all, it is important to acknowledge that there is not a specific season of education reforms in the history of the People's Republic of China. They have always been part of the agenda of the central government. Nevertheless, there are certain points in the country's history when the policy making activity on the sector intensified. For instance, in 1997 the PRC's central government began to implement a series of basic education reforms. They mainly consisted of changes in the governance of schools, from centralised to local, and in the schools' formative offer, which became more oriented towards skills considered useful in a globalised market¹³⁴. Interestingly, we can delineate, during the 1990s, a clear change in the philosophical framework from which the Chinese education reforms were developed. The traditional model on which the Chinese education system was based was a combination of the Soviet Union's model and the traditional Chinese one. Some scholars argue that since 1993, when the "Outline for Education Reform and Development in China" was issued by the Ministry of Education, the USSR's model was progressively abandoned in favour of an American, or even a more general Western, model. The ratio behind this strategy was that Western values were considered more suitable to achieve success in the socio-economic model of the globalised market¹³⁵. However, it would be a mistake to think that the contacts between the Chinese education model and its Western counterpart are very recent. In fact, there is a long history of contact,

¹³⁴ Yongbing Liu & Yanping Fang, 2009, "Basic education reform in China: globalization with Chinese characteristics", *Asia Pacific Journal of Education*, Routledge Taylor&Francis, pg. 407.

¹³⁵ Yuzhuo Cai, 2012, "Traditional Reform Philosophy and Challenges of Higher Education Reforms in China", *International Journal of Humanities and Social Science*, Academia, pg. 60.

contrast, rejection and attraction between these two *forma mentis*. We have examples of this relationship since the 19th century when the People's Republic of China did not exist yet and the Qing Empire was struggling for its survival. The emperor's officials began to perceive the Western values as a model to follow in many fields: military, economy and even education. The Western countries were the global hegemonic powers at the time, and they must have had the key to success. It is important to fully understand that this was not a merge of Chinese traditional culture and a specific Western country's culture. What happened was the integration of certain elements of generic Western values into certain sectors of the traditional Chinese model. For instance, Western countries were admired for their modern armies, their industrialised economies and even their high-level education systems, in particular Universities. This attitude has a specific name: *zhong ti xi yong*, or even shortened to *ti-yong*. This phrase literally translates to "Chinese (*zhong*) essence (*ti*) Western (*xi*) means (*yong*)"¹³⁶. This concept perfectly summarised the philosophical approach took by the Qing Empire in its modernisation process: Chinese traditional values with Western innovation. It would be a mistake to consider this concept as a part of the past. In every step towards modernisation and change, China has always jealously tried to preserve its identity. Another very interesting example is the meeting between the communist ideology and the traditional Chinese values. The result of this encounter was the "Socialism with Chinese characteristics". In my opinion, it is important to keep in mind this fact when studying any approach in any field to what is foreign by the People's Republic of China.

The analysis of the Chinese education reforms will be structured in this way: a part of this paragraph will be dedicated to those of the basic education, while another will be dedicated to higher education. Despite being part of the same system, in my opinion the analysis will result more clearly by keeping these two levels of education separated. I will conclude this paragraph by dissecting the content of the "National Guidelines for Medium- and Long-Term Educational Reform and Development (2010–2020)".

¹³⁶ Ivi., pg. 61.

In the early 2000s, a macro process of reform dedicated to the Chinese basic education system began to be developed and implemented by the PRC's central government. These reforms were mainly focused on education curricula, the selection of new textbooks and the preparation of the teachers. For instance, the Ministry of Education, from 2001 to 2003, established new curriculum requirements for the grades from 1 to 12¹³⁷. How this reform was implemented is extremely interesting: the new education's curricula were tested in four provinces in 2004 and then applied in the whole country in 2007¹³⁸. This gives us an idea of how experimental they were. The content of these education's curricula was strongly modified. I do not want to analyse every single change, but at the same time I think that we should, at least, take in consideration some of the most relevant. For instance, "changing the teaching and learning focus from basic knowledge and skills to the capacity of students to engage in critical thinking, problem solving and creativity" or "cultivating a sense of social responsibility, sharing, cooperation and communication"¹³⁹. Both these changes are interesting. On one hand, there is a qualitative leap regarding the content of education in Chinese schools. School programs were not though simply to prepare the students for the productive role in society ("knowledge and skills") anymore, but also to make them more predisposed to become an active part of change ("to engage in critical thinking, problem solving and creativity"). On the other hand, schools were thought to become forges of model citizens ("cultivating a sense of social responsibility, sharing, cooperation and communication"). In both cases, the final achievement seemed to be the same: to enhance the quality of the national human Capital. Nevertheless, some challenges arose during the process of reform of the Chinese basic education system. I choose to take in consideration one in the specific, mainly because of how the PRC's central government decided to solve this issue. When the Ministry of Education began to implement, with a top-down policy making style, the curricula reform, several teachers and school

¹³⁷ Janette Ryan, Changyun Kang, Ian Mitchell & Gaalen Erickson, 2009, "China's basic education reform: an account of an international collaborative research and development project", *Asia Pacific Journal of Education*, Routledge Taylor&Francis, pg. 428.

¹³⁸ *Ibidem*.

¹³⁹ *Ivi.*, pg. 429.

administrators resisted the process. They found these changes too radical (i.e. too Western) and the teachers, in particular, had some difficulties in achieving the new objectives established by the reforms¹⁴⁰. First of all, it must be acknowledged that this top-down reform model of the education system was borrowed by the MOE from Canada. The Canadian experience already showed that this kind of reform was often resisted by teachers and the only solution was to educate them about it. By making them understand the importance of the reform, the effectiveness of its implementation rose. The tool used to do so were the professional learning communities (PLCs), which aimed to enhance the cooperation and collaboration between teachers¹⁴¹. The PLC gave the opportunity to overcome, at least partially, the limits of a top-down approach by making teachers and schools feel more involved. The People's Republic of China copied this solution by creating its own PLCs, the Learning and Development Communities¹⁴² (LDCs). Apart from the eternal struggle between these two styles of policy making (top-down vs bottom up), the case study of the Chinese basic education reform is a fantastic example of the *ti-yong* concept. The PRC's Ministry of Education tried to conciliate Western elements with the traditional Chinese education system. Also, both the reform structure and the solution (PLCs) were borrowed from a Western country.

After having analysed the reforms in the PRC's basic education system, it is now time to focus on those in the higher education one. For what the People's Republic of China is trying to achieve, an advanced and well-developed higher education system is fundamental. In fact, the framework of a higher education system is where research, in any field, is perpetrated and the outcomes of research are important factors for the transition that the PRC wants to conduct in the GVCs' system. A relevant number of reforms was already implemented during Mao's era, but their outcomes were everything but positive. The higher education reforms of this period of PRC's history have a very negative reputation. Many mistakes were made and they likely slowed the PRC's development. For instance,

¹⁴⁰ Ibidem.

¹⁴¹ Ivi., pg. 430.

¹⁴² Ivi., pg. 431.

during the Great Leap Forward the number of Chinese universities was characterised by moments of overexpansion, followed by sudden reductions. In 1957 there were 229 in the PRC, then in 1958 there were 841, in 1960 they became 1289 and then their number was reduced to 407 in 1963¹⁴³. These continuous, and rapid, changes related to the number of universities on the Chinese national territory showed the absence of a clear strategy regarding the development of the higher education system. Another Mao's decision that undeniably created obstacles for the development of the PRC's higher education system was the politicisation of universities. Mao considered the old education system as a forge of the bourgeois ideology. In 1966, the PRC's leader declared that all Chinese students became red guards and would have played an active role in the revolution. Universities, and even lower-level schools, became a gear in the machine of the CCP's propaganda. In this way, Chinese universities progressively stopped being the engine of national advancement and became "political re-education" institutions. Mao saw them as a tool to spread the revolution all over the country¹⁴⁴. Things started to change between 1977 and 1978, with the end of Mao's era, and a season of restoration of the Chinese higher education system began. First of all, universities stopped being just public bodies used to ideologically educate the population and came back to be powerhouses for innovation. The traditional academic degree system (bachelor's, master's, doctorates) was re-established and even the academic research system, which has always been extremely important for innovation. Moreover, the number of universities was characterised, again, by an expansion. Nevertheless, this time it was part of a more rational and organised strategy, which aimed to progressively enlarge the formative offer of the Chinese higher education system. Last but not least, Chinese students started to study abroad.¹⁴⁵ What allowed these changes in the PRC's perspective on its higher education system were two events: on one side, the aforementioned end of Mao's political era; on the other side, the opening policy of 1978. From 1978, the priorities of the CCP radically mutated. In fact,

¹⁴³ Ouyang Kang, 2004, "Higher Education Reform in China today", Huazhong University of Science and Technology, Wuhan, China, Policy Futures in Education, Volume 2, Number 1, pg. 142.

¹⁴⁴ Ibidem.

¹⁴⁵ Ivi., pg. 143.

the People's Republic of China was considered over the revolution's phase by the Party's officials. It was then time for a new phase: development. As we have already seen, the country entered the GVCs as a Labour actor, which allowed the PRC to experience a great and relatively rapid economic growth and development. Since 1998, the PRC accelerated even more regarding the development of its higher-education system by increasing public investments in the sector, because it was clear that it was a fundamental ingredient for the overall development of the country. For instance, in the "Huazhong University of Science and Technology, total income increased from 0.4 billion in 1998 to 1.4 billion RMB in 2003¹⁴⁶". In 1999, the Third National Conference on Education was held. In this framework, the PRC's central government developed the "Plan for Chinese Education Development in the 21st Century". Within this plan, further policies, reforms, and investments were created and implemented all for one specific objective: an even greater development of the Chinese higher education system¹⁴⁷.

In more recent years, the People's Republic of China made even further steps regarding the modernisation process of its education system, both the basic and higher one. At the beginning of 2010, the PRC's central government issued an extremely important document for the future of the country's education system: the National Guidelines for Medium- and Long-Term Educational Reform and Development. This initiative was a well-structured strategic framework which established guidelines and the objectives for the PRC's education system from 2010 to 2020¹⁴⁸. This document is extremely articulated, especially for how it was formulated. Its creation took more than a year and, although the central government was the leading institution, saw the direct involvement of several actors: ministries, state commissions, universities, social research institutions, the World Bank Institute etc. Moreover, the head of the plan's Working Team Liu Yandong, at the time State Councillor, visited several countries (United States,

¹⁴⁶ Ivi., pg. 145.

¹⁴⁷ Ivi., pg. 146.

¹⁴⁸ Mynguan Gu, 2010, "A Blueprint for Educational Development in China: A Review of The National Guidelines for Medium- and Long-Term Educational Reform and Development (2010–2020)", *Front. Educ China* 2010, 5(3): 291–309, Higher Education Press and Springer-Verlag 2010, pg. 291.

Russia, Switzerland) in order to take inspiration from their education systems¹⁴⁹. The general strategy of these Guidelines was to improve the Chinese education system through reforms focused on equity and a quality's improvement of the system itself. This general strategy was embodied by the three strategic goals, which had to be achieved by 2020: "to achieve modernization of education basically; to enable a learning society to take shape basically; and to build up a country rich in human resources"¹⁵⁰. Another interesting element of the Guidelines was the strategic themes, which could be defined as the common thread of the reforms and policies content in the Guidelines. The strategic themes strongly underlined the importance of the human element for a country and that the Chinese central government should have taken a quality-oriented path in the reforms for its education system ¹⁵¹.

The content of the Guideline focused on both the basic and higher education. Regarding basic education, in paragraph 3.3 we have seen that the PRC has always been characterised by strong inequalities between rural and urban areas, related to the quality of the public education service and the school drop rates. Statistically, the Chinese rural areas have always been worse than their urban counterparts. The Guideline established the objective of improving the public school system in rural areas, in order to make the nine compulsory years of school of high quality for all the Chinese students. The Guidelines indicated as measures to achieve these results on one hand public investments to improve the quality of education and of schools' infrastructures, while on the other hand a cooperation between central and local authorities to ensure that no student would have been left behind for any reason¹⁵². Also, the Guidelines established that the Chinese basic education system should have become more "vocational" by 2020. It meant that the system needed to be change in order "to meet the needs of the readjustment of economic structure, embody the concept of lifelong learning, and coordinate the development of secondary and tertiary vocational education"¹⁵³. This statement is

¹⁴⁹ Ivi., pg. 293.

¹⁵⁰ Ivi., pg. 295.

¹⁵¹ Ibidem.

¹⁵² Ivi., pg. 297.

¹⁵³ Ivi., pg. 298.

a clear proof that the PRC's central government has always been conscious of the fact that working on the country's Human Capital is a necessary condition to successively fulfil the transition in the GVCs' system, and that to work on its education system is a fundamental part of the process.

Regarding higher education, the Guidelines established that measures needed to be taken in several contexts. First of all, the quality of this level of education and of the research needed to be improved. The PRC's universities had to become among the best in the whole world. In my opinion, in this passage the Guidelines clearly showed a new PRC's attitude: the one of a country who desired, and still desires, to become a hegemonic power. Secondly, the Guidelines indicated the necessity to progressively enlarge the number of enrolments to the national universities. Despite not being specified in the document, I strongly believe that, in any country, a proper improvement of the basic education system, accompanied by the right welfare measure, would generate an increment of enrolment to higher education institutes. As we have previously seen, the Guidelines gave great importance to the improvement of the PRC's basic education.

4.3 A new domestic Capital-Labour organisation model for the People's Republic of China

In paragraphs 4.2 and 4.3 we analysed policies and reforms which the PRC has been implementing in the last years in order to achieve the transition in the GVCs' system. All the political measures we took in consideration were related to the domestic inequalities and problems of the People's Republic of China. In this paragraph, we are going to examine the measures adopted by the PRC's government regarding the country's domestic Capital-Labour relationship. The transition the PRC's want to achieve in the GVCs needs a favourable Capital-Labour relationship, but at the same time it could strongly affect the domestic economic and social balance of the country. The structural inequalities, such as the urban-rural ones, could be enhanced and social tensions may cause great damages to the unity of the PRC. Beijing, in the last years, has been working in creating a new model of the Capital-Labour's relationship, which from our Western point of view is not that simple to understand.

How can we define the PRC on the basis of its domestic Capital-Labour relationship? In my opinion, the People's Republic of China is characterised by a centrally managed capitalistic model, which is still under construction by the way. It means that within the borders of the country, in the last years the central government has been establishing certain regulations and limitations to give a new shape to the socio-economic system of the traditional market economy. To the question "is the People's Republic of China still a communist country?", the only answer I feel safe to give, so far, is that the "the People's Republic of China is a country characterised by a socialism with Chinese characteristics' ". However, I will return to this issue in the conclusion of my dissertation.

Our analysis will mainly focus on policies and reforms from 1978 onwards, when the openness policy was established, and the PRC's domestic Capital-Labour relationship radically changed. An enormous quantity of foreign capital entered the country and the central government began to implement liberalisations and to create room for private enterprises. The social impact of these changes was undeniably relevant and Deng Xiaoping himself declared that a part of the population would have become richer than the other. It seemed that the principle of egalitarianism was slowly abandoning the ideological identity of the PRC and wealth accumulation was not seen as a betrayal to the Revolution anymore¹⁵⁴. Nevertheless, it would be a mistake to think that the PRC's central government completely stopped caring and legislating on the Labour and Capital factors.

The first element of the relationship we are going to take in consideration is the Labour factor. The Labour factor of a country is embodied by its working force, whose total number of skills and qualities is expressed by the Human Capital. When we refer to a country's working force within the Capital-Labour relationship we are talking about Human Resources. In a productive process, a human being (Labour) is a resource as well as an investment or a machine (Capital). How these Human Resources are organised, regulated, and controlled in the production process is called Human Resources Management, or HRM. The HRM adopted by the People's Republic of China changed a lot since 1949. In my

¹⁵⁴ Xiaoya Liang et al., 2012, "Strategic Human Resource Management in China: East Meets West", Academy of Management Perspectives, ResearchGate, pg. 56.

opinion, it does not really make sense to focus too much on the Labour factor during Mao's era. The Chinese workers were allocated directly by state without any possibility of mobilisation and the Capital factor was distributed by the government as well. The Capital-Labour relationship could be defined as static. During Mao's era, the Chinese workers of the rural areas were organised in collectivised farms on the basis of the Dazhai model, as we saw in the second Chapter. On the other hand, for their urban counterparts, the most iconic HRM's measure was undeniably the "iron rice bowl". The "iron rice bowl" was an employment system, which also included a series of welfare services, for the Chinese urban workers. A citizen was forced for life to work in the same state-owned productive unit by decision of the central government¹⁵⁵. Still today, it is considered the symbol of the Labour force management of the first decades of existence of the PRC. As you can imagine, this employment model was not compatible with a market economy. Nevertheless, even during the pre-Deng's period, Chinese workers were not all equal. They were subdivided into two categories on the basis of their responsibilities within a production system. In 1955, the PRC's central government introduced a model in its HRM for which Chinese workers were distinguished in normal workers and cadre¹⁵⁶. The former kind could be considered as blue-collar employees, that at the time were under the authority of the PRC's Ministry of Labour, while the cadres were white-collar employees, under the control of the Ministry of Personnel¹⁵⁷. The cadres were appointed by the state. Although all the Chinese workers were under the direct management of the PRC's central government through its Ministries, we can clearly see a hierarchy and difference in power and responsibilities within Mao's era Chinese Human Resources Management. Cadres played a role of control and authority over the other workers. At the time, there were two relationships of authority: an external one, between the central government and the whole Chinese workforce, and one internal, the former, between the cadres and the blue-collar

¹⁵⁵ Eli Friedman, Ching Kwan Lee, 2010, *Remaking the World of Chinese Labour: A 30-Year Retrospective*, British Journal of Industrial Relations, LSE, pg. 508.

¹⁵⁶ Xiaoya Liang et al., 2012, "Strategic Human Resource Management in China: East Meets West", *Academy of Management Perspectives*, ResearchGate, pg. 56.

¹⁵⁷ Cherrie Jiuhua Zhu, Peter J. Dowling, 2000, "Managing People during Economic Transition: The Development of HR Practices in China", *Asia Pacific Journal of Human Resources*, pg. 85.

employees. Because of their role of responsibility, cadres were guaranteed several privileges and benefits that the blue-collar workers did not have¹⁵⁸. This authority relationship and the “iron rice bowl” perfectly sum up the HRM during Mao’s era. From 1978, the PRC’s Human Resources Management underwent several changes. The management of the Labour factor in the PRC began to be implemented following the logic of a market-oriented system. For instance, the “iron rice bowl” system was quickly dismissed. In fact, this HRM forced workers to be indissolubly linked to the specific enterprise where the central government allocated them. This practice was not compatible with a market economy and, therefore, permanent employment was replaced by contract employment. In this way, mobilisation was favoured. Another interesting measure was the abolition of the egalitarian salary: from the openness policy, the PRC established that workers’ compensation needed to become based on merit of each individual¹⁵⁹. Regarding the abandonment of the “iron rice bowl”, it should be specified that, at the beginning of the reform season, many workers were excluded by this HRM employment system because the State-Owned Enterprises where they worked became privatised. Hence, they were not under the central government management anymore. Only in the 1990s the traditional “iron rice bowl” was removed even for the SOEs and their workers started to be laid off¹⁶⁰. One of the biggest changes related to the abandonment of the “iron rice bowl” was the evolution of the concept of performance itself. Under the traditional HRM system, performance had mainly a moral dimension. In fact, it was directly connected to three qualities that each individual should have owned: virtue (*de*), diligence (*qing*) and, last but not least, ability (*neng*). When the traditional “iron rice bowl” was removed, performance became a results-oriented concept even for Chinese

¹⁵⁸ Xiaoya Liang et al., 2012, “Strategic Human Resource Management in China: East Meets West”, Academy of Management Perspectives, ResearchGate, pg. 56.

¹⁵⁹ Qijie Xiao, Fang Lee Cooke, 2020, “Towards a hybrid model? A systematic review of human resource management research on Chinese state-owned enterprises (1993–2017)”, The International Journal of Human Resource Management, 31:1, pg. 53.

¹⁶⁰ Xiaoya Liang et al., 2012, “Strategic Human Resource Management in China: East Meets West”, Academy of Management Perspectives, ResearchGate, pg. 62.

workers: better outcomes meant a better performance¹⁶¹. The aforementioned new contracting system became the vehicle to implement this transition. This was a clear example of the “Westernisation” of the Chinese Labour factor management. Moreover, the subdivision of the Chinese workforce in normal workers and cadres stopped being perfectly clear during the 1990s. Cadres always played roles of authorities and responsibility. In 1993, the “Regulation of State Civil Servants” was published and imposed the substitution of the government cadres with the figures of the civil servants in the public services. The new Chinese civil servants were not appointed as the cadres, instead they had to gain their position through a competition system. The former cadres, who were once guaranteed a life-long important working position, had to demonstrate their competences as the normal workers in the new market economy model adopted by the PRC. Then, in 1994 the Minister of Personnel declared that the workers-cadres subdivision needed to be, gradually, abandoned even in the enterprises¹⁶². In the same year, the PRC’s government promulgated the Labour Law, which, in Article 68, imposes that “labourers to be engaged in technical work must receive pre-job training before taking up their posts”¹⁶³. The fact that the PRC’s government wanted to be sure that its workforce was properly trained was, once again, a demonstration of strong shift towards a performance oriented productive model. The Human Resource Management in the PRC changed a lot in the last years, and today we can delineate a clear distinction between the HRM in private enterprises and that in the SOE in the country. The former follows the logic of the market economy, while the second is defined as a hybrid model. In fact, Chinese State-Owned Enterprises are characterised by a HRM with features of both a market-driven model and some residual element of the “iron rice bowl”, although this employment system officially does not exist anymore¹⁶⁴.

¹⁶¹ Qijie Xiao, Fang Lee Cooke, 2020, “Towards a hybrid model? A systematic review of human resource management research on Chinese state-owned enterprises (1993–2017)”, *The International Journal of Human Resource Management*, 31:1, pg. 64.

¹⁶² Cherrie Jihua Zhu, Peter J. Dowling, 2000, “Managing People during Economic Transition: The Development of HR Practices in China”, *Asia Pacific Journal of Human Resources*, pg. 85.

¹⁶³ Ivi., pg. 96.

¹⁶⁴ Qijie Xiao, Fang Lee Cooke, 2020, “Towards a hybrid model? A systematic review of human resource management research on Chinese state-owned enterprises (1993–2017)”, *The International Journal of Human Resource Management*, 31:1, pg. 79

Let us now move onto the analysis of the evolution of the Capital factor in the People's Republic of China. As said before, during Mao's era the Capital factor was under the direct control of the PRC's central government, which allocated it in the production processes on the basis of the strategies delineated in the Five Years Plans. Therefore, the Capital factor did not have the possibility to be embodied by any kind of actor and play an active role in the Chinese socio-economy system. After the beginning of the openness policy, the Capital factor obtained more liberties. Domestically, the Chinese workers were allowed to create small economic activities, both in the countryside and in the urban areas, and several SOEs became privatised. Moreover, foreign investors began to enter the Chinese economic system and, although they were "filtered" through the Special Economic Zones, they became active players in the PRC. The impact of this Capital liberalisation process strongly affected the PRC's domestic dynamics. An interesting example is the evolution of trade unions in China. During Mao's era, trade unions were considered a tool by the government to maintain a strong connection with the workers. The State and the workforce were two overlapping concepts, while Capital was just a "life-less" instrument. When the Capital liberalisation process began, the relationship between the PRC's central government and the Chinese workers changed, and with that the role of the trade unions. As their western counterparts, they became entities which aimed to protect the interests of the workers in the bargaining processes with the private subjects who held the Capital factor¹⁶⁵. From 1978, the Capital liberalisation process in the People's Republic of China can be subdivided in four phases: from 1978 to 1993 (phase 1), from 1994 to 2000 (phase 2), then from 2001 to 2016 (phase 3) and the last one begun in 2017 and is still going on (phase 4)¹⁶⁶. During phase 1, the Capital liberalisation process in the People's Republic of China was still in an embryonal state. Although the SOEs were created and the first domestic economic reforms were implemented during this period, the PRC was still in almost full control of the Capital factor. The main objective was to ensure that the country

¹⁶⁵ Cherrie Jiu-hua Zhu, Peter J. Dowling, 2000, "Managing People during Economic Transition: The Development of HR Practices in China", *Asia Pacific Journal of Human Resources*, pg. 85.

¹⁶⁶ *Ivi.*, pg. 99.

seemed attractive for foreign investors¹⁶⁷. During phase 2, a gradual acceleration of the process happened. Important reforms regarding exchange rate were implemented in phase 2. In 1994 the dual exchange rate system was abandoned, and the managed floating exchange system commenced to be used. Then, in 1996, the PRC lifted all the restrictions and made full convertibility of current items. Undeniably, during the 1990s built the base for its future liberalisations¹⁶⁸. Phase 3 was a turning point: the Capital liberalisation processes accelerated and in 2001 the PRC even entered the International Monetary Fund. In the last, so far, phase, the PRC's central government decided to maintain the liberalisation process on pace, but during the 19th National Congress of CCP it was stated the necessity to add to the process a Capital regulation system which was both “macro prudential and micro regulatory”.¹⁶⁹ Today, in the PRC the Capital regulatory measures can be distinguished in two kinds: the first is the one that includes traditional tools, such as taxation, state control over trading activities, temporal limitations on trades etc.; the second one, connected with the macro prudential control, includes precautions on currencies to guarantee the safeness of the PRC's financial system¹⁷⁰.

In conclusion, we can say that in the last decades the People's Republic of China radically changed its domestic Capital-Labour relationship. Undeniably, the creation of a market economy system, more dynamic than a planned economy, is a fundamental step for the country's economic development and, eventually, to achieve the transition in the GVCs. At the same time, these changes comport some risks: malcontent could progressively grow among Chinese workers due the new role of Labour factor in the relationship and several scholars state that Capital liberalisation processes may enhance the country's domestic inequalities and reduce its autonomy in economic decisions¹⁷¹. However, I believe that the measures, reforms and policies that we analysed in this Chapter show that the

¹⁶⁷ Yang, L., 2020, “Analysis of Capital Control Policies in China”, *American Journal of Industrial and Business Management* 10, pg. 497.

¹⁶⁸ *Ivi.*, pg. 498.

¹⁶⁹ *Ibidem.*

¹⁷⁰ *Ivi.* Pg.499.

¹⁷¹ Kevin P. Gallagher et al., 2014, *Capital Account Liberalization in China: A Cautionary Tale*, GEGI, Boston University, pg. 3.

People's Republic of China has been undergoing this transformation process completely conscious of its challenges and its reward.

Conclusion

In this dissertation I demonstrated that the People's Republic of China is actually trying to achieve a transition in the Global Value Chains' system. I dissected the PRC's economic history; I identified the structural problems of the country and how they may block the country in the infamous Middle-Income Trap. Last but not least, I analysed the measures through which the PRC is attempting the transition.

However, I feel there is still an unanswered question: is the People's Republic of China a communist country? I already highlighted this issue in paragraph 4.3, giving as an answer the official definition of the PRC by Beijing itself: the People's Republic of China is characterised by a socialism with Chinese characteristics. Although this concept was forged way before the openness policy and all its Capital-Labour relationship's implication, in its narrative the People's Republic of China still talks about itself as a communist country. All its rhetoric and symbolism are strongly related to the communist imaginary. There are several examples of it: the country is called the "People's" Republic of China and the army is the "People's" Liberation Army. It means that a great emphasis is still given to "the People", which in this case are to be interpreted as the workforce, the proletariat. The central government has been preserving the image of Mao Zedong to the point of idolising the figure of the former leader. It is interesting to see how Xi Jinping in certain important public appearances, such as the parade for the PRC's Independence Day, wears the same clothes that Mao wore. Even after his death and the beginning of the openness policy, there has never been a "de-Maoisation". The cultural revolution was abandoned but the leader was not demonised, as happened to Stalin after his departure. The hammer and the sickle are still largely used in the iconography of the People's Republic of China, even in curious ways: during the celebration of the 100th year of the Chinese Communist Party, a sickle and a hammer were represented in the night sky using drones. Recently, the members of 38th PRC's Antarctic Expedition visited a Lenin's Statue located in the Pole of Inaccessibility. There, they left a flag of the People's Republic of China and the mascot of the 2022 Beijing Winter Olympics. Again, the fact that the most important party in the PRC is the Chinese Communist Party and that public policies are still organised in the framework of the Five Years Plans are all indicative elements that the People's Republic of China wants to depict itself as a communist

country. Despite some past divergences with the USSR, which was the former communist hegemonic power, since 1949 the PRC has never taken in consideration to abandon this narrative. Therefore, the question is: independently from its representation of itself, is the People's Republic of China actually a communist country? My answer is that, apart for some elements such as the Five Years Plans, the People's Republic of China is not a communist country anymore. There was a specific moment when the PRC abandoned communism, which is the beginning of the openness. This process happened in two ways, that I will proceed to explain.

First of all, I think we have to spend some time on the basic theoretical principles of Communism as a model of socio-economic organisation. Communism aims to overcome the class system: in order to free the proletariat from the oppression derived from the Capital-Labour relationship of a free market economy, it is necessary to take control of the state and dismantle it. The state, as an institution, is conceived as a tool used by the bourgeoisie class (the Capital factor) to maintain control over the proletariat (the Labour factor). The proletariat can change their condition only through the development of a class consciousness, therefore by acknowledging their oppression, which will guide them in their revolutionary action. With revolutionary action I am referring to an upheaval of the *status quo* represented by the Capital-Labour relationship. The outcome will be the creation of a socio-economic model not characterised by the class system and therefore not regulated by the Capital-Labour relationship. Moreover, the struggle described is a class struggle, which directly involves all the individuals that are oppressed in the Capital-Labour relationship independently from where they live. Consequently, Communism is characterised by an intrinsic internationalism, and it is important to remember it.

To determine if the People's Republic of China is still a communist country, we have to take in consideration its Capital-Labour relationship and its international role as a communist actor. I will develop this analysis on the basis of the information contained

First thing first, the PRC's Capital-Labour relationship. As we have seen, this relationship changed during the history of the People's Republic of China. During Mao's era, the state as an institution was under the direct and full control of the Chinese Communist Party. The Party fully allocated the Capital factor to the productions and there was no separation between the workforce (Labour factor) and the Party itself. The Capital-Labour

relationship was absolutely not the one of a market economy: the Capital factor had no liberty to be embodied by any subject and, consequently, it could not have power within the PRC. Moreover, the political agenda of Mao was characterised by the elimination of the class system, or it is safer to say by the elimination of the bourgeoisie class: the Cultural Revolution and the transformation of the universities into propaganda instruments are perfect examples. The Capital-Labour relationship changed after 1978, with the openness policy: foreign capitals were allowed to enter the country through the Special Economic Zones and liberalisation after liberalisation the formation of a Chinese domestic capital factor happened. Despite some differences related to some limitations and controls implemented by the PRC's government which are sometimes tighter than their western counterparts, today the People's Republic of China has undeniably the domestic Capital-Labour relationship of a market economy. In this Capital-Labour relationship the Capital factor plays a dominant role with the main purpose of value extraction, and this is incompatible with the principles of Communism.

The other issue is if the PRC contributes or not to the internationalisation of the proletariat's struggle. The short answer is no. Obviously, the PRC has an international dimension, my whole dissertation is focused on the country's behaviour in the Global Value Chains' system. However, the PRC is not contributing to liberate the world from the socio-economic structure that characterised the market economy's Capital-Labour relationship. Instead, the People's Republic of China wants to play the role of a Capital actor in the Global Value Chains. There is no international plan for spreading Communism and implementing the liberations of the oppressed, the PRC simply aims to establish its economic hegemony. This is what we can deduct, at least, from looking at the PRC foreign policies.

Therefore, to say that the People's Republic of China is a communist country is improper by confronting the principles of Communism and the actual socio-economic organisation of the PRC. Then, why does Beijing maintain this narrative? In my opinion, there may be two reasons: first of all, the PRC is too deep, within its historical path, in the narrative of being a communist country. The cost, especially the human one, that was required to adapt the country to Communism was very high. To change this rooted identity factor may be, at this point, too traumatic for Chinese society. Then, the planning attitude typical of a communist socio-economic model seems to be extremely appreciated by the PRC,

which appears to have found an interesting balance by merging this element with the Chinese traditional values and Western technological and scientific approaches.

The People's Republic of China is undeniably one of the most peculiar subjects of our time and we are probably too temporally close to fully understanding it.

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