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The Rise of China as a Global Economic Power: Key Policies and Strategies

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Abstract in Italian

La straordinaria ascesa della Cina da uno stato di sottosviluppo a una potenza globale di grande rilievo ha suscitato ammirazione diffusa negli ultimi decenni, in quanto è riuscita a compiere progressi notevoli nonostante i numerosi ostacoli che ha dovuto affrontare. Questa tesi propone di approfondire le politiche che hanno spinto la Cina a raggiungere lo status di potenza globale.

Il primo capitolo ripercorre il ruolo chiave di Deng Xiaoping nella creazione della Cina contemporanea, mettendo in evidenza il concetto di 'socialismo con caratteristiche cinesi' e le sue conseguenze, tra cui la liberalizzazione economica e le trasformazioni strutturali degli anni '80.

Il secondo capitolo si concentra sull'adesione della Cina all'Organizzazione Mondiale del Commercio (WTO), esaminando gli obiettivi e le ripercussioni di questa adesione per l'economia cinese.

Il terzo capitolo copre le strategie della Cina per consolidare la propria posizione come leader globale a partire dagli inizi degli anni 2000. Verrà analizzato il ruolo della Cina nel gruppo BRICS e l'influenza di questa organizzazione sulle dinamiche globali. Inoltre, l'Iniziativa Belt and Road, un vasto progetto di infrastrutture e connettività che si estende su numerose regioni del mondo, vedrà un approfondimento degli obiettivi e delle conseguenze. Il capitolo si conclude analizzando il programma 'Made in China 2025', che mira a posizionare la Cina come leader globale nell'innovazione promuovendo progressi in settori cruciali come la tecnologia, trasformando il paese in un centro di eccellenza per la ricerca e lo sviluppo.

Abstract in English

China's remarkable journey from an underdeveloped nation to a prominent global powerhouse has garnered widespread admiration in recent decades, as it has managed to make substantial progress despite numerous challenges it had to confront. This dissertation examines the policies that have propelled China's ascent to global power status.

The first chapter explores the pivotal role of Deng Xiaoping in shaping contemporary China, highlighting the concept of 'socialism with Chinese characteristics'

and its consequences, including economic liberalization and structural transformations during the 80s.

The second chapter focuses on China's accession to the World Trade Organization (WTO), examining the objectives and repercussions of this crucial membership for the Chinese economy.

The third chapter covers China's strategies for cementing its position as a global leader since the early 2000s. It analyses China's role within the BRICS group and the influence of this organisation on global dynamics. Furthermore, the Belt and Road Initiative, an extensive infrastructure and connectivity project spanning numerous world regions, will undergo an in-depth examination of its aims and consequences. The chapter concludes with a look into the 'Made in China 2025' program, which aims to position China as a global innovation, promoting advancements in critical sectors such as technology, thereby transforming the country into a hub of research and development excellence.

Introduction

The recent history of China is a beautiful narrative of transformation, with the nation's prosperity that was shaped by a powerful combination of revolutionary determination, brave ideological challenges, economic reforms, and global integration. This dissertation will examine China's development from of Mao Zedong's leadership and the posterior disappointment with his programs, to the revolutionary changes brought by Deng Xiaoping's innovative approach. Subsequently, it will delve into the initiatives put in place by Xi Jinping to further solidify China's status as a global power

Deng's transformative leadership managed to harmonize principles of socialism and capitalism, giving birth to the concept of "socialism with Chinese Characteristics." This revolutionary shift introduced characteristics typically associated with Western nations and set the stage for China's economic liberalization. The essence of "socialism with Chinese Characteristics" lies in its adaptive approach, where socialist ideals are blended with pragmatic economic policies.

Deng's vision was to harness the advantages of a market-oriented economy while retaining the overarching control of the Chinese Communist Party. This approach not only set the stage for unprecedented economic growth but also positioned China as a distinctive player on the global economic landscape. The reforms initiated by Deng Xiaoping from 1978 onward played a pivotal role in the realization of this vision. These reforms encompassed various sectors, including agriculture, industry, and foreign trade, fostering a more open and dynamic economic environment. Special Economic Zones (SEZs) were established to attract foreign investment and technology, contributing significantly to China's rapid economic expansion.

However, the transformative journey was not without its challenges. As the economic reforms progressed, the 1980s became a tumultuous period in Chinese history. The profound changes brought about by economic restructuring, coupled with the rapid urbanization and inflation, led to societal dislocations. These factors contributed to widespread dissatisfaction, and this discontent manifested in various forms, culminating in the tragic events of the 1989 Tiananmen Square protests.

Afterward, this dissertation will explore a transformative chapter in China's economic history – its accession to the World Trade Organization (WTO). This monumental decision, which unfolded over a series of negotiations and strategic

considerations, had profound and far-reaching implications that reverberated across the global economic landscape. The process leading to China's entry into the WTO was not merely a formal accession; it encapsulated a comprehensive evolution in the nation's economic policies, reflecting a strategic shift toward greater international integration. It was a culmination of years of deliberate efforts by Chinese leadership to position the country as a significant player in the global trade arena.

The decision to join the WTO was not solely about conforming to international norms; it was a strategic move aimed at leveraging the benefits of a rules-based global trading system. On one level, it sought to secure access to international markets for its growing export-oriented industries. The accession process required China to make substantial commitments, leading to the liberalization of its markets and the reduction of trade barriers. This not only facilitated the entry of Chinese goods into global markets but also opened up new avenues for foreign businesses within China. Furthermore, the decision to join the WTO was a manifestation of China's broader economic vision. It signaled a commitment to economic reforms, market-oriented policies, and a desire to shed the chains of a closed, centrally planned economy. The accession process compelled China to align its trade and economic practices with international standards, fostering transparency and predictability in its economic interactions.

On the domestic front, it ushered in an era of accelerated economic growth, export expansion, and increased foreign direct investment. The influx of foreign capital and technologies played a pivotal role in modernizing China's industries and boosting its global competitiveness.

Internationally, China's accession reshaped the global economic landscape. The sheer size and dynamism of the Chinese market made it a major player in international trade, influencing the patterns and flows of global commerce. The integration of China into the WTO framework marked a significant step toward a more inclusive and interconnected global economy.

Ultimately, it will be discussed three major initiatives that China has undertaken over the last two decades, each contributing to its evolving role on the global stage.

Firstly, a comprehensive examination will unfold regarding China's integral participation in the BRICS group – a coalition of major emerging economies comprising Brazil, Russia, India, China, and South Africa. This alliance serves as a crucial platform

for China to strategically leverage its economic prowess and political influence. By strategically exploiting this collaboration, China seeks to mold its foreign policy objectives, showcasing a deliberate effort to be a global influencer and engage in collaborative diplomacy on a scale that transcends regional boundaries.

Following this exploration, a detailed scrutiny will be dedicated to the ambitious Belt and Road Initiative (BRI), a colossal project designed to create extensive infrastructural links between China and nations spanning Asia, Europe, and Africa. This transformative endeavor, characterized by its scale and scope, has significantly altered the geopolitical and economic dynamics not only within China but also on a global scale. Through a meticulous examination of the BRI's goals, achievements, and global assessments, we aim to unravel the multifaceted impact it has had on both China's strategic objectives and the broader international landscape.

Finally, the narrative will delve into the intricacies of the 'Made in China 2025' program, a visionary strategy spearheaded by the Chinese government to promote innovation across a spectrum of sectors. This initiative, underscored by China's ambition to assert leadership across various industries, encapsulates the nation's relentless pursuit of technological advancement and economic diversification. A close analysis of 'Made in China 2025' will unveil the nuanced interplay of government policies, industrial strategies, and technological aspirations that collectively underscore China's determination to become a global leader in innovation.

Through a discussion about crucial policies in China's recent history and the initiatives that have shaped its trajectory, the aim is to gain insight into the nation's evolving role in the global arena, its objectives, and the challenges it faces. This study seeks to provide a comprehensive understanding of the complex interplay of political, economic, and global factors that have influenced China's current position.

CHAPTER 1: Deng Xiaoping, the mastermind behind the birth of contemporary China

1.1: Socialism with Chinese characteristics

During Mao Zedong's rule, China underwent substantial political and social changes, with two pivotal events shaping this period: the Great Leap Forward and the Cultural Revolution. The Great Leap Forward, which began in 1958, sought to swiftly overhaul China's economy through agricultural and industrial reforms.¹ However, its implementation had severe consequences for the country's economy, society, and population.

Similarly, the Cultural Revolution, launched in 1966, sought to preserve communist ideology and eliminate capitalist elements within Chinese society. This movement led to widespread turmoil and upheaval.²

The Great Leap Forward was intended to mark the remarkable apex of Mao Zedong's initiative to transform China into a Communist utopia. Its objectives were to surpass Great Britain, the progenitor of the Industrial Revolution, in production, all the while attaining Communism ahead of the Soviet Union. However, the relentless pursuit of objectives did not lead to unprecedented productivity but, to one of the most devastating famines ever recorded that claimed the lives of 30 million people between 1960-1962. Despite this outcome, The Great Leap Forward did initially yield results. China's overall economy experienced a growth rate of 9% during its early years with agricultural production increasing by nearly 4% each year and industrial output surging by almost 19% annually. It is also worth noting that life expectancy in 1957 surpassed that observed when the Communists assumed power in 1949.³

Despite these excellent results, in the following years, the situation worsened drastically. Heavy industry expanded at the expense of light industries. Employees from light industries were transferred to steel facilities, and on occasion, light industries underwent conversion into steel production units. Consequently, as certain light industries shifted their manufacturing processes or encountered labor shortages, a scarcity of

¹ Brown, C.D. (2012), China's Great Leap Forward, *Education about ASIA*, Volume 17, Number 3, pp. 29-34.

² Spence, J, D. (1990), *The Search for Modern China*. W. W. Norton & Company, New York, London. pp. 440.

³ Brown, C.D. (2012), pp. 29-34.

everyday goods emerged. In April 1959, a nationwide grain deficiency arose, and by year-end, there were widespread shortages of various food items and commodities, including cooking oil, sugar, thermal containers, ceramic tableware, and more. This situation can be ascribed to the prioritization of heavy industry, which neglected agriculture and the production of light industry.⁴

Shortly after the Great Leap Forward, the Cultural Revolution emerged with the objective of eradicating capitalist elements within Chinese society while safeguarding communist ideology. Its roots can be traced back to the early 1960s when, in the aftermath of the Great Leap Forward's disastrous outcomes, Chairman Mao Zedong decided to take a step back from active governance. During this period, more pragmatic and moderate leaders, like Vice-Chairman Liu Shaoqi and Premier Zhou Enlai, spearheaded economic reforms that centered around individual incentives. These reforms included permitting families to cultivate their own plots of land, a measure intended to revitalize the struggling economy. Mao vehemently opposed such policies, as they contradicted his firm belief in the principles of pure communism.⁵

Seeing that the Chinese leadership in China was veering excessively toward revisionism, prioritizing expertise over ideological purity, he convened a cohort of radicals, including his wife Jiang Qing and Defense Minister Lin Biao, to assist him in challenging the current party leadership and reinstating his authority. On August 5, 1966, Mao issued a call to "bomb the headquarters." A few days later, on August 16, during the Eleventh Plenum of the Eighth Central Committee, he formally declared the commencement of the 'Great Proletarian Cultural Revolution.' Mao shuttered educational institutions, both schools and universities, and in the ensuing months, he promoted extensive youth mobilization. Groups of radical youth, referred to as 'Red Guards,' initiated attacks on China's elderly and intellectual population. The purges of educated individuals in China left various projects without engineers, laboratories devoid of scientists, and factories lacking foremen. Bands of Red Guards ransacked libraries, museums, and burial sites. Universities ceased to function, and higher education came to a halt for a decade. Due to the Red Guards' inability to resolve their internal divisions,

⁴ Palese, A. (2009), *The Great Leap Forward (1958-1961) - Historical events and causes of one of the biggest tragedies in People's Republic of China's history*. pp. 26-27.

⁵ Spence, J, D. (1990), pp. 581-606.

Mao, disillusioned with them, decided in 1968 to relocate millions of urban youth to the countryside to engage in agricultural labor.⁶

In 1969, Lin Biao was officially designated as Mao's successor during the National Party Congress. During the same year, tensions escalated along China's northern border, resulting in clashes between Chinese and Soviet troops. These events garnered widespread support for the People's Liberation Army (PLA), which Lin Biao commanded. However, as the '70 unfolded, Mao began to criticize some of Lin's senior officers and even altered the constitution to prevent Lin from advancing to a higher position within the party. Then, in late 1971, the Chinese Communist Party (CCP) made a shocking announcement: Lin Biao had allegedly attempted to assassinate Mao, supposedly fueled by his frustration over the failure of his political ambitions. Lin had subsequently tried to escape China with his family on an airplane, which tragically crashed in Mongolia in September 1971, claiming the lives of all on board. This narrative was difficult to substantiate, and many suspect it was made up. Most historians believe that Mao perceived Lin's increasing influence and popularity as a threat and began to fear Lin's potential overthrow, prompting Mao to eliminate Lin to solidify his position as the unchallenged leader of the Party.⁷

Historians' perspectives on Lin Biao's ties with the Soviet Union are complex. Lin had a history of being critical of the Soviet Union, despite having spent time there. Furthermore, as defense minister, Lin Biao was crucial in the Sino-Soviet border crisis of 1969, which posed an actual threat of war between China and the Soviet Union. Lin harshly denounced the Soviet Union for its border-related behaviors. This raises the question of why, in the case of a failed coup attempt, Lin Biao chose to flee to the Soviet Union rather than to South China, where he had solid military support. This topic keeps sparking historians' interest due to the unclear character of Lin Biao's actions, especially his seemingly unreasonable decision to seek refuge in a nation that he had tirelessly opposed rather than a place where he had strong backing.⁸

⁶ Bendini, R. (2016), *The Cultural Revolution in China: Its 50th anniversary was ignored but its legacy lives on today*, European Parliament, Available at: [https://www.europarl.europa.eu/RegData/etudes/IDAN/2016/570470/EXPO_IDA\(2016\)570470_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/IDAN/2016/570470/EXPO_IDA(2016)570470_EN.pdf). Accessed 27 September 2023.

⁷ Spence, J. D. (1990), pp. 615-617.

⁸ Uhalley, S., & Qiu, J. (1993), The Lin Biao Incident: More Than Twenty Years Later, *Pacific Affairs*, 66(3), 386-398. pp. 389.

In the years that followed, China found itself in an economically unstable situation. When Mao Zedong passed away in 1976⁹, an opportunity arose for the rise to power of a figure who had previously remained on the fringes of the Chinese political landscape.

With Mao's demise, the waning influence of the Cultural Revolution, and the sidelining of the "Gang of Four"¹⁰—a group led by Jiang Qing, Mao's wife, and three other prominent leaders who played a key role in promoting radical leftist policies during the Cultural Revolution, the new General Secretary of the CPC who emerged was Hua Guofeng. Initially, Hua appeared to be in a secure position as the leader of all Party and state branches, having been selected by the ailing Mao Zedong to manage state affairs. However, within a relatively short period, from July 1977 to December 1978, power dynamics underwent a significant transformation, and Deng Xiaoping emerged as the new leader. In his political strategy to secure his position, Hua chose to emphasize those aspects of Maoism that supported economic development and international relations. While highlighting class struggle as a primary focus and promoting Mao's slogan of 'grasp revolution and promote production,' Hua advocated for increased labor discipline and payment based on individual work contributions. He did not present a distinctive vision for China, aside from reiterating Maoist model.¹¹

Deng, on the other hand, without straying too far from the prevailing ideological framework centred on the importance of Mao Zedong Thought, spoke about its continued relevance and the necessity of returning to its core principles. Deng argued that it was essential to fully integrate "genuine Mao Zedong Thought" in guiding the people, the military, and the Party.¹²

In December 1978, he pointed out at the closing meeting of the working conference of the Central Committee that:

Seeking truth from facts is the basis of the proletarian world outlook as well as the ideological basis of Marxism. Just as in the past, we achieved

⁹ Starr, J. B. (1984), Redefining Chinese Socialism. *Current History*, 83(494), 265–281. pp 265

¹⁰ The group included Mao's third wife, Jiang Qing, Wang Hongwen, Zhang Chunqiao, and Yao Wenyuan. With Mao's death in 1976, however, the Gang of Four lost their remaining power.

¹¹ Narayanan, R. (2006, April 2), 'The politics of reform in China: Deng, Jiang and Hu', *Strategic Analysis*, 30(2), pp. 329-353. pp. 332-333.

¹² Narayanan, R. (2006, April 2), pp. 332-333.

all the victories in our revolution by following this principle, so today we must rely on it in our effort to accomplish the four modernizations¹³

According to Deng, the foundational aspect of Mao Zedong thought was not solely the theory of class struggle but also the concept of 'seeking truth from facts,' an idea Mao had developed during the wartime years. In some respects, Deng was reverting to a more classical interpretation of Marxism, emphasizing the economy as the foundational element and the principle that 'existence determines consciousness,' focusing on the fundamental methodology rather than utopian themes.

The Third Plenum marked the inception of a policy agenda geared toward reform, symbolizing a pivotal shift from the Maoist era to the era of Deng's reforms. As the battle over political ideology subsided, a politically secure Deng Xiaoping embarked on the next phase of ideological interpretation. In September 1982, during the 12th National Congress of the CPC, he articulated:¹⁴

In carrying out our modernization programme, we must proceed from Chinese realities. [...] We must integrate the universal truth of Marxism with the concrete realities of China, blaze a path of our own and build socialism with Chinese characteristics.¹⁵

Deng's new discourse held considerable significance on multiple fronts. Firstly, it demonstrated his unwavering commitment to creating a distinctive course for reform and modernization. In this pursuit, Deng required a wide notion of socialism and a more flexible framework to initiate and justify the "capitalist" experiment. Secondly, by departing from the prevailing Leninist approach, Deng took a crucial step in establishing his own authority. Thirdly, this fresh formulation also underlined Deng's profound sense nationalism.¹⁶

¹³ *Selected works of Deng Xiaoping* (1995), Volume II (1975-1982), Foreign Languages Press, Beijing. pp. 143.

¹⁴ Huiming, J. (2017), *Marxism and socialism with Chinese characteristics*. Gale Asia, Singapore. pp 142

¹⁵ *Selected Works of Deng Xiaoping* (1994), Volume III (1982-1992), Foreign Languages Press, Beijing. pp. 1-13.

¹⁶ Narayanan, R. (2006, April 2), pp. 334.

In order to allay skeptics, Deng called for vigilance against the corrupting influence of external decadent ideologies. It can be speculated that one of the objectives behind Deng's discourse on "socialism with Chinese characteristics" was to accentuate China's unique national and ideological identity, asserting independence from both the Soviet communist model and the Western capitalist model. By preserving the concept in a general, customary, and adaptable form, Deng ensured widespread acceptance of this innovative approach. On one hand, it preserved ideological consistency by emphasizing "socialism," which was crucial for maintaining consensus among the leadership. On the other hand, it allowed for greater theoretical exploration and flexible policies within the framework of "Chinese characteristics."¹⁷

The framework of concepts related to socialism characterized by Chinese attributes creatively employs materialist dialectics to analyze and address challenges that arise during the processes of reform, openness, and modernization. This approach enriches and advances the overall perspective and methodology of dialectical materialism and historical materialism. In 1985, Deng Xiaoping earnestly remarked at the National Congress of the CPC:

The times have evolved, and our objectives have evolved with them. We are currently constructing socialism with Chinese characteristics. There is indeed a wealth of new knowledge we must acquire, which underscores the importance of studying fundamental Marxist theory in light of the current circumstances. [...] Only in this way can our Party remain committed to the socialist path and continue building socialism with Chinese characteristics, ultimately achieving our goal of communism.¹⁸

Marxist philosophy not only forms the philosophical foundation of the system centered on socialism with Chinese attributes but also constitutes its core element. It emphasizes the importance of liberating one's thinking and seeking truth through actual evidence. This principle has consistently shaped the theoretical framework of the Party as it has evolved over time. Therefore, it is essential for the Communist Party of China (CPC) to

¹⁷ Narayanan, R. (2006, April 2), pp. 334.

¹⁸ *Selected Works of Deng Xiaoping* (1994), pp. 146-147.

thoroughly analyze and understand this system's historical context and its significance through the lens of Marxist philosophy.¹⁹

¹⁹ Huiming, J. (2017), pp. 167.

1.2: Deng Xiaoping's economic reforms: Catalyst for transformation

Following Mao Zedong's death in 1976, Deng adopted a pragmatic approach toward governance, focusing on economic reform rather than ideological campaigns. He underscored the significance of both planning and market dynamics as vital constituents for fostering economic expansion. Commencing from a system rooted in comprehensive distortions, the reform initiative commenced with the aim of implementing basic incentives, harmonizing prices with underlying supply and demand dynamics, and facilitating external economic engagement.²⁰

Between 1979 and 1983, Deng initiated a series of reforms known as "*Gaige Kaifeng*" or "reforming and opening up". These reforms focused on introducing elements of market-oriented economics while maintaining central control over key sectors.²¹

These initiatives were centered around agricultural restructuring, economic openness, fiscal decentralization, the transformation of state-owned enterprises (SOEs), and support for commune-brigade enterprises.

Agricultural Restructuring: The collectivization of agriculture in the mid-1950s and the establishment of people's communes in 1958 marked a significant phase in China's agrarian landscape. However, a pivotal shift occurred with the introduction of the "household responsibility system." This novel approach, originating in underserved regions, empowered individual households to assume control over production. Despite initial opposition, this system gained official approval and widespread adoption, marking a watershed moment in China's economic reform journey.²²

Economic Openness: Prior to these reforms, China had operated a largely closed economy and by 1978, it had become one of the world's most insular economies. The government's decision in 1979 to expand foreign trade and embrace foreign investment marked a profound shift in economic policy. Provinces such as Guangdong and Fujian, strategically positioned geographically on the coast, spearheaded the process of economic opening. They were granted special policies and flexible measures to stimulate economic

²⁰ Qian, Y. (2000), *The Process of China's Market Transition (1978-1998): The Evolutionary, Historical, and Comparative Perspectives*, *Journal of Institutional and Theoretical Economics (JITE) / Zeitschrift Für Die Gesamte Staatswissenschaft*, vol 156(1), pp 151–171. pp. 153.

²¹ Delisle, J., Goldstein, A. (2019), *Introduction - China's Economic Reform and Opening at Forty Past Accomplishments and Emerging Challenges*, Available at: https://www.brookings.edu/wp-content/uploads/2019/04/9780815737254_ch1.pdf. Accessed 27 Sept. 2023.

²² Qian, Y. (2000), pp. 153-156.

growth. In 1980, China established special economic zones (SEZs) in locations like Shenzhen, Zhuhai, Shantou, and Xiamen. These areas not only enjoyed favorable tax rates but also operated within a distinct institutional and policy framework, affording them greater control over their economic development. These cities served as experimental laboratories for market-oriented reforms and the success of these SEZs paved the way for further liberalization efforts across China.²³

Fiscal Decentralization: The fiscal system in place before these reforms was predominantly centralized, with the Planning Commission at the central level dictating local revenue and expenditure plans annually. This was characterized by the principle of "unified revenue and unified expenditure." However, in 1980, significant fiscal reform was initiated, known as the "fiscal contracting system" colloquially referred to as "eating from separate kitchens" (*fenzao chifan*). Under this system, budgetary revenue income was divided into central fixed revenue, entirely remitted to the central government, and local revenue, which was shared. The specific revenue-sharing rates varied by province. Essentially, this transformed these provinces into residual claimants, as they retained 100% at the margin. This particular form of contract became the dominant model after 1988. The new fiscal system aimed to incentivize local governments in revenue collection and stimulate local economic development. It established a robust connection between local revenue and expenditures, providing local governments at all levels with both the authority and incentives to foster their local economies, as retained revenue became closely linked to local economic prosperity. Fiscal decentralization subsequently created multiple centers of power and had a lasting impact on subsequent reforms, both economically and politically.²⁴

Transformation of State-Owned Enterprises (SOEs): This approach allows for economic growth through market mechanisms but also enables the state to maintain a significant role in guiding and regulating economic activities. The government exerts control over strategic industries, sets development goals, and implements policies to mitigate income inequality. In October 1978, under the leadership of Provincial Party Secretary Zhao Ziyang, Sichuan Province embarked on an experiment focused on expanding enterprise autonomy and introducing profit retention. By the following year,

²³ Qian, Y. (2000), pp. 153-156.

²⁴ Qian, Y. (2000), pp. 153-156.

around a hundred industrial enterprises in Sichuan had joined this experimental endeavor. These enterprises gained increased autonomy, including the right to produce and sell products in the market after meeting planned quotas, along with the authority to promote middle-level managers without government approval. Furthermore, they adopted profit retention schemes, allowing them to retain a portion of their profits after fulfilling planned quotas. In July 1979, the central government issued five documents to promote the nationwide adoption of Sichuan's experience, although still on an experimental basis. By 1980, approximately 60% of SOEs in terms of output value had joined the experiments and obtained varying degrees of autonomy. Enterprises were required to allocate retained profits into three separate funds for welfare (e.g., housing), bonuses, and production development. These enterprises possessed control over the utilization of funds within each category.²⁵

Support for Commune-Brigade Enterprises: While commune and brigade enterprises in rural areas had existed for some time before 1979, they did not fully acquire the freedom to seek profits in industries unrelated to agriculture until after these reforms. In July 1979, the State Council issued the "Regulation on Some Questions Concerning the Development of Enterprises Run by People's Communes and Production Brigades." This regulation permitted provinces to grant tax exemptions for 2-3 years to new commune and brigade enterprises. These enterprises were no longer confined to industries serving agriculture, such as the production of chemical fertilizers and farm tools; they were now allowed to participate in most non-agricultural industries that had previously been the exclusive domain of state enterprises. Moreover, they were no longer restricted to using only local resources and were authorized to sell their products beyond local markets. This shift triggered rapid growth in food processing, textiles, garments, building materials, and coal mining sectors.²⁶

Central to Deng's vision was the idea that the CPC should retain its leadership role in steering the country's development while accommodating essential elements of a market-driven economy. It was a strategy that sought to harness the economic potential of market-oriented reforms without compromising the CPC's core principles. This approach was not without its critics, as it represented a significant departure from

²⁵ Qian, Y. (2000), pp. 153-156.

²⁶ Qian, Y. (2000), pp. 153-156.

traditional socialist ideology. To appease the skeptics regarding these reforms, Deng Xiaoping proposed the integration of "Chinese characteristics" into the framework of socialism, effectively marrying the principles of socialism with the dynamism of market forces. Deng recognized the necessity of striking a delicate balance: on one hand, preserving the authority and ideological unity of the Communist Party of China (CPC), and on the other, adapting to the prevailing global economic trends.²⁷

Deng Xiaoping's decision to pursue a substantial transformation of China's economic structure was driven by several significant factors. On the international scene, the 1970s and 1980s were tumultuous, marked by a complex web of challenges such as oil crises, surging inflation rates globally, political instability in Latin America, and the constant threat of a nuclear confrontation between superpowers. This unstable geopolitical backdrop highlighted the essential need of choosing a wise path for China's future. Within this intricate global landscape, China faced its own set of issues, including the long-term effects of slow economic growth, the deep-seated scars left by the Cultural Revolution, and the imminent risk of economic collapse. Deng Xiaoping realized that embracing reform was not an option, but a necessity, as failure to do so could have led to China's economic and social ruin. The widespread threat of poverty, along with the growing perception that socialism was associated with misery, acted as a powerful motivator for Deng to initiate comprehensive reforms. Furthermore, Deng's decision to embark on this significant transformation was influenced by several key considerations. To begin, he acknowledged that China's ability to modernize and achieve economic efficiency was being restricted by the inflexible control over the economy. This rigidity had led to inefficiencies and a deceleration in economic growth, prompting the need for a more flexible approach. Likewise, Deng recognized that the prevailing economic model in China had reached its limits and was incapable of facilitating long-term growth.²⁸

In essence, Deng's bold bet on transforming China's economic structure was driven by a combination of external global challenges, internal economic imperatives, and a keen awareness of the need for adaptability to secure China's future prosperity. Deng's brilliance rested in his capacity to present this new formula while maintaining a

²⁷ Narayanan, R. (2006, April 2), pp. 334.

²⁸ De Freitas, M. V. (2019, May 8), *Reform and opening-up: Chinese lessons to the world*, Policy Center, Available at: <https://www.policycenter.ma/publications/reform-and-opening-chinese-lessons-world>. Accessed 2 November 2023.

broad, normal, and adaptable posture. By doing this, he made sure that the Chinese government broadly accepted his proposals.²⁹ This adaptability made it possible to pragmatically undertake changes that could be adapted to the unique requirements and circumstances of various regions and sectors of the country.

Since the inception of economic reforms, China's economy has experienced significantly swifter growth compared to the pre-reform era. Most of the time, it has been successful in preventing significant economic turbulence. Over the period spanning from 1979 to 2018, China maintained an average annual real GDP growth rate of 9.5%. This means that, on average, China's economy doubles in size in real terms every eight years.

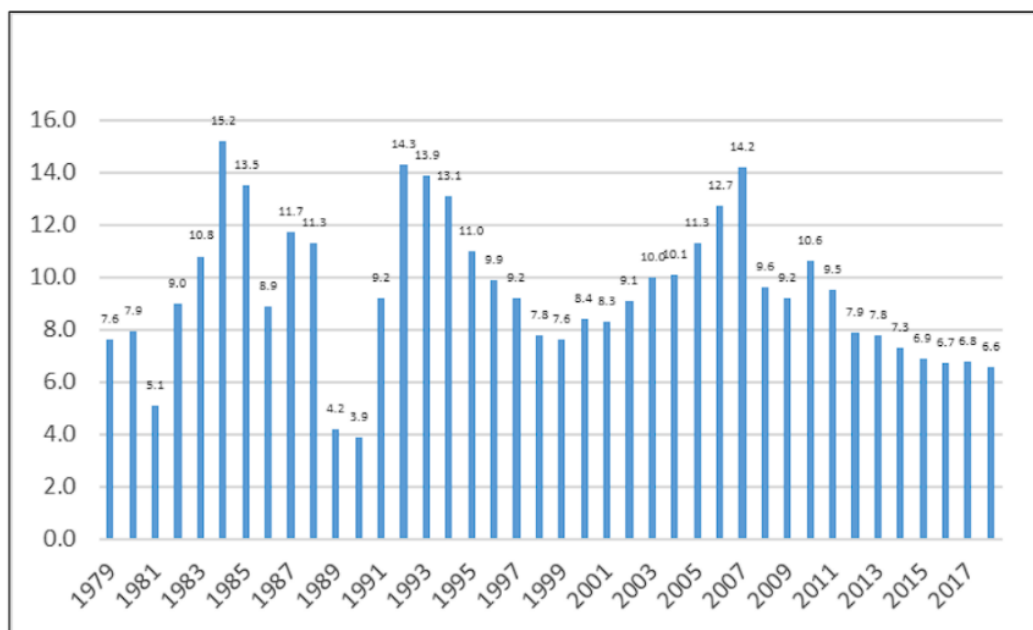


Figure 1: Chinese Annual Real GDP Growth: 1979-2018 (percent change). Figure source: IMF, and Chinese National Bureau of Statistics.

China's rapid economic expansion is attributed to two primary factors: substantial capital investment on a large scale, which was funded by substantial domestic savings and foreign investments, and the rapid growth of productivity. These two elements appeared to complement each other seamlessly. Economic reforms brought better

²⁹ Narayanan, R. (2006, April 2), pp. 334.

economy-wide efficiency, which led to higher output and more resources available for more economic investment.³⁰

While many people acknowledged significant improvements in their financial well-being compared to the late '70s, others consistently emphasized the challenges and substantial uncertainties surrounding their economic prospects. These responses serve as an effective reminder of the limitations and complex issues that Deng Xiaoping left his successors. These included the rise of urban unemployment, glaring income disparities, unequal opportunities, pervasive corruption within the still-dominant bureaucracy, privatization of the former socialist social welfare system encompassing housing, retirement, and healthcare, extensive restructuring of state-owned enterprises, and a growing sense of insecurity and crime. Deng was perceived as the leader who swiftly led China away from the turmoil of the Cultural Revolution, ending the excessive politicization of society advocated by Mao, and prioritizing economic development in the political arena. However, he was also seen as the figure who had seemingly lost control over the economic forces he set in motion while failing to present an all-encompassing, innovative vision for Chinese society that extended beyond the confines of the Leninist state inherited from the past.³¹

³⁰ Congressional Research Service (2019, June 25), *China's economic rise: History, trends, Challenges, and implications for the United States*, Available at: <https://crsreports.congress.gov/product/pdf/RL/RL33534>. Accessed 27 Sept. 2023.

³¹ Huchet, J.-F. (1997), The Economic Legacy of Deng Xiaoping. *China Perspectives*, no. 11, 6-16. pp. 6.

1.3: The dark side of Deng Xiaoping's reforms: Inflation and protests in the 1980s

Under Deng Xiaoping's leadership, the '80s were a watershed moment in China's economic history, as the country transitioned from a centrally planned economy to a more market-oriented framework. Nonetheless, these transformational initiatives had consequences.

Certain reform-minded Individuals, such as Wu Jinglian, an influential Chinese economist and one of the architects of the reform, argued from a monetarist standpoint, that inflation could be linked to an excess of aggregate demand. As such, the proposed cure included budgetary restrictions in parallel with financial reforms to enhance central bank independence. Wu Jinglian and his colleagues laid forth a detailed two-step reform proposal. The first step was monetary regulation, which was followed by a broader effort toward overall price liberalization. Wu Jinglian advocated for the creation of an entirely unique economic system as the sole means of increasing efficiency. He pushed for the rapid use of shock therapy procedures in order to achieve significant change. This alternate viewpoint on inflation and excess demand focused on the complex interplay of rural development, investment, and urban consumption.³²

While earlier agricultural reforms yielded rapid benefits, challenges surfaced in the late 1980s, mostly due to a lack of agricultural goods. The transition to voluntary contracting for grain procurement did not result in adequate grain supply, prompting the resumption of mandatory contracts. Rising grain procurement prices exacerbated the issue of keeping grain costs low for urban workers, resulting in a mounting government deficit. Furthermore, imbalances in many industrial sectors, with a particular emphasis on light industry, resulted in shortages and varied market prices for critical inputs such as coal, oil, and steel. This, in turn, generated inflationary pressures, particularly in producer goods pricing. The rapid and chaotic rise in market prices for producer goods also resulted in a kind of cost-push inflation, as the market prices of thirteen crucial producer goods surpassed government-set prices by 115% in 1987, exerting a price increase on all other commodities.³³

The System Reform Institute adopted an opposing stance, advocating against shock therapy and wholesale price liberalization. Their economists contended that the

³² Weber, I. M. (2021), *How China escaped shock therapy: The Market Reform Debate*, Routledge, Taylor & Francis Group, Abingdon – Oxon, New York. pp. 231-234.

³³ Weber, I. M. (2021), pp. 234-235.

state should oversee critical upstream industries vital to China's development. Zhao Ziyang³⁴'s beliefs aligned with the System Reform Institute's approach and concentrated on enterprise contracting and coastal development. The coastal development strategy aimed to integrate coastal regions and enterprises into the global market. Revenue generated from exports within the light industry sector could finance the import of industrial inputs, thus alleviating pressure on prices. Coastal enterprises were encouraged to attract foreign direct investment in order to reduce foreign debt and acquire advanced management techniques. The dual-track system's domestic version turned China's socialist production units into market-oriented companies. This approach aimed to marketize China's enterprises and enable them to catch up with global capitalism.³⁵

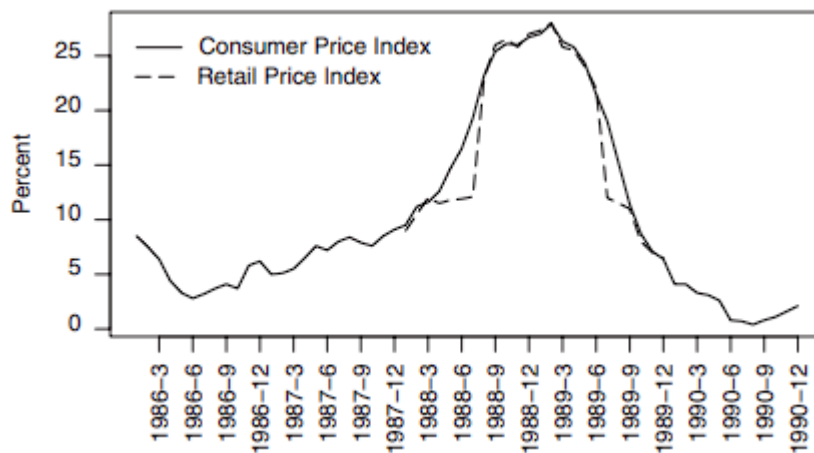


Figure 2: Inflation in China, 1986-1990. Figure Sources: Retail Price Index includes retail commodities, service products, and producer goods (Burdekin and Hu, 1999, 69, 81). Consumer Price Index as in Geng and Zhou (1998, 543).

This strategic approach represented an internationally oriented adaptation of gradual marketization, building upon the principles of the dual-track system and market reforms implemented at the periphery. However, a significant turning point occurred in the early summer of 1988 when a radical price reform abruptly took stage. China found itself once again on the brink of a major overhaul. Regrettably, this transformation came at a considerable cost. For the first time since the '40s, inflation spiralled uncontrollably, sending shockwaves across the country. In response to the announcements of an impending large-scale push for price reform, the populace reacted with a sense of urgency. Panic buying, bank runs, and localized protests swept across the country,

³⁴ General Secretary of the Chinese Communist Party from 1987-1989.

³⁵ Weber, I. M. (2021), pp. 236-239.

marking an unparalleled wave of resistance against market-oriented reforms. Faced with this unprecedented popular backlash, the Chinese leadership found itself compelled to abandon the plans for comprehensive price liberalization in the autumn of 1988. Instead of moving forward with price reform, a climate of austerity and retrenchment took precedence. China's tumultuous escape from the brink of a substantial overhaul in 1988 served as a crucial backdrop to the subsequent uprisings and the tragic events that unfolded in Tiananmen Square.³⁶

The catalysts behind the 1989 protests in China encompassed a multifaceted interplay of factors, each contributing to the eventual eruption of social unrest. At the forefront of these triggers stood the passing of former General Secretary of the Communist Party of China, Hu Yaobang, on April 15th, 1989. Hu Yaobang was widely regarded as a reformist leader, known for his empathetic stance toward the demands articulated by the student movement. His demise created a vital crossroads, providing the "pro-democracy" movement with an opportune moment to galvanize and voice their grievances against the Party's leadership. Beneath the surface, a complex web of underlying tensions and contradictions pervaded Chinese society during this period. These tensions manifested as deep-seated divisions between those advocating for the continuation of socialist values and those championing liberalization and the introduction of capitalist reforms. Concurrently, schisms arose between the ruling class and the general populace, amplifying the sense of disconnect and discontent among the citizenry. Moreover, the divisions between the right and left factions within the Communist Party itself further exacerbated the internal frictions within the Party, contributing to the overall climate of unrest and uncertainty.³⁷

In May of 1989, Chinese university students, accompanied by their supporters, embarked on a momentous occupation of Tiananmen Square, gathering in large numbers while fervently advocating for democratic reforms. They resolved to persist until June 20, a date of significant government importance. During this period of renewed protest, a powerful symbol emerged to encapsulate the demonstrators' resolve – a model of the Statue of Liberty meticulously crafted by art students. This iconic creation, affectionately

³⁶ Weber, I. M. (2021), pp. 242-243.

³⁷ Kelly, M. (2009), *Looking back at Tiananmen Square, the defeat of counter-revolution in China - freedom road socialist organization*, Available at: <https://frso.org/main-documents/looking-back-at-tiananmen-square-the-defeat-of-counter-revolution-in-china/>. Accessed 26 Sept 2023.

christened by the protesters as the "Goddess of Democracy and Freedom," held profound significance. The students perceived this statue as a potential public relations triumph. It could either stand as a lasting emblem of the democracy movement and the vulnerability of the authorities, or it would force the authorities into an uncomfortable situation. The possibility of deploying police to confront and dismantle the "Goddess of Democracy and Freedom" with sledgehammers.³⁸

The participants in the 1989 Tiananmen Square protests lacked a clearly stated agenda for political reforms in the early phases and they had no immediate political goals. However, Hu Yaobang's sudden passing shifted the course of the demonstrations considerably. Hu, a well-known figure known for his commitment to democratic values and the well-being of youth, was unjustly removed from office in 1987. His death was an important turning point for demonstrators, who saw him as a martyr for freedom and democracy. As the protests gained popularity, the demands grew progressively more radical. While the students initially voiced their desire for democracy and freedom, their goals soon evolved to encompass personal freedoms and better living conditions. The students aspired to eliminate the role of political guides and to secure the freedom to choose their own career paths, free from government interference. To them, "freedom" meant the possibility to make personal choices and had little to do with the political structure. In addition to these demands, inflation emerged as a central concern for the Chinese population as a whole, eroding the purchasing power of fixed-salary workers and leading to rising discontent. The protests provided a means through which the protesters sought to voice their concerns and demands to the authorities. While inflation was not the direct cause of the protests, it contributed to creating an atmosphere of dissatisfaction that made the ground fertile for social mobilization.³⁹

Following these events, on the pivotal date of May 18th, an event of global significance unfolded as Mikhail Gorbachev concluded his visit to China, capturing the attention of the world. On this very day, amidst the international gaze centered on Beijing, Zhao Ziyang embarked on a poignant journey to Tiananmen Square. Standing amid a sea

³⁸ Hay, J. (2010), *Perspectives on modern world history, the Tiananmen Square protests of 1989*, Greenhaven Press, Detroit. pp. 23-25.

³⁹ Vogel, E. F. (2011), *Deng Xiaoping and the transformation of China*, Harvard University Press.

of protesters, an image immortalized him with a microphone in hand, addressing the hunger-striking students.⁴⁰

It must be emphasized that Zhao Ziyang was widely considered a pro-liberal reformer within the Chinese Communist Party. As a matter of fact, he not only called for market-oriented reforms and greater economic openness but also appeared to be favorably disposed towards the political openness that was taking place in the Soviet Union at that time. Furthermore, Zhao's willingness to interact with the student protesters and his recognition of the need for political reforms set him apart from the party's more conservative elements.⁴¹

In his capacity as the General Secretary of the party, Zhao Ziyang extended a heartfelt appeal to the students, pleading with them to cease their fasting. With sincerity, he acknowledged the belated nature of the leadership's outreach to the protesters and expressed his regret. Zhao passionately implored the students to persevere, emphasizing their potential to witness China's successful completion of the Four Modernizations and he made a solemn pledge that once their hunger strike concluded, the government's doors would forever remain open to dialogue. The subsequent day saw Zhao's return to the square, where he reiterated his earnest call for the students to conclude their hunger strike. This, however, occurred against a backdrop of mounting tension, as Zhao was well aware of Deng Xiaoping's preparations to impose martial law and employ military force to put an end to the student demonstrations. Recognizing the inevitable consequences of his stance, Zhao Ziyang began to prepare for his resignation, fully conscious that his political career was drawing to a close. On May 28th, Zhao found himself placed under house arrest, an isolation that endured until his passing in 2005. On June 4th, tragedy struck as the military launched a brutal crackdown on the protests, culminating in a sad loss of life. This dreadful episode, which ran counter to the aspirations of young reform intellectuals who had ardently advocated for change, marked the conclusion of an era in China's reform movement.⁴²

In the wake of the tragic events that unfolded in Beijing, the international community, particularly the Western nations and the global Chinese diaspora, loudly condemned the military crackdown and the ensuing bloodshed. Their collective anguish

⁴⁰ Weber, I. M. (2021), pp. 257.

⁴¹ Hay, J. (2010), pp. 45.

⁴² Weber, I. M. (2021), pp. 257.

found expression in protests, impassioned pleas for moderation, and fervent calls for harsh measures against China, encompassing both economic and political sanctions. A prevailing sentiment among protesters and public officials alike was the belief that the Beijing Government had irrevocably lost its legitimacy and, consequently, the allegiance of its people. This growing consensus, fueled by the crackdown's emotional impact, led to dire predictions regarding the Government's future, with some voices daring to forecast its downfall.⁴³

The tumultuous events of 1988, characterized by economic turbulence fueled by inflation and the spectre of corruption, combined with the seismic political repercussions following the harrowing Tiananmen Square incident in 1989, effectively stalled the trajectory of economic reform into a temporary stasis. In response to the overheated economic conditions, an imposed austerity program was implemented in 1989 and 1990, aimed at restoring equilibrium and cooling the nation's financial fervor.⁴⁴

Although the economic adjustments were critical in causing significant inflation during that period, it is crucial to recognize that this inflationary phase was regarded as a permanent state, but rather as an intrinsic consequence of the reforms. Deng Xiaoping aimed to address corruption and economic disruption caused by the dual-track price system by unifying the two tracks and aligning them with market principles. This approach involved tight fiscal and monetary policies to prevent inflation, but some mild price increases were inevitable when distorted prices were corrected. They considered this increase in prices as an unavoidable nuisance and advocated for immediate action without delay. According to them, as long as tight fiscal and monetary restrictions were in place, a one-time increase in prices to compensate for suppressed inflation would not initiate an ongoing inflationary trend. Though China's reform phase was accompanied with inflation, it is worth noting that it was not the type of hyperinflation that had devastated Russia during the aftermath of the dissolution of the Soviet Union. The combination of profound and progressive marketization prior to liberalization, along with the state's active role in 1989, ensured a smooth economic transition. China successfully integrated into global capitalism while maintaining control over its domestic economy and its core economic institutions.⁴⁵

⁴³ Hay, J. (2010), pp. 30-32.

⁴⁴ Qian, Y. (2000), pp. 159.

⁴⁵ Weber, I. M. (2021), pp. 255-269.

Intriguingly, despite the political impasse that gripped the central government, not all aspects of the reform agenda ground to a halt. The prior decentralization initiatives catalyzed the acceleration of specific reforms, although in a manner characterized by decentralized decision-making and implementation. Significantly, numerous southern regions proceeded ahead with their reform efforts, largely unaffected by the central government's action, or lack thereof. This decentralized dynamism highlights the resilience and adaptability of the reform process in China. It demonstrates that despite political challenges, progress continued to percolate from within the nation's diverse regions.⁴⁶

⁴⁶ Qian, Y. (2000), pp. 159.

CHAPTER 2: China's WTO accession journey: Challenges, objectives, and global implications

2.1: China's WTO membership: A long and difficult process

As the Cold War drew to a close, the collapse of the USSR in 1991 marked a pivotal moment in global geopolitics. The economic model of the Soviet Union, strained by the costs of proxy wars and fluctuations in energy prices, reached a critical juncture. This economic turmoil ignited public discontent and exposed the vulnerabilities inherent in the socialist economic development model. In contrast, China, having observed the challenges faced by the USSR, particularly in the aftermath of its dissolution, embarked on a strategic economic path. Learning from historical missteps, China sought a departure from the traditional socialist model and implemented transformative economic reforms. China's understanding of the USSR's economic pitfalls, coupled with its recognition of the changing dynamics in the post-Cold War era, propelled it toward increased engagement with the international community.⁴⁷

This culminated around a pivotal historical event that occurred in the final decade of the twentieth century when China joined the World Trade Organization (WTO) in 2001.

China had been one of the original 23 contracting parties to the General Agreement on Tariffs and Trade (GATT) in 1948. Despite this, the government of Taiwan (China) withdrew from the agreement in 1950 following China's 1949 revolution. Afterwards, in July 1986, China initiated the process of reentry into the multilateral trading system, which, notably, turned out to be the longest and most challenging negotiation process in the annals of the GATT/WTO.⁴⁸

In 1986, during the active implementation of China's economic reform and open-door policy, the then-Chinese Premier Zhao Ziyang, in a dialogue with the Secretary General of the General Agreement on Tariffs and Trade (GATT), Arthur Dunkel, articulated China's intention to reinstate its position within the GATT. Subsequently, six months following this dialogue, precisely on the 11th of July 1986, China submitted a formal request for the reinstatement of its GATT membership, rather than seeking

⁴⁷ Sharma, K. (2021, December 6), *What China learned from the collapse of the USSR*, The Diplomat. Available at: <https://thediplomat.com/2021/12/what-china-learned-from-the-collapse-of-the-ussr/>. Accessed 17 Nov 2023.

⁴⁸ Bhattasali, D., Li, S. and Martin, W. (2004), *China and the WTO: Accession, Policy Reform, and poverty reduction strategies*, World Bank & Oxford University Press, Washington. pp. 21.

accession as a new member. This request was based on the claim that the Republic of China (ROC) withdrawal in 1950 lacked legal validity.⁴⁹

Subsequently, a task force to assess China's membership status, established in March 1987, met for its inaugural session in October of the same year. The GATT task force to evaluate China's membership status met on more than 20 occasions, but these deliberations did not result in a resolution. In the following years, China suffered an interruption in the progression of this procedure due to the Tiananmen Square incident in 1989. The interruption lasted for almost two and a half years, during which there were almost no membership-related activities. Subsequent to the inauguration of the World Trade Organization (WTO) in 1995, the GATT Working Party underwent a transformation and was reconstituted as the WTO Working Party dedicated to overseeing China's accession process.⁵⁰

In 1992, during Clinton's presidential campaign, he attacked his opponent, president Bush, for his relationship with China, specifically accusing him of ascribing to Chinese dictators. Despite his strong rhetoric on human rights and freedom of speech, criticizing China for the Tiananmen Square incident, Clinton's strategy contradicted his intention to exploit the Chinese market. The Clinton administration's human rights agenda faced challenges and limited leverage, as evidenced by the failure to rally international support for resolutions critical of China at the UN Commission on Human Rights. While some human rights advances in China were observed, especially driven by changes in the perceptions and practices of the Chinese people, the leadership's emphasis on control persisted.⁵¹

The dilemma between human rights advocacy and economic exchange persisted throughout Clinton's presidency. Despite emphasizing human rights concerns publicly, Clinton prioritized domestic economic benefits of trade with China. This perspective gained validity as China rose to become one of the top 15 overseas markets for the United States by the late 1990s, annually buying around \$13 billion in American goods and attracting \$17 billion in investments between 1979 and 1997. However, frictions emerged due to China's export-led growth strategy, allowing it to penetrate American markets more

⁴⁹ Changsoo, K. (1996), Terms of endearment: The United States' China policy and China's accession to the World Trade Organization, *The Journal of East Asian Affairs*, 10(1), 74–100. pp. 77.

⁵⁰ Bhattasali, D., Li, S. and Martin, W. (2004), pp. 21-22.

⁵¹ Tucker, N. B. (1998), A Precarious Balance: Clinton and China, *Current History*, 97(620), 243–249. pp 243.

than its own import levels. American businesses voiced concerns about trade barriers, including high tariff rates, unpublished regulations, and intellectual property piracy. In response, the Clinton administration worked diligently to address these issues, negotiating vigorously on matters such as China's accession to the World Trade Organization (WTO), where China sought to be a founding member.⁵²

U.S. trade officials insisted that China's entry into the WTO had to be based on "commercially meaningful terms,"⁵³ necessitating a significant reduction in trade and investment barriers by China within a relatively short period. For many U.S. firms, China remained a challenging market to enter due to Chinese government policies aimed at safeguarding and promoting domestic industries. These policies encouraged the importation of products considered beneficial for China's economic development, such as high technology, machinery, and raw materials used by export-oriented industries. Conversely, products and services that were not deemed high-priority by the Chinese government or that directly competed with domestic Chinese firms often faced an extensive array of trade barriers.⁵⁴

As a result, foreign companies frequently found themselves compelled to invest in China, with one of the major restrictions being the necessity to establish joint ventures in order to gain access to the market.⁵⁵

U.S. trade analysts perceived China's WTO accession process as a promising opportunity to significantly expand access to China's market. On November 15, 1999, U.S. and Chinese officials reached a bilateral agreement concerning China's bid to join the WTO. This agreement would bind China to reduce tariffs and eliminate non-tariff barriers, such as regulatory restrictions and quality standards, to promote greater international trade and market openness.⁵⁶

On March 8, 2000, President Bill Clinton delivered a compelling speech at the Johns Hopkins School of Advanced International Studies, advocating for China's accession to the World Trade Organization (WTO). Addressing Washington's foreign

⁵² Tucker, N. B. (1998). A Precarious Balance: Clinton and China. *Current History*, 97(620), 243–249. pp. 244-246.

⁵³ Morrison, W.M. (2004, August 3), *CRS report for Congress, China and the World Trade Organization*, Available at: <https://crsreports.congress.gov/product/pdf/RS/RS20139/2>. Accessed 5 Oct 2023.

⁵⁴ Morrison, W.M. (2004, August 3).

⁵⁵ Bhattasali, D., Li, S. and Martin, W. (2004), pp. 9.

⁵⁶ Morrison, W.M. (2004, August 3).

policy elite, Congress, and the international community, Clinton presented the decision as a "win-win" scenario. He acknowledged that WTO membership wouldn't immediately create a free society in China or guarantee adherence to global rules but emphasized its potential to propel China faster and further in the right direction over time. Clinton dismissed the notion of a binary choice between economic rights and human rights, economic security, and national security. He argued that integrating China into the world community offered a greater chance of influencing its actions positively compared to isolation. Furthermore, Clinton highlighted the role of WTO membership in lowering barriers protecting state-owned industries, contributing to a process that reduced government intervention in people's lives. This speech encapsulated Clinton's strategic perspective on leveraging economic engagement to shape China's trajectory in a more favorable direction.⁵⁷

Following the bilateral agreement reached in 1999 with the United States, a similar one was reached with the European Communities in May 2000. Subsequently, negotiations progressed swiftly. As bilateral market-access negotiations approached their conclusion, both WTO members and China displayed renewed interest in finalizing the numerous outstanding multilateral components of the accession package. To finalize the agreement, the Working Party asked China for updated information, including details about laws, regulations, and policies related to China's trade. When the Working Group reached an agreement on the final package, it was sent for review by the General Council. Due to the upcoming Fourth Ministerial Conference in mid-November 2001, it was decided to submit these documents for approval by Ministers in Doha, rather than have them deliberated at the General Council level in Geneva.⁵⁸

In accordance with the established protocols, the Ministerial Conference approved the Accession Decision and Protocol outlining the terms of China's accession on November 10, 2001. China officially accepted the WTO's Protocol of Accession on November 11, 2001, and subsequently became a full-fledged Member of the WTO 30 days thereafter. With the notification to the Director-General that the Standing Committee

⁵⁷ Dusen, L. V. (2020, August 16), *The tragic legacy of Bill Clinton's China doctrine*, Policy Magazine. Available at: <https://www.policymagazine.ca/the-tragic-legacy-of-bill-clintons-china-doctrine/>. Accessed 21 November 2023.

⁵⁸ Bhattasali, D., Li, S. and Martin, W. (2004), pp. 22-24.

of the People's Congress had ratified the terms of accession, China officially assumed the role of the 143rd member of the WTO on December 11, 2001.⁵⁹

China's accession to the World Trade Organization (WTO) stands as a noteworthy milestone, culminating after a protracted fifteen-year negotiation process. Beyond political considerations, the negotiations were substantially prolonged by China's unwavering defense of its status as a developing country within the WTO membership framework. China's key claim was its assertion that, given its comparatively lower GDP per capita when compared with wealthy nations, it qualified for the various concessions accorded to developing member countries within the WTO. These concessions encompassed extended transition periods, preferential treatment, and other facilitative measures. This recognition itself was a significant achievement, establishing China as a leader among fellow member states sharing the same classification.⁶⁰

It is essential to underscore that China's accession to the World Trade Organization (WTO) necessitated alignment with the fundamental principles that underpin the WTO's global trade framework.

First, the principle of *Non-Discrimination* plays a pivotal role. This principle encompasses two critical dimensions: the Most-Favored-Nation (MFN) principle and the national treatment principle. The MFN principle necessitates that WTO members treat all trading partners on an equal footing, ensuring parity in the treatment of goods and services. Concurrently, the national treatment principle requires that member nations refrain from discriminatory practices on their domestic markets concerning domestic and foreign products, services, and nationals. In alignment with these principles, China, as a WTO member, is obligated to uphold the WTO agreements, including the provisions related to MFN and national treatment. Noteworthy among these commitments is the pledge to eradicate dual pricing practices and the phased removal of restrictions confronting foreign enterprises within a three-year timeframe.⁶¹

Second, the principle of *Market Opening* is a fundamental aspect of WTO objectives. This principle is realized through successive rounds of multilateral trade negotiations that aim to progressively reduce trade barriers. In the case of new members,

⁵⁹ Bhattasali, D., Li, S. and Martin, W. (2004), pp. 22-24.

⁶⁰ Noshab, F. (2002), "China's accession to the WTO: Global implications." *Strategic Studies*, 22(1), 210–236. pp. 214-215.

⁶¹ Bhattasali, D., Li, S. and Martin, W. (2004), pp. 25.

accession negotiations typically involve pressures to liberalize their trade regimes. Moreover, China has demonstrated its commitment to market opening through substantial reductions in tariff barriers in its quest to join the WTO. The extent and depth of these reductions underscore China's willingness to foster open competition in its services sectors.⁶²

Third, the principles of *Transparency and Predictability* are key elements of the multilateral trading system. Transparency, as articulated in GATT Article X, obliges member governments to promptly disseminate all trade-related laws, regulations, judicial decisions, and administrative rulings of general applicability. Furthermore, it calls for uniform, impartial, and reasonable administration of these measures and provides for independent judicial review procedures. China has affirmed its commitment to abide by WTO's transparency obligations, encompassing uniform application of its trade regime and independent judicial review. While some challenges may exist regarding the treatment variations in different parts of China's customs territory and perceived judicial independence, the Chinese government's dedication to implementing these obligations uniformly and impartially is apparent.⁶³

In addition to this, the WTO system promotes *Undistorted Trade* by instituting disciplines on subsidies and dumping, allowing members to address unfair trade through the imposition of countervailing or antidumping duties.⁶⁴ Individual members are permitted to invoke safeguard measures under specific criteria when faced with an abrupt surge in imports that jeopardizes domestic industries. China, like other WTO members, has agreed to adhere to these disciplines, including those pertaining to subsidies, countervailing measures, antidumping rules, and safeguard measures. Importantly, China refrains from utilizing export subsidies and has embraced special provisions outlined by other WTO members.⁶⁵

Lastly, the principle of *Preferential Treatment for Developing Countries* permeates the WTO Agreement. It entails the provision of transition periods to developing nations and countries transitioning toward market economies, affording them the time to adapt to the new obligations stemming from WTO agreements. While China was not

⁶² Bhattasali, D., Li, S. and Martin, W. (2004), pp. 25.

⁶³ Bhattasali, D., Li, S. and Martin, W. (2004), pp. 25-26.

⁶⁴ These are generally compensatory customs duties, equal to the difference between the normal price of the product and the lower price at which it is sold abroad.

⁶⁵ Bhattasali, D., Li, S. and Martin, W. (2004), pp. 26.

granted comprehensive preferential treatment, it negotiated specific transitional arrangements across various facets of its trade regime. These arrangements encompass the phased elimination of quotas and import licenses and the gradual liberalization of foreign entities' rights to engage in trade within China. Conversely, China has voluntarily accepted certain restrictions on domestic production subsidies, refrained from deploying export subsidies and committed to the immediate implementation of the Trade-Related Aspects of Intellectual Property Rights (TRIPS) Agreement.⁶⁶

The process of China's accession to the World Trade Organization (WTO) has been a lengthy and complex journey that required many years of negotiations and reforms. China's WTO membership marked a significant turning point in its economic and trade history, opening doors to greater integration into the global economic community. Throughout this process, China had to make profound changes to its economic structure and trade system to align with WTO standards and obligations. These reforms presented considerable challenges but also yielded tangible benefits for the Chinese economy, including access to new markets, attraction of foreign investments, and increased stability in international trade relations.

⁶⁶ Bhattasali, D., Li, S. and Martin, W. (2004), pp. 26.

2.2: China's objectives to join the WTO

China accorded paramount significance to its accession to the World Trade Organization (WTO) due to a multifaceted set of objectives. Foremost among these was the pursuit of international acknowledgement of China's burgeoning economic might.

China aspired to assume a central role in shaping the emerging international trade regulations embodied within the WTO framework. This endeavor also aimed to provide China with a strategic gateway to avail itself of the WTO's dispute resolution mechanisms, thereby proactively mitigating the looming specter of unilateral trade restrictions targeting Chinese goods.⁶⁷

In addition, the prospect of WTO membership carried the promise of simplifying the advocacy efforts of reform-oriented factions within China. They could leverage the argument that embracing liberalization policies was not merely a domestic necessity but a cogent requirement to fulfil China's broader international duties.⁶⁸

Furthermore, Chinese leadership nurtured the hope that WTO accession would act as a catalyst for the United States to grant China the status of Permanent Normal Trade Relations (PNTR) or Most-Favored-Nation (MFN). This, in turn, would mark the conclusion of the protracted annual trade status renewal process, thus closing the door on further deliberations within the U.S. Congress over the complex tapestry of U.S.-China relations.⁶⁹

China's accession to the WTO ushers in a dual role, encompassing both privileges and obligations within the multilateral arena. Foremost among these privileges lies the prospect of enhanced participation in global trade, a cornerstone of the nation's economic landscape. This new role not only offers China a unique avenue to cultivate broad export markets for its industries but also secures its access to the world's finest goods and services, thereby enriching its global economic engagement.⁷⁰

⁶⁷ Morrison, W.M. (2003, February 20). *CRS report for Congress, China and the World Trade Organization*, Available at:

https://www.everycrsreport.com/files/20030220_RS20139_2f866b1176ab28a66092484fa544e1ec13d1502b.pdf. Accessed 9 October 2023.

⁶⁸ Morrison, W.M. (2003, February 20).

⁶⁹ Morrison, W.M. (2003, February 20).

⁷⁰ Erkki Likanen (2002), "*Prospects and challenges of China's entry into WTO: a focus on the regulatory environment for business*", European Commission, Available at:

https://ec.europa.eu/commission/presscorner/api/files/document/print/en/speech_02_169/SPEECH_02_169_EN.pdf. Accessed 9 October 2023.

Furthermore, the reduction in import prices has a knock-on effect, extending benefits to consumers and import-dependent producers alike. This economic synergy also extends to competitive producers, who stand to gain from increased presence in overseas markets, amplifying the positive economic repercussions.⁷¹

Premier Zhu Rongji's reason for pushing China's accession to the WTO resided in his strategy to employ foreign competition as a catalyst to speed up economic reform within both the industrial and service sectors. The pace of reform within these sectors had been sluggish in the late 1990s, primarily due to the rooted inertia resulting from vested interests entrenched within a cohort of previously appointed managers fiercely clinging to their positions. Simply converting state companies into shareholding firms did not result in the removal of incumbent managers or the incorporation of fresh managerial practices. On the other hand, indispensable and comprehensive prerequisites for motivating managers to earnestly serve the enterprise's best interests encompassed the following facets: first, their inability to accrue substantial economic gains, including bribes, without earnestly contributing to the enterprise; and second, their capacity to reap significant incremental benefits from the enterprise's profits.⁷²

It is worth noting that the Chinese economic landscape exhibited the distinctive characteristics of a bureaucratic market economy, a paradigm in which bureaucrats within numerous state enterprises wielded political protection, allowing them to reap substantial rewards without commensurate diligence in advancing the enterprise's objectives. Foreign competition emerged as a formidable force poised to counteract the bureaucratic lethargy and entrenchment within Chinese economic institutions. This external competition exerted pressure on Chinese companies, forcing them to break free from the comfort of an isolated and protected economy perpetually sheltered by institutional practices. Enterprises that were unable to effectively compete confronted the imperative to explore avenues of downsizing, organizational restructuring, and the embrace of novel technologies and managerial paradigms to ensure their survival.⁷³

Nevertheless, apprehensions regarding the potential for extreme social upheaval prompted the government to exercise caution in controlling the pace of foreign

⁷¹ Erkki Liikanen (2002).

⁷² Chow, G.C. (2003), 'The impact of joining the WTO on China's economic, legal and political institutions', *Pacific Economic Review*, 8(2), pp. 105–115, Princeton University, Princeton. Available at: <https://www.princeton.edu/~gchow/WTO.pdf>. Accessed 9 October 2023.

⁷³ Chow, G.C. (2003).

competition. The measured approach to admitting foreign competition into China's market was formally and transparently delineated in scheduled tariff reductions and phased entrance quotas for foreign firms within China's financial and telecommunications sectors. Beyond the formal procedures, informal impediments, including bureaucratic red tape, were employed by officials at various levels of government—central, provincial, and local—to protract the entry of foreign competition. These officials wielded significant authority to approve or obstruct foreign economic activities in China, occasionally acting independently of directives from the central government in Beijing, the signatory authority for WTO accession agreements.⁷⁴

Membership in the WTO represents a pivotal juncture in the Chinese government's public acknowledgement of the predominant driver behind its remarkable economic growth over the past two decades. China's decision to engage with such an institution reflects its cognizance that the fundamental catalyst, as articulated in Deng Xiaoping's growth paradigm, lies in the harmonization of China's economic structures with those of modern capitalist economies. In the nascent stages of China's reform trajectory, it was imperative for the survival of the reformist faction to undertake gradual, geographically dispersed alterations to China's economic institutions. These reforms were cloaked in a nationalistic discourse, framing them as experiments aimed at identifying institutional configurations optimal for China's socialist framework and distinct economic circumstances.⁷⁵

Twenty years of evolutionary transformations within China's economic institutions, coupled with changes in political leadership and seismic shifts in the communist parties in Eastern Europe and the former Soviet Union, have relegated organized opposition to the alignment of China's economic institutions with global standards, leaving only a small group of individuals who hold onto nostalgic Stalinist ideologies. The socio-political landscape within China has evolved significantly, to the extent that the current political leadership bears minimal ideological liabilities when introducing measures such as differentiated compensation structures, leveraged buyouts, and stock options for managers, all of which are emblematic of capitalist incentives. Additionally, the adoption of capitalist mechanisms, including joint-stock companies,

⁷⁴ Chow, G.C. (2003),

⁷⁵ Woo, W. T. (2012), *What are the legitimate worries about China's WTO membership? Dilemmas of China's growth in the Twenty-First Century* (pp. 11–25), ANU Press. pp. 14-15.

bankruptcy regulations, and unemployment insurance, is viewed by the leadership as a forward step in the reform process rather than a relinquishment of China's economic experimentation sovereignty. At the same time, the entrance of China into the global economy has catalyzed the industrialization of rural areas, facilitated the financing of new technology imports through the proceeds of exports and the substantial influx of foreign direct investments (FDI) has augmented the nation's export capabilities and bolstered its technology transfer.⁷⁶

China's willingness to join such an institution reflects its realization that the dynamic ingredient in Deng Xiaoping's growth recipe was the integration of China's economic institutions with those of modern capitalist economies. In the early stages of China's reform, when awareness of the economic achievements of capitalist neighbors was limited among the ruling class and the top leaders remained ideologically committed to Stalinist-style communism, the survival of the reformist faction depended on gradual changes to China's economic institutions. The WTO accession is a continuation of the reforms initiated in 1978, with the aim of further solidifying China's integration with the global system. It signifies a progression from the earlier cautious experimentation to a more active engagement with global economic institutions, demonstrating China's evolving understanding of its role in the international economic landscape.⁷⁷

The justification behind China's decision to accede to the WTO has been a subject of extensive inquiry and analysis. This is particularly notable considering that China had already emerged as one of the world's foremost trading nations, operating beyond the purview of formal multilateral or regional preferential trade agreements. In 2000, China's combined exports of goods and services soared to an impressive sum of US\$279.5 billion, constituting 25.9% of its GDP. A stark contrast emerges when comparing this to the meager US\$12.5 billion, equivalent to 5.5% of GDP, recorded in 1978. China's ability to achieve this remarkable export performance was substantially bolstered by the most favored nation treatment accorded to it by other international actors. Consequently, China was able to reap the benefits of free rider status, capitalizing on the successive waves of trade liberalization in the post-war era without incurring the negotiating costs, adaptation expenses, or external obligations that would have accompanied formal membership.⁷⁸

⁷⁶ Woo, W. T. (2012), pp. 14.

⁷⁷ Woo, W. T. (2012), pp. 14-15.

⁷⁸ Ciuriak, D. (2002), China after the WTO, *American Journal of Chinese Studies*, 9(1), 59–93. pp. 63-64

China's accession to the World Trade Organization (WTO) was the result of a complex interplay of several key factors, which can be summarized as follows:

Firstly, China's trade had expanded exponentially, including a remarkable 28% surge in 2000, rendering the nation increasingly trade-dependent. Concurrently, the United States found itself grappling with a substantial trade deficit, both on a global scale and in its bilateral trade relationship with China. This shifting landscape prompted China to reevaluate the tradeoffs between the potential repercussions of facing U.S. trade actions in a bilateral context versus embracing the obligations and safeguards offered by the WTO's dispute settlement mechanism, effectively solidifying China's trade gains.⁷⁹

Furthermore, while Deng Xiaoping's era was marked by rapid *de facto* progress but a relatively slow pace of *de jure* evolution, Jiang Zemin's leadership brought about a remarkable acceleration of structural reform in China, particularly in terms of formal and legal reforms. This shift in approach reflects China's changing stance toward the market economy. Deng, during his tenure as a leader and influential figure, exhibited a pragmatic yet ambivalent attitude, which was mirrored in China's reluctance to pursue WTO membership before 1997. In contrast, Jiang Zemin's leadership saw a proactive embrace of formal international economic regulations, aligning with and reinforcing the extensive formal structural changes that China had been implementing under his governance.⁸⁰

Lastly, the altered political dynamics between China and the United States in the aftermath of September 11 contributed to a more conducive environment for negotiations.⁸¹

Although WTO accession offered limited additional market access benefits to China, as it had long benefited from most favored nation treatment, it recognized the value of leveraging the organization's dispute settlement system to safeguard against arbitrary trade policies of other WTO members. Challenges persisted for foreign firms attempting to penetrate China's market, extending beyond the barriers that WTO membership aimed to dismantle. Notably, the coastal provinces boasted a substantial foreign presence through foreign direct Investment (FDI), fostering the emergence of resilient local competitors, both indigenous and foreign-invested. In contrast, the interior provinces, which could prove more vulnerable to foreign competition, presented logistical

⁷⁹ Ciuriak, D. (2002), pp. 65.

⁸⁰ Ciuriak, D. (2002), pp. 65.

⁸¹ Ciuriak, D. (2002), pp. 65.

challenges in terms of accessibility, stemming from inadequate internal infrastructure and provincial protectionism. These internal dynamics suggested the presence of segmentation within China's domestic market, hinting at limited interprovincial contestability for certain products. Consequently, effecting improvements in China's internal infrastructure and the diffusion of reforms to the provincial and local levels would likely be prerequisites before some of the more susceptible state-owned enterprises (SOEs) in China would face full-fledged international competition.⁸²

China's accession to the World Trade Organization (WTO) was a crucial turning point that resulted in transformative changes, not only within the Chinese domestic market but also on the global stage. This historical moment served as a catalyst for comprehensive changes, triggering a process of profound evolution and adaptation within the intricate tapestry of the Chinese economic landscape, while simultaneously exerting a substantial influence on the dynamics of international trade relations worldwide. The repercussions of this significant occurrence continue to shape the course of global commerce and have left an everlasting mark on the international arena of trade relations.

⁸² Ciuriak, D. (2002), pp. 66-67.

2.3: China's economy after joining the WTO

China's accession to the World Trade Organization (WTO) marked a significant turning point, bringing one of the world's largest economies under the umbrella of global trade liberalization rules. The ramifications of this move were evident, leading to shifts in China's economic relations with the international community.

The symbiotic relationship between China and the rest of the world has thrived, driven by increased international investment and trade. China now holds a greater stake in upholding the open and multilateral trading system, which has become integral to its economic framework. In tandem with these transformations, China's WTO membership reshaped the global economic landscape.⁸³

By becoming a member of the WTO, China embraced the organization's market-oriented concepts and methods, leveraging its own competitive advantages to enhance the efficient global allocation of resources. This transformative process has culminated in remarkable economic and social progress, benefiting not only China but the entire world. As a result, other nations have expanded their markets by integrating China into the global value chains, facilitating access to high-quality, cost-effective Chinese-manufactured goods, alleviating poverty on a broader scale, and strengthening global resilience to financial crises. Overall, China's decision to join the WTO has yielded a mutually advantageous outcome for both the nation and the international community.⁸⁴

China's WTO membership bolstered its capacity to allure foreign investors who sought to utilize China as a hub for exports. Simultaneously, it became an attractive prospect for foreign investors aiming to securely tap into China's domestic market. Regardless of their focus on export-driven strategies or capitalizing on the expansive domestic consumer base, Foreign Direct Investment (FDI) introduced not only additional capital but, more significantly, expertise in management, technology infusion, market insights, and participation in global production and distribution networks. These ties further integrated China with the global economy. WTO accession greatly improved China's export circumstances by granting unfettered access to overseas markets. This

⁸³ Dural, B.Y. (2007), *What has changed after the World Trade Organization membership of China: Opportunities and Challenges*, Available at: <https://www.etsg.org/ETSG2007/papers/yuce.pdf>. Accessed 12 Oct 2023. pp 1.

⁸⁴ Wang, L. (2015), *China's WTO accession reassessed*. Routledge & China Development Research Foundation (CDRF), Abingdon - Oxon, New York. pp. XX.

reinforced international investors' confidence in China's potential and solidified its status as an appealing destination for foreign investment.⁸⁵

Consequently, there has been a noticeable enhancement in the country's industrial competitiveness. The influx of foreign capital swiftly led to the proliferation of market-oriented businesses, creating a ripple effect. High-performing foreign-invested enterprises not only attracted more foreign investments but also set a precedent for domestic enterprises, encouraging them to elevate their performance. As a result, China witnessed a diversification in forms of business ownership and a substantial broadening of systemic reforms, encompassing both their scope and depth. Furthermore, this opening up fostered the development of management practices and concepts aligned with the demands of a market-oriented economy. This comprehensive engagement with the global economy brought about a rapid increase in capital and technological investments by Chinese businesses, fostering a more favorable competitive landscape. As a consequence, China experienced a notable shift in its growth model, transitioning from extensive to intensive. Contrary to initial concerns that joining the WTO would harm China's vulnerable industries, it instead acted as a catalyst for improvement. Chinese companies responded proactively to heightened competition, undergoing rigorous testing and emerging more competitive.⁸⁶

In the two decades following its accession to the World Trade Organization (WTO) in December 2001, China has undergone a ninefold expansion in foreign trade, consequently securing its position as the leading global player. Leveraging its abundant low-cost labor, China has adeptly assumed the mantle of the world's premier manufacturing hub since its WTO entry. At the same time, a progressive reduction in tariffs have led to an impressive 870% surge in exports and a 740% rise in imports between 2001 and 2020, as reported by the United Nations Conference on Trade and Development. As a result, China's share in global trade now stands at 13%, marking a notable 4% increase since 2001, thereby eclipsing the United States as the leading global trade contributor in 2013.⁸⁷

⁸⁵ Dural, B.Y. (2007), pp. 5.

⁸⁶ Wang, L. (2015), pp. 36-38.

⁸⁷ Kawate, I. (2021, November 7), China's trade with world surges ninefold after 20 years in WTO, Nikkei Asia, Available at: <https://asia.nikkei.com/Economy/China-s-trade-with-world-surges-ninefold-after-20-years-in-WTO>. Accessed 12 Oct 2023.

China's accession to the WTO has had a profound and extensive impact, with positive outcomes outweighing negative aspects over the past decade. This impact is evident in several key areas.

First, China's economy has not only experienced rapid growth but also a stable one. In the ten years following its WTO entry, China achieved its fastest growth rate in any decade, averaging 10.45% annually, even amid the global financial crisis. This remarkable steadiness in economic growth contrasts with the higher volatility witnessed in the preceding two decades. China's increased participation in the global division of labor has significantly contributed to this stability, broadening the allocation of resources beyond its domestic sphere.⁸⁸

Second, China's industries have significantly enhanced their international competitiveness. Pre-WTO, China ranked sixth in global exports; post-accession, it swiftly became the world's leading exporter, increasing its world market share by 5%. This improvement extended to traditional and emerging industries, particularly in the information technology sector, which saw substantial globalization and integration into the global value chain.⁸⁹

Third, WTO membership acted as a catalyst for institutional reform in China. To adhere to WTO commitments, China revised over 2,300 laws, regulations, and numerous government documents, aligning its economic structures and standards with international norms. Many of these revisions influenced China's domestic market systems, enhancing its socialist market-economy structure.⁹⁰

Lastly, China's entry into the WTO facilitated a deepening understanding of openness and the associated regulations among its citizens. The lengthy negotiation process for accession provided a unique opportunity to educate the public about the WTO, openness, and the rules governing international trade. This extensive educational effort, particularly in a country that has a history of closed policies, holds lasting significance as China continues to integrate with the global community.⁹¹

The greater awareness of international trade regulations and the embrace of openness, generated by China's entry into the WTO, not only prepared the nation for

⁸⁸ Wang, L. (2015), pp. 2.

⁸⁹ Wang, L. (2015), pp. 2.

⁹⁰ Wang, L. (2015), pp. 4.

⁹¹ Wang, L. (2015), pp. 5.

active global integration, but also contributed to the success of its extensive poverty alleviation programs.

As a matter of fact, during the period spanning from 1990 to 2015, China achieved a remarkable reduction in the proportion of its population living in conditions of extreme poverty, characterized by an income of less than \$1.90 per day. This percentage plummeted from 67% to a mere 1%. This substantial decrease in extreme poverty levels reflects the success of China's economic and social development policies. It not only demonstrates the effectiveness of targeted poverty alleviation programs but also underscores the broader impact of China's rapid economic growth on poverty reduction.⁹²

Following its accession to the WTO, China not only sustained rapid economic growth but also maintained it for an extended period with notable stability. Since 2002, the Chinese economy entered a phase of expansion within the economic cycle, characterized by a remarkable contrast to the pre-2002 volatility, as it maintained a relatively stable growth trajectory. Since the commencement of economic reforms and openness, China has consistently recorded an impressive annual GDP growth rate averaging 9.9%, earning it a position akin to an economic miracle in the annals of global economies. The first decade (1981-1990) saw an average annual growth rate of 9.3%, the second decade (1991-2000) had a growth rate of 10.4%, and in the first decade of the twenty-first century (2001-2010), China achieved a higher growth rate of 10.5%. Comparing these growth rates, the most recent decade outperformed the 32-year average by 0.6 percentage points, surpassing the first decade by 1.2 percentage points and the second decade by 0.1 percentage points. This remarkable growth has earned China a reputation as an economic miracle among global economies.⁹³

⁹² Council on Foreign Relations (2021, June 7), *What happened when China joined the WTO?* Council on Foreign Relations, Available at: <https://world101.cfr.org/global-era-issues/trade/what-happened-when-china-joined-wto>. Accessed 12 October 2023.

⁹³ Wang, L. (2015), pp. 26.

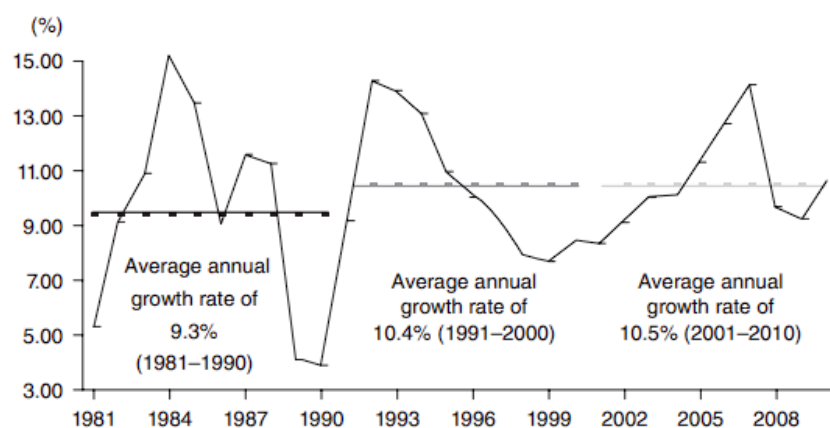


Figure 3: China's economic growth from 1981 to 2010. Figure Source: China Statistical Yearbook 2011.

Secondly, the level of economic volatility observed in the most recent decade was notably lower than in any of the previous three decades. In the first decade, known as the initial phase of reform and opening up, there was relatively high volatility with the highest growth rate at 15.2 percent in 1984 and the lowest at 3.8 percent in 1990, resulting in an 11.4 percentage point difference. During the second decade, the highest and lowest growth rates were 14.2 percent in 1992 and 7.6 percent in 1999, reducing the difference to 6.6 percentage points. In the most recent decade, characterized by stable economic growth, the highest growth rate reached 14.2 percent in 2007, while the lowest was 8.3 percent in 2001, resulting in a mere 5.9 percentage point difference.⁹⁴

Nevertheless, amid China's journey toward embracing the principles of the World Trade Organization and integrating capitalist ideas into its economic model, there is a resilient undertone of socialism within the nation's economic landscape. Despite two decades of reform, China is still grappling with significant challenges — the government sector's size and intrusion into the market, resistance within state-owned enterprises, financial system complexities, and a lack of crucial institutional infrastructure. These roadblocks underscore the ongoing struggle to find a delicate balance between market-oriented reforms and socialist principles.⁹⁵

To put it concisely, the period following China's entry into the World Trade Organization was characterized by notable expansion, dynamic participation in the global economy, and an accelerated push for international economic cooperation. This era also

⁹⁴ Wang, L. (2015), pp. 26.

⁹⁵ Woo, W. T. (2012), pp. 15-16.

served as a testament to China's advancements in diverse aspects of reform, featuring improvements in market-oriented frameworks and the strategic use of open-access policies to drive the reform agenda. Despite these accomplishments, several obstacles persist, underscoring that China has not fully aligned with the rules established by the WTO, holding firm on certain issues that derive from its socialist system. Recognizing these ongoing challenges is critical in understanding that, while progress has been significant, China still has some way to go before fully adjust with the global economic landscape.

CHAPTER 3: China's plan to become a global leader

3.1: BRICS, an attempt to counter the Western bloc

Following China's monumental decision to open its economy in 1978 and its subsequent accession into the World Trade Organization (WTO), the country has embarked on a remarkable transformation journey over the past two decades. China has launched a variety of strategic initiatives in recent years, all aimed at positioning it as a preeminent global player on the world stage. This chapter examines China's pivotal decision to join the BRICS group, a coalition of major emerging economies that includes Brazil, Russia, India, China, and South Africa. This move laid the foundation for its strategic engagements with other emerging powers, further solidifying its influence in global affairs.

The first BRIC summit, which comprised Brazil, Russia, India, and China, was held in Russia in 2009. This gathering represented a consolidation of key emerging market nations brought together from diverse continents. The leaders of these countries agreed to establish an economic framework characterized by democracy and transparency. Moreover, BRIC leaders reaffirmed their dedication to strengthening cooperation within the group in order to advance the interests of emerging market economies and developing nations.⁹⁶

This BRIC acronym was coined in 2001, when Jim O'Neill, who had taken over as head of Goldman Sachs' global economic research division, undertook an initiative to establish a classification that included sizable and rapidly advancing developing nations, which he believed would play a critical role in the ongoing global economic reshaping. His classification was formulated on the basis of economic metrics, with a specific focus on GDP growth rates, GDP per capita, and total population. This classification was introduced in his 2001 publication, denoted as GS Global Economics Paper No. 66, titled "Constructing Enhanced Global Economic BRICs."⁹⁷

Within the boundaries of this study, O'Neill made a prediction in which he anticipated that over the subsequent decades, the prominence of the BRICs, and notably

⁹⁶ Kirton, J., & Larionova, M. (2022), The first fifteen years of the BRICS, *International Organisations Research Journal*, 17(2), pp. 7-30.

⁹⁷ Stuenkel, O. (2015), *The BRICS and the future of global order* Oliver Stuenkel, Lexington Books, London. pp. 1.

China, in the global GDP would experience substantial growth.⁹⁸ Notably, the timing of the introduction of the term BRIC aligns with China's entry into the World Trade Organization (WTO) in the same year. Goldman Sachs (GS), well-known for its significant role in the global financial sector and its active involvement in various corporate operations, likely viewed this as an opportune moment to shed light on investment prospects in these burgeoning economies. The publication in question can be interpreted as a manifestation of Goldman Sachs' interests in cultivating awareness about investment opportunities in these emerging nations. Given the strong ties between Goldman Sachs and American businesses, the entry of China into the WTO may have been perceived by the bank as a strategic opportunity to foster investments and business ventures in China. The designation of BRIC may have contributed to constructing a positive narrative around these emerging economies, potentially encouraging businesses to explore investment opportunities in these regions. This confluence of events raises questions about whether the timing of China's WTO entry and the introduction of BRIC were more than mere coincidences, hinting at a strategic alignment of economic interests and investment promotion.

The 2003 publication by Goldman Sachs titled "Dreaming with the BRICs: The Path to 2050" added substantial weight to the assumptions made in the previous paragraph. This paper provided more precise and expansive predictions, envisioning that by 2050, the BRICs economies would surpass in U.S. dollar terms than the G6, comprising the United States, Germany, Japan, the U.K., France, and Italy. The impact of this second paper on investors and financiers exceeded that of its predecessor, resonating not only within the financial sphere but also permeating international politics, turning the term "BRICs" into a buzzword in the following years. Such was the influence of the 2003 paper that many observers first encountered the term BRIC in that year, leading to a common misconception that it originated in 2003. In subsequent years, Goldman Sachs asserted that the BRICs would experience even faster growth than predicted in 2003.⁹⁹

The term BRIC represented the acronym of Brazil, Russia, India, and China and it reflected the collective identity of these nations. It underwent a transformation in

⁹⁸ Stuenkel, O. (2015). pp 1.

⁹⁹ Stuenkel, O. (2015). pp 3.

nomenclature from February 2011 onwards, as South Africa formally attained the status of a member within this group.¹⁰⁰

Reflecting on the first decade of this century, the prevailing global system was characterized by unipolarity. During this time, the BRICS nations encountered substantial internal challenges. India struggled with high poverty and illiteracy rates, Brazil faced economic instability, urban violence, and inequality, China experienced growing political unrest, and Russia faced economic uncertainty. Nevertheless, the international order exhibited an inactive response to these emerging realities. The continued dominance of the G8, which notably excluded China and India, generated discontent among policymakers in Brasília, Beijing, and New Delhi. To address these inequities, Tony Blair launched the G8+5 strategy for greater involvement and collaboration during the G8 summit in Gleneagles in 2005. Regrettably, this effort did not culminate in the permanent integration of these emerging powers.¹⁰¹

Amidst the backdrop of the 2008 global financial crisis, a confluence of two pivotal moments in the evolution of the BRICS group emerged.

First, it became increasingly clear that there was a notable difference between the substantial preeminence of the BRIC nations, particularly China, as the world's top trading entity, and their relatively modest standing within international financial spheres. The BRIC nations did not hold considerable influence in global equity markets, lacked influential global financial hubs, were not prominent in international investments, and their national currencies were rarely employed in international trade transactions.¹⁰²

Second, the BRICs collectively recognized that, while Western nations continued to exert significant influence over global financial markets and the structure of global financial governance, they were not necessarily capable or dependable custodians of this responsibility.¹⁰³

¹⁰⁰ Svetlana Gusarova (2019), *Role of China in the development of trade and FDI cooperation with BRICS countries*, China Economic Review, Volume 57.

¹⁰¹ Stuenkel, O. (2015), pp. 5.

¹⁰² Duggan, N., Hooijmaaijers, B., Rewizorski, M., & Arapova, E. (2022), Introduction: 'the BRICS, Global Governance, and challenges for South–South Cooperation in a Post-Western World', *International Political Science Review*, 43(4), 469–480. pp. 470-471.

¹⁰³ Duggan, N., Hooijmaaijers, B., Rewizorski, M., & Arapova, E. (2022). pp. 470-471.

These countries shared a unified focus on the importance of safeguarding their national sovereignty, prioritizing economic growth and development, and perceived the current multilateral order as fundamentally inequitable.¹⁰⁴

Later on, following the 2009 summit held in Russia, the BRICS group, comprising Brazil, Russia, India, China, and later South Africa has regularly outlined a set of significant objectives in their summits.

First, the BRICS members recognize that the existing international order, including institutions like the United Nations and the Bretton Woods institutions, has its roots in post-World War II political settlements, which were dominated by Western powers. As a result, they have aimed to reform these institutions to make them more representative of the current global landscape. This reform agenda has been on the BRICS' radar since their first summit in 2009.¹⁰⁵

At the same time, The BRICS nations place great value on promoting multilateralism, with a particular focus on strengthening the role of the United Nations in global governance. They have also pushed to elevate the G20's importance in global economic governance over G7. This commitment to multilateralism was reiterated at multiple summits, with the 2013 summit being a notable instance.¹⁰⁶

Last but not least, economic cooperation, trade, and investment are central to BRICS' agenda. The purpose is to deepen cooperation in these sectors in order to enhance industrial development and employment objectives.¹⁰⁷

Despite all these noble goals, these countries did not form a consistent group. When the BRIC came into being in 2009, only India and Brazil were well-institutionalized democracies. Russia was a declared democracy on the verge of autocracy, while China was a Marxist People's Republic. Each of the four represented distinct cultural and linguistic traditions, though they shared the characteristic of having been recognizable political entities for centuries.¹⁰⁸

¹⁰⁴ Duggan, N., Hooijmaaijers, B., Rewizorski, M., & Arapova, E. (2022). pp. 470-471.

¹⁰⁵ Känönen, J. (2014), BRICS as a new power in international relations? *Geopolitics, History, and International Relations*, 6(2), 85–104, Addleton Academic Publishers. pp. 88-89.

¹⁰⁶ Känönen, J. (2014). pp. 88-89.

¹⁰⁷ Känönen, J. (2014). pp. 88-89.

¹⁰⁸ Armijo, L. E. (2007), The BRICS countries (Brazil, Russia, India, and China) As analytical category: Mirage or Insight? *Asian Perspective*, 31(4), 7–42, The Johns Hopkins University Press. pp. 8-9.

Furthermore, each of the quartet faced impending obstacles that could choke economic progress: China's pollution and shortages of natural resources; India's deplorable infrastructure and ongoing violent ethnic conflicts; Brazil's inability to grow rapidly despite today's favorable international environment of high commodity prices; and Russia's corruption and vulnerability to the "natural resource curse" of ample public funds even in the absence of competent governance for its citizens and firms."¹⁰⁹

Nevertheless, these nations while distinct in their characteristics and roles, skillfully leverage their individual competencies to generate complementarity within the organization. In the following overview, we explore the roles played by BRICS countries, highlighting their distinct contributions.

Brazil is primarily recognized for its specialization in agriculture. With approximately 60 million hectares of arable land and the potential for cultivation on over 400 million hectares of land, Brazil stands out among BRICS nations as a prominent exporter of agricultural products, particularly to China. Additionally, Brazil's production of biofuels plays a significant role in the country's economic landscape.¹¹⁰

India's distinctive feature is its powerful service industry. Among the BRICS members, India is also a notable software powerhouse. Nevertheless, as compared to other BRICS nations, India is predicted to remain a low-income economy for several decades when compared to other BRICS members.¹¹¹

Among BRICS nations, the Russian Federation is characterized as an energy resource-rich nation. It holds approximately 20% of the world's gas and oil resources. Due to its wealth of energy resources, Russia maintains a strong focus on exports.¹¹²

South Africa on the other hand, is well-known for its vast mineral reserves and its position as one of the leading producers of rare materials.¹¹³

Finally, China is often regarded as the global manufacturing hub. In terms of industrialization, it leads the way among BRICS countries, with an economy predominantly oriented towards exports. Additionally, the dragon also holds approximately 12% of the world's mineral resources, although this quantity has proved

¹⁰⁹ Armijo, L. E. (2007). pp. 8-9.

¹¹⁰ Känönen, J. (2014), pp. 90-91.

¹¹¹ Känönen, J. (2014), pp. 90-91.

¹¹² Känönen, J. (2014), pp. 90-91.

¹¹³ Känönen, J. (2014), pp. 90-91.

insufficient for its rapidly growing economy, which is heavily reliant on imported resources.¹¹⁴

The People's Republic of China ranks among the top ten trading partners for over 100 economies, representing approximately 80% of the global GDP. Within the BRICS group, China dominates the share of merchandise exports, accounting for 70.3% in 2017. Russia follows as the second-largest exporter with 11%, significantly less than China's share. India holds the third position with 9.3%, while Brazil and South Africa contribute 6.8% and 2.6%, respectively. Similarly, when it comes to item imports, the dragon stands at the forefront among BRICS nations, accounting for 66.1% in 2017. India takes the second place with 16.1%, followed by Russia with 8.5%, Brazil with 5.6%, and South Africa with 3.7%.¹¹⁵

China seems to embrace an intricate approach within the organisation, emphasizing the imperative of bolstering external collaboration within the BRICS group, particularly with developing nations, in the context of a multipolar global landscape. This strategic orientation is articulated as a response to the perceived dominance of developed nations and a 'unilateral' global order. Nevertheless, a closer look reveals that China's foremost objective is to advance its own foreign policy goals while skillfully utilizing the BRICS group as a means to garner support for these endeavors. During a BRICS summit in 2018, President Xi conveyed, "Unilateralism and protectionism are on the rise, dealing a severe blow to multilateralism and the multilateral trading system." Nevertheless, he retains a circumspect and layered stance, noting that "The existing international order may not be flawless, but as long as it pursues a mutually beneficial outcome for all countries, it should not be discarded at will". He further urges other BRICS member states to align with China's stance against protectionism.¹¹⁶

¹¹⁴ Känönen, J. (2014), pp. 90-91.

¹¹⁵ Svetlana Gusarova (2019), *Role of China in the development of trade and FDI cooperation with BRICS countries*, China Economic Review, Volume 57.

¹¹⁶ Andal, A. G. T., & Muratshina, K. G. (2022), Adjunct rather than alternative in global governance: An examination of BRICS as an international bloc through the perception of its members, *Social Science Information*, 61(1), 77–99. pp. 85.

BRICS expansion



Figure 4: BRICS expansion as of 1 January 2024. Figure Source: BBC.

In August 2023, the BRICS nations unanimously agreed to admit Saudi Arabia, Iran, Ethiopia, Egypt, Argentina and the United Arab Emirates. They will effectively become members on January 1, 2024.¹¹⁷

Despite this, the BRICS member countries exhibit vast disparities in terms of the scale of their economies and foreign policy objectives, which adds complexity to the bloc's consensus-based decision-making process. Although representing a significant portion of the world's population and global GDP, internal divisions have prevented BRICS from assuming a prominent global role.¹¹⁸

China, as a key BRICS member, has consistently advocated for an expansion of the group to challenge Western dominance, a perspective shared by Russia. However, countries such as Brazil and India have also been cultivating closer ties with Western nations.¹¹⁹

While the BRICS may not present an alternative course distinct from that of the Western world, it can at the very least provide an alternative reading of contemporary

¹¹⁷ Plessis, C. D., Miridzhanian, A., & Acharya, B. (2023, August 25), *BRICS welcomes new members in push to reshuffle World Order*, Reuters, Available at: <https://www.reuters.com/world/brics-poised-invite-new-members-join-bloc-sources-2023-08-24/>. Accessed 19 October 2023.

¹¹⁸ Plessis, C. D., Miridzhanian, A., & Acharya, B. (2023, August 25).

¹¹⁹ Plessis, C. D., Miridzhanian, A., & Acharya, B. (2023, August 25).

global politics, precisely because it does not advocate entirely new horizons for global transformation. Recognizing that BRICS does not fundamentally challenge the Western political paradigm explains how an international bloc might come into existence without positioning itself in opposition to the West. The BRICS do not readily fit into a binary paradigm in which they are either categorically anti-Western or merely allied with Western interests. Instead, it occupies a somewhat ambiguous position, adapting to and interacting with the circumstances it encounters.¹²⁰

Rather than exclusively placing the BRICS group within a Western political framework or presenting it solely as a disjointed historical shift, it is important to consider the stories shared by each BRICS nation. These narratives offer a more complex and sophisticated perspective of history. While they acknowledge the importance of past events, which represent the persistence and disruptions within history, this coexistence of perspectives on continuity and discontinuity does not necessarily imply compatibility.¹²¹

The establishment of the BRICS group was fundamentally driven by a shared discontent with the prevailing global order and a collective aspiration to address its perceived inadequacies. During the first decade of the twenty-first century, these developing economies, each with its own history, challenges and priorities, came together with the underlying belief that the existing international governance structures were unrepresentative and ill-suited to accommodate their evolving roles on the global stage. Among the BRICS nations, China, in particular, plays a significant role as the world's most populous country and an economic powerhouse. It sees the BRICS stage as an opportunity to establish an international order that aligns more closely with the interests and perspectives of the developing world, advocating for a more equitable and multipolar world order. China, having ascended to the status of the world's second-largest economy and the largest global exporter, has emerged as a key actor within the BRICS. Its economic strength has made the other members increasingly reliant on China for trade and investment, shaping the dynamics of the group. This dependency on China highlights the shifting tides in global economics and politics, underlining the necessity for a collective effort to engage with the evolving international order. The BRICS group reflects an evolving and dynamic picture in international relations, providing a unique

¹²⁰ Andal, A. G. T., & Muratshina, K. G. (2022), pp. 91-92.

¹²¹ Andal, A. G. T., & Muratshina, K. G. (2022), pp. 91-92.

perspective that challenges the status quo and promises to shape the global trajectory in the years to come.

3.2: Belt & Road Initiative: Bridging the world through infrastructure

The Belt and Road Initiative (BRI), which was launched by China 10 years ago, is arguably one of the most renowned and extensive economic endeavors of the twenty-first century. This initiative holds the promise of forging new pathways for trade, connectivity, and cooperation, thereby influencing the destinies of nations involved in its expansive network. The unveiling of the Belt and Road Initiative marked a strategic progression, aligning seamlessly with China's previous entry into the WTO and active participation in BRICS. The BRI, spanning extensive infrastructure projects in Asia, Europe, and Africa, aims to enhance connectivity, trade, and cultural exchanges on a global scale. It stands as a tangible manifestation of China's steadfast commitment to global economic leadership, drawing from the foundational economic principles established through its WTO membership and collaborative endeavors within BRICS. These initiatives are intricately woven into a symbiotic relationship, collectively strengthening China's global influence. The liberalization of the economy through WTO entry set the stage for substantial investments under the Belt and Road Initiative. Simultaneously, the supportive framework provided by the BRICS alliance bolstered collaborative efforts, amplifying China's diplomatic and economic footprint on the world stage.

China's "Belt and Road Initiative" stands as President Xi Jinping's most visible foreign policy endeavor. Unveiled in 2013, the land-based "Silk Road Economic Belt" and its maritime counterpart, the "21st Century Maritime Silk Road," constitute ambitious projects with the aim of positioning China at the center of regional trade networks and reestablishing its significant geopolitical role in Asia. This comprehensive initiative includes new transport infrastructure, industrial corridors, electricity grids, railways, ports, and trade pathways, allowing for the bidirectional circulation of commodities and individuals from China to the Middle East and Europe.¹²²

The BRI involves the development of six major economic routes, linking various regions:

1. The New Eurasia Land Bridge (NELB) Economic Corridor, which connects China and Europe across enormous areas of land. This corridor's backbone is an international railway line that runs from Jiangsu Province to the Netherlands' Rotterdam, traversing

¹²² Meidan, M., & Patey, L. (2016), *The challenges facing China's Belt and Road Initiative*, Danish Institute for International Studies.

through Xinjiang, Kazakhstan, Russia, Belarus, and Poland before seamlessly integrating with the European railway network.

2. The China-Mongolia-Russia (CMR) Economic Corridor, which aims to renovate the Russia Eurasia Land Bridge and to improve Mongolia's Steppe Road.
3. The China-Central Asia-West Asia (CAWA) Economic Corridor, which connects Xinjiang's railway network with Central and West Asia, eventually extending to the Arabian Peninsula and the Mediterranean Sea. It traverses China, Kazakhstan, Kyrgyzstan, Uzbekistan, Tajikistan, Turkmenistan, Iran, and Turkey.
4. The China-Indochina Peninsula (ICP) Economic Corridor, which fosters connections between China and the Indochina region, further extends to encompass Malaysia, Singapore, and Indonesia.
5. The China-Pakistan (CP) Economic Corridor, which would connect Kashgar in Xinjiang Province to Pakistan's Gwadar Port.
6. The Bangladesh-China-India-Myanmar (BCIM) Economic Corridor, which promotes cooperation among these four countries that share common borders.¹²³



Figure 5: Silk Road Economic Belt & Maritime Silk Road Initiative. Figure Source: Silk Road Briefing.

¹²³ Ramasamy, B., Yeung, M., Utoktham, C., & Duval, Y. (2017), *Trade and trade facilitation along the Belt and Road Initiative Corridors*, ESCAP, Available at: <https://www.unescap.org/resources/trade-and-trade-facilitation-along-belt-and-road-initiative-corridors>. Accessed 23 October 2023.

President Xi articulates the BRI as a pathway characterized by "peace, economic well-being, opening up, originality, fostering intercultural connections, and cultural and people-centered interactions." There is a pressing call for a fresh interpretation of globalization, which China seeks to advocate, shifting the focus from China's involvement in globalization to its active influence over the global landscape. BRI represents a "sustainable development framework" that China aims to introduce to participating nations, especially emerging economies and neighboring nations, with the goal of benefiting the global community as a whole. BRI can be interpreted as a Chinese development paradigm that China seeks to spread to other developing countries as an alternative method for production, distribution, and trade. Eventually, this paradigm may displace the existing model of globalization. China will exert its influence on these nations "by employing soft power in the form of foreign assistance and humanitarian support".¹²⁴

Since President Xi's inauguration, The BRI has symbolized Beijing's reimagined global strategy, potentially encompassing an area representing 55% of the world's Gross National Product (GNP), 70% of the global population, and 75% of known energy reserves. China, the world's largest trading nation, strives to optimize the transportation of goods by promoting enhanced connectivity among different nations.¹²⁵

In March 2015, China unveiled a comprehensive action plan outlining the primary objectives of the BRI, involving participating economies that jointly represent over one-third of the global GDP and encompass more than half of the world's population. While infrastructure investment is a significant component of the BRI, China emphasizes that its scope extends far beyond this aspect. It incorporates every element of sustainable growth, with the aim to achieve more balanced regional development, upgrade its industrial sector, and foster eco-friendly economic expansion on the domestic front. Furthermore, the BRI's core focus on connectivity serves a dual purpose: it encourages trade and investment, promotes the development of neighboring nations, while concurrently reinforcing China's energy, resource, and food security.¹²⁶

¹²⁴ Islam, N. (2019), *Silk road to belt road: Reinventing the past and shaping the future*, Springer. pp 8

¹²⁵ Tzogopoulos, G. N. (2017), The "Belt and Road" Initiative. In *Greece, Israel, and China's "Belt and Road" Initiative* (pp. 7–9), Begin-Sadat Center for Strategic Studies. pp. 8.

¹²⁶ OECD (2018), "The Belt and Road Initiative in the global trade, investment and finance landscape", in *OECD Business and Finance Outlook 2018*, OECD Publishing, Paris.

As stated in the document published by Beijing authorities in 2015, the key goals of the Belt and Road Initiative are as follows:

- To increase trade and investment: "The BRI aims to strengthen collaborative mechanisms within, emphasizing the alignment of policies, enhancing infrastructure connectivity, streamlining trade processes, facilitating capital mobilization, and promoting cross-cultural interactions."
- Free trade zones along the Silk Road: "BRI intends to speed up the development of free trade zones, gradually establishing a network of high-standard free trade areas. BRI will actively initiate negotiations with countries and regions along the Belt and Road routes to foster free trade zones."
- To foster regional financial collaboration for infrastructure funding: "This endeavor aims to strengthen partnerships with international entities, encompassing worldwide financial institutions. It actively supports the growth of the Asian Infrastructure Investment Bank and the New Development Bank, effectively deploys the Silk Road Fund, and attracts international capital to establish an all-encompassing, diverse, and mutually beneficial financial cooperation framework."¹²⁷

The initiative to establish the Asian Infrastructure Investment Bank was introduced during President Xi Jinping's visits to Southeast Asia in October 2013, and in early 2014, China engaged in extensive communications within and outside Asia. The Asian Infrastructure Investment Bank (AIIB) is a multilateral development bank initiated by China and it focuses on providing financial support for infrastructure development in Asia. The AIIB is considered a significant cooperative platform and a public product offered by China for global development. The bank allows China to take on more international obligations, contribute to the improvement of the international economic system, and provide international public goods. Likewise, the BRICS New Development Bank was established as a result of consensus reached at the fifth BRICS Summit in March 2013, and it focuses on supporting infrastructure development and sustainable projects in BRICS countries, as well as other emerging and developing economies.¹²⁸

¹²⁷ OECD (2018).

¹²⁸ Zou, L., & Zhang, Z. (2018), *The political economy of China's belt and road initiative*, World Scientific. pp. 303- 309.

- To secure access to natural resources: "The BRI strives to fortify global alliances related to energy, resources, and production chains, with a particular emphasis on advancing local processing and conversion."
- To enhance transportation infrastructure within BRI corridors: "The BRI endeavors to push the evolution of multi-modal transportation systems that integrate expressways, railways, water routes, and air travel. It will lay the foundation for international logistics routes and bolster infrastructure enhancements along primary transportation routes and vital entry ports. Special attention will be directed towards developing Xinjiang as the central hub for the Silk Road Economic Belt and Fujian as the central region for the 21st Century Maritime Silk Road."
- To promote cultural exchanges within the region: "The BRI will actively participate in extensive international collaboration across diverse domains, encompassing education, science, technology, culture, sports, tourism, environmental conservation, and healthcare."¹²⁹

Despite these admirable aspirations, China is poised to encounter a myriad of security challenges as a result of its BRI. These challenges encompass the threat of terrorism, domestic instability within partner nations, and escalated regional rivalries. Remarkably, the Chinese government, while fully aware of these potential risks, remains unafraid to pursue the BRI for several compelling reasons.

First, there is a genuine belief in the BRI's ability to foster stability through economic development, and it is expected that its implementation over time will ameliorate, if not entirely resolve, critical security concerns.¹³⁰

Second, Beijing perceives the BRI as an essential component of its broader strategy to revitalize and reform its struggling economy, which is intrinsically linked to regime legitimacy and social stability.¹³¹

Lastly, the BRI holds paramount significance to Xi Jinping, becoming closely tangled with his personal legitimacy and legacy. As such, Chinese officials have enthusiastically embraced this initiative, demonstrating unwavering determination in its

¹²⁹ OECD (2018).

¹³⁰ Ratner, E., & Greenberg, M. R. (2018), *Geostrategic and Military Drivers and Implications of the Belt and Road Initiative*, Council on Foreign Relations.

¹³¹ Ratner, E., & Greenberg, M. R. (2018).

pursuit, regardless of the prospective security risks and political repercussions that may ensue.¹³²

As for the perceptions of those outside of this project, Western analysts maintain a degree of skepticism for several reasons. To begin, some argue that a substantial portion of China's investments in the BRI is directed toward developing nations characterized by political instability, corruption, and financial resource constraints. Consequently, it is improbable that China will reap significant financial benefits from these investments. Furthermore, there is a widespread belief that the primary aim is not economic cooperation but rather the establishment of political and strategic dominance by China over the countries participating in the BRI.¹³³

Another common criticism alludes to China's use of debt and market entrapment tactics as a means to "reconfigure global relations in its favor" through the fostering of reliance among partner countries in the BRI. Deepened by internal political and economic vulnerabilities, "over half of the nations encompassed within the BRI framework hold 'suboptimal' or "unassessed credit ratings." In contrast to loans extended by multilateral financial institutions, which include stringent accountability measures and reform directives, Chinese loans often lack such requisites. Instead, they frequently require projects allocation to Chinese firms, with the condition that "a minimum of 50% of materials, equipment, technology, or services" be procured from China.¹³⁴

It is clear that the BRI is exerting a transformative influence on the contemporary global landscape. A growing number of governmental agencies, businesses, and individuals have become accustomed to organizing their perspectives and strategies within the parameters defined by the BRI framework. The extent to which this initiative will fulfill its ambitions and contribute to shaping a multipolar world, where China plays an equitable role will become more apparent in the coming years. As it navigates the complex dynamics of international politics, economics, and diplomacy, the BRI's progress and outcomes will continue to be closely observed.

¹³² Ratner, E., & Greenberg, M. R. (2018).

¹³³ Islam, N. (2019), pp. 16.

¹³⁴ Mobley, T. (2019), The Belt and Road Initiative: Insights from China's Backyard, *Strategic Studies Quarterly*, 13(3), 52–72. pp. 53.

3.3: Made in China 2025: Reshaping China's industrial landscape

If BRICS membership is meant to provide China with a more prominent platform for its foreign policy, and if the Belt and Road Initiative aim to enhance integration and connectivity between China and other nations through infrastructure development, then the Made in China 2025 initiative serves the purpose of delineating specific objectives that China intends to achieve in order to establish itself as an economic powerhouse on par with the world's most developed nations.

In 2015, Prime Minister Li Keqiang introduced the "Made in China 2025" (MIC 2025) initiative, a comprehensive 10-year strategy aimed at the modernization of China's industrial capacity. This initiative places significant emphasis on advancing intelligent manufacturing within ten strategic sectors and is designed to establish China as a dominant global player in high-tech industries such as robotics, aviation, and as well as in emerging energy vehicle markets, including electric and biogas technologies.¹³⁵

The primary goal of this initiative is to transition China from its historical role as the 'world's factory', characterized by the mass production of inexpensive, low-quality goods resulting from lower labor expenses and supply chain advantages, towards a model centered on 'innovation-driven' manufacturing that focuses on the production of higher-value products and services.¹³⁶

Another objective is to enhance the overall competitiveness of Chinese enterprises, localize the production of components and final products, elevate Chinese companies in the value-added chain within production and innovation networks, and attain greater international brand recognition. The plan specifically highlights a focus on countries participating in the Belt and Road initiative but is intended to be applicable globally. Government initiatives will be employed to pursue these objectives, presenting a direct challenge to advanced manufacturing in the US, Europe, and East Asia.¹³⁷

Party and state leader Xi Jinping has notably supported the "Made in China 2025" (MIC25) strategy, underscoring its crucial importance to China's future development.

¹³⁵ Poirier, C., Lodén, T., & Cheng, J. Y. (2018, June), *Made in China 2025*, Institute for Security and Development Policy, Available at: <https://isdip.eu/publication/made-china-2025/>. Accessed 25 October 2023.

¹³⁶ Branstetter, L., & Li, G. (2023, August 11), *The actual effect of China's "Made in China 2025" initiative may have been overestimated*, CEPR, Available at: <https://cepr.org/voxeu/columns/actual-effect-chinas-made-china-2025-initiative-may-have-been-overestimated>. Accessed 25 October 2023.

¹³⁷ Kennedy, S. (2015, June 1), *Made in China 2025*. CSIS, Available at: <https://www.csis.org/analysis/made-china-2025>. Accessed 23 November 2023.

Supported by robust industrial policies, substantial financial investment, and subsidies reaching hundreds of billions of US dollars, both state and private enterprises are committed to establishing the technological foundations of the "China Dream." This vision, fervently endorsed by the Chinese Communist Party (CCP) under Xi's leadership, aligns with a significant centenary. By the time of the 100th anniversary of the People's Republic of China in 2049, China aspires to attain the mantle of a "global manufacturing," "cyber," and "science and technology innovation superpower."¹³⁸

China 2025 reflects Beijing's enduring development goals. Since Deng Xiaoping initiated market reforms in the 1980s, the Chinese Communist Party (CCP) has been pursuing a mixed economy, amalgamating socialist planning with aspects of private enterprise. In recent decades, the CCP has taken steps to shift the economy from resource extraction and low value-added, low-wage manufacturing—predominantly in mining, energy, and consumer goods like clothing and footwear, constituting nearly half of the country's economy—towards a high-tech, high-productivity model. China 2025 is intended to accelerate the economy through this complex transformation and overcome the middle-income trap, a stumbling block faced by many other developing countries.¹³⁹

In simple terms, "Made in China 2025" is a three-phase strategy aimed at converting China into an industrial superpower by 2049. This program is supported by nine strategic objectives and five national initiatives, with a primary focus on ten key industries.

The first phase, which lasted until roughly 2020, entailed consolidating manufacturing capacities, promoting automation, and enhancing core technologies in industries where China already held a leading position. The goal was to significantly improve manufacturing quality, increase value-added production, and strengthen China's position as a manufacturing nation. Concurrently, the target was to bring energy and material consumption as well as pollutant emissions in line with highly developed economies.

¹³⁸ Zenglein, M. J., Holzmann, A. (2019), *Evolving made in China 2025 China's industrial policy in the quest for Global Tech Leadership* (Vol. 8), MERICS, Mercator Institute for China Studies. pp. 8.

¹³⁹ McBride, J., & Chatzky, A. (2019, May 13). *Is "made in China 2025" a threat to global trade?* Council on Foreign Relations, Available at: <https://www.cfr.org/backgrounder/made-china-2025-threat-global-trade>. Accessed 23 November 2023.

The second phase, to be achieved by 2035, aspires to position China within the upper middle range of industrial powers. This involves making substantial breakthroughs in critical areas and increasing overall competitiveness.

Finally, by 2049, on the centenary of the People's Republic, China hopes to lead as a premier industrial nation, capable of developing innovations, advanced technologies, and industrial systems.

The following are the ten key sectors listed in the 'Made in China 2025' plan:

1. Cutting-edge information technology;
2. Advanced numerical control machinery and robotics;
3. Aerospace and aviation equipment;
4. High-tech maritime vessel manufacturing and maritime engineering equipment;
5. State-of-the-art rail equipment;
6. Energy-efficient and innovative energy vehicles;
7. Electrical equipment;
8. Novel materials;
9. Biomedicine and high-performance medical devices;
10. Agricultural machinery and equipment.

Furthermore, the program outlines nine strategic tasks:

- Enhancing innovation capacity in manufacturing;
- Deepening the integration of information technologies in industry;
- Strengthening fundamental industrial competencies;
- Elevating the recognition of Chinese brands in terms of quality and reputation;
- Promoting environmentally sustainable production;
- Advancing technological breakthroughs in the aforementioned key industries;
- Shifting the focus from mass production to quality in manufacturing industry restructuring;
- Developing service-oriented producers and providers;
- Advancing the five international-level initiatives in the manufacturing industry.¹⁴⁰

A thorough examination of MIC 2025 and its associated policies reveals China's pursuit of a multi-phased approach to achieve its objectives:

¹⁴⁰ Babel, W. (2022), *Industry 4.0, China 2025, IOT: The hype around the world of automation*, Springer, Germany. pp. 15-16.

- Localize and Indigenize: MIC 2025 is centered on the objective of domesticating research and development (R&D) efforts and gaining control over significant segments of global supply chains. Indigenous innovation is a fundamental and recurring theme within MIC 2025, with strong support for Chinese enterprises in the pursuit of indigenous technology, intellectual property (IP), and brand development.
- Substitution: After reducing reliance on foreign technology through either domestic development or overseas acquisition, MIC 2025 and related strategic plans emphasize substitution as a crucial component. President Xi has notably advocated for the advancement of domestic production and the implementation of indigenous and controllable substitution strategies.
- Market Share Expansion: Once China has developed or acquired its technology and established its brands, the next step is to secure a significant share of both domestic and global markets in the areas and technologies outlined in MIC 2025.¹⁴¹

To some extent, China and MIC25 draw inspiration from the experiences of Japan, South Korea, Singapore, and Taiwan in overcoming the constraints of low-tech and labor-intensive manufacturing, which often obstruct the progress of developing and emerging economies. This "East Asian development model" is marked by industrial policies that specifically target strategic sectors and the effective alignment of business interests (both state-owned and private) with national objectives, facilitated by a strong government. MIC25, like the Asian Tiger nations of South Korea, Taiwan, Singapore, and Hong Kong, aims to transfer more advanced segments of the value chain and high-quality research and development activities to China.¹⁴²

China's primary goal is to achieve sophisticated technological self-sufficiency, reducing its reliance on foreign technologies. This development attempts to reach out to its lucrative domestic market and, simultaneously, bolster its military capabilities.¹⁴³ That said, various countries perceive the initiative as potentially menacing due to its perceived role as a state-led effort by the Chinese government. This initiative aims to

¹⁴¹ U.S. Chamber of Commerce. (2017, March 16), *Made in China 2025: Global ambitions built on local protections*. U.S. Chamber of Commerce, Available at: <https://www.uschamber.com/international/made-china-2025-global-ambitions-built-local-protections-0>. Accessed 25 October 2023. pp. 13.

¹⁴² Zenglein, M. J., & Holzmann, A. (2019), pp. 9.

¹⁴³ Levine, D. A. (2020), *Made in China 2025: China's Strategy for Becoming a Global High-Tech Superpower and its Implications for the U.S. Economy, National Security, and Free Trade*, *Journal of Strategic Security*, 13(3), 1–16. pp. 6.

leverage government subsidies to encourage Chinese enterprises to actively pursue the acquisition of intellectual property, with the ultimate goal of narrowing and surpassing the technological gap with Western advancements in cutting-edge industries. If Western nations consider the "Made in China 2025" initiative as endangering their companies' competitive positions, they may also initiate additional industrial policies in response. Two recent instances include the US CHIPS Act and the European CHIPS Act.¹⁴⁴

Nevertheless, due to historical causes, China's technological gap with the West has widened significantly, particularly due to the loss of an entire generation of experts and scientists during Mao Zedong's social experiments—the Great Leap Forward and the Cultural Revolution. Even with a robust government-led industrial policy, bridging this gap and achieving technological self-reliance would be a time-consuming task. This scarcity of skilled professionals can be traced back to Mao Zedong's actions during those turbulent times, which subjected scholars and experts to mistreatment because of their perceived opposition to the revolution. Many of them were either imprisoned, tortured, killed, or relocated to rural areas for reeducation, setting China's economic progress back by generations.¹⁴⁵

Furthermore, a significant reason for the lack of innovation is the fact that approximately one-third of students who pursue advanced studies in science and engineering abroad do not return to China upon completing their degrees. This trend can be attributed to better opportunities and working conditions they find in countries like the United States and the United Kingdom. The phenomenon of brain drain has grown as a concern for China, especially since the Tiananmen Square Incident in 1989.¹⁴⁶

Social, economic, and political considerations also play a role in students' decision not to return home. At the same time, political alienation, low income, subpar living conditions, inadequate research facilities, and the mismanagement of highly qualified professionals all contribute to intellectuals seeking opportunities abroad.¹⁴⁷

Other insidious obstacles China faces in achieving the MIC 2025 targets come from two fronts: the highly industrialized economies of Japan and Germany, as well as low-cost manufacturing powerhouses such India and Brazil. This dual pressure presents

¹⁴⁴ Branstetter, L., & Li, G. (2023, August 11).

¹⁴⁵ Levine, D. A. (2020). pp. 6.

¹⁴⁶ Levine, D. A. (2020). pp. 6.

¹⁴⁷ Levine, D. A. (2020). pp. 6.

considerable complexities, especially when dealing with a large-scale and ambitious strategy like MIC 2025. Government officials acknowledge that even if MIC 2025 were to succeed, it would only bring China's industry partially on par with the level of industrialization seen in Germany and Japan. The utter scope of this ambition may potentially result in market consolidation, with larger corporations and government entities taking the lead.¹⁴⁸

However, it is essential to note that the majority of Chinese companies are ill-prepared for a profound and abrupt technological transformation. This unpreparedness implies that only a few firms will have the capability to meet the government's specified targets. These companies will likely expand their global footprint and enhance their competitiveness, all while facing limited competition within China.¹⁴⁹

In conclusion, "Made in China 2025" represents a comprehensive strategy introduced by the People's Republic of China in May 2015 to strengthen its domestic manufacturing capabilities. It aspires not only to bolster the production of essential components but also to elevate the output of finished goods, placing a strong emphasis on innovation and value chain enhancement. Nevertheless, this ambitious initiative is not without its hurdles. China must navigate a multitude of domestic challenges, including economic deceleration, a shrinking workforce, and a scarcity of specialized personnel. Moreover, it competes with countries with more advanced industries and lower labor costs. The success of "Made in China 2025" will depend on its ability to address these challenges effectively and move toward a more innovative and efficient manufacturing landscape.

¹⁴⁸ Poirier, C., Lodén, T., & Cheng, J. Y. (2018, June), *Made in China 2025 - modernizing China's industrial capability*, Institute for Security and Development Policy, Available at: <https://isdip.eu/publication/made-china-2025/>. Accessed 25 October 2023.

¹⁴⁹ Poirier, C., Lodén, T., & Cheng, J. Y. (2018, June).

Conclusion

In these pages have been outlined the fundamental policies that have propelled China into a period of unprecedented growth over the last five decades. The People's Republic of China has witnessed remarkable transformations in the last half-century, evolving from a struggling nation under a repressive communist regime to a country with capitalist traits while maintaining the outer shell of socialism. Figures like Deng Xiaoping and Xi Jinping have played crucial roles in shaping the nation we know today.

Deng Xiaoping, in particular, displayed the determination to shift away from Mao's vision, towards a more efficient system in which a combination of socialism and capitalist characteristics might synergize to produce a nation of immense capabilities. By embracing a synthesis of these seemingly divergent ideologies, Deng sought to leverage the strengths of each system. Socialism provided a foundation for centralized planning and social cohesion, while capitalism injected the dynamism and innovation necessary for economic growth and global competitiveness. This unique synthesis was not a mere compromise but a strategic decision to harness the advantages of both systems synergistically. The result was a revitalized China, poised for significant socioeconomic transformation. Deng's forward-thinking approach laid the groundwork for the economic powerhouse that China has become.

As for Xi Jinping, he stands as perhaps the most influential figure in China after Mao and Deng. Since assuming leadership within the Party, he has elevated it to its pinnacle, completing a development that began decades earlier. Since assuming leadership within the Party, Xi Jinping has not merely continued the developmental journey initiated by Deng; he has propelled it to new heights. The elevation of the Party to its peak under Xi's stewardship signifies a consolidation of political power and authority, a process that has roots stretching back decades. Through the realization of fundamental projects such as the Belt and Road Initiative and active participation in the BRICS alliance, China has begun, over the past two decades, to assert its influence on the global stage, forging strong ties with foreign nations. However, as China expands its global footprint, it is met with a mix of admiration and skepticism. The Belt and Road Initiative, while contributing to infrastructure development in partner countries, has also faced criticisms of debt diplomacy and concerns about China's growing influence. Likewise, Active participation in the

BRICS alliance is viewed as both a testament to China's diplomatic prowess and a potential challenge to existing global power structures.

The pivotal event that reshaped China's economic destiny between Deng Xiaoping and Xi Jinping was undeniably its accession to the World Trade Organization (WTO) in 2001. This transformative step propelled China into an unprecedented era of economic growth, fundamentally altering its position in the global economic order. China's accession to the WTO was not merely a bureaucratic formality; it symbolized a seismic shift in the global economic landscape. By becoming a full-fledged member of the WTO, China signaled its commitment to open-market principles and embraced a more active role in the international trading system. This move did not occur in isolation but rather as a strategic response to the changing dynamics of the post-Cold War world order. The immediate consequence of WTO membership was the elevation of China to the status of the world's second-largest economic power. This dramatic rise in economic stature was fueled by a surge in international trade and foreign direct investment. The inherent dynamism of China's economy, coupled with its vast labor force and burgeoning manufacturing capabilities, transformed the nation into a global economic powerhouse.

However, it is essential to emphasize that China's path towards progress has not been without challenges, the most noteworthy of which is the Tiananmen Square massacre in 1989. This tragic event served as a wake-up call for the Communist Party, highlighting the crucial importance of maintaining a strong economy in order to avoid social unrest and protests that could destabilize the nation. Despite its unquestionable economic growth, China acknowledges that perfection remains elusive. The most pressing concern on China's current agenda is its unstable and uncertain economic situation. While the nation has improved the living conditions of its population, it grapples with the complexities of managing a vast and dynamic economy. The enormity of investments, running into billions of dollars, in projects that may not guarantee immediate profits poses a significant risk. This scenario raises questions about the sustainability of China's economic model and the potential repercussions for both the nation and those who have invested in these ambitious endeavors.

As we reflect on China's journey, the contrast of achievements and challenges becomes evident. The nation's rise is a narrative of overcoming obstacles, adapting to changing global dynamics, and recalibrating strategies to stay on course. The ongoing

pursuit of solidifying China's position on the world stage demands not only economic acumen but also strategic foresight and adaptability. China's experience serves as a valuable case study for nations aspiring to navigate the complexities of economic development, social stability, and global influence. It underscores the importance of a balanced and forward-looking approach, where economic prosperity is intertwined with considerations of social cohesion and long-term sustainability.

In conclusion, China's path forward is characterized by a delicate interplay between amazing achievements and serious challenges. The nation's resilience and capacity to learn from its history position it to continue shaping the global narrative, inspiring both admiration and scrutiny as it treads into uncharted territories of the future.

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