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“Efficient Market Hypothesis and Economic
Reforms in China”

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A chi mi ha supportato ed aiutato soprattutto nei momenti difficili.

A chi c'è.

A chi sarebbe fiera di me.

Grazie.

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INTRODUCTION

The main purpose of this work is to assess whether the Chinese market efficiency has changed over the years.

The first chapter will provide a brief overview of the Chinese political and economic history, with a focus on the development of exchange markets. It is essential to understand the history and the crucial steps in the evolution of Chinese political thought and socio-economic reforms to fully grasp the reasons for its ability to replace well-known old-world superpowers.

The analysis of available literature, presented in chapter two, explores several topics such as market efficiency, the relations between Asiatic markets, and the impact of regulatory changes. More specifically, the literature review will focus on the most relevant journal articles related to Chinese market efficiency because market efficiency is the prompt for economic expansion.

A careful reading of the sampled articles will allow an assessment of the EMT theory by Eugene Fama (1970), when used to understand the market reaction to information.

The hypothesis of market efficiency is closely related to market players' rational behaviour, as all players are subject to the information they receive. An efficient financial structure attracts investors from all over the world, but, if the market is not as predictable and stable as possible, there is a risk of discouraging investments.

The third chapter will explore the macroeconomic data and China's foreign relations, with a glance at evolving policies and strategies implemented towards foreign powers and investors, which have fostered its staggering economic growth.

The economic, social, political changes and reforms, which have affected the entire Chinese apparatus, will be examined through an analysis of relevant literature. Tables with a summary of the method,

goals and results of the studies reviewed in the chapter will come in handy.

The Conclusions will illustrate the results of the complete analyses.

Here, some suggestions for future action will be offered. The final part will discuss the implications of the Belt and Road Initiative, in addition to the timely Chinese reaction to Covid-19 global pandemic.

CHAPTER 1

1 A Brief Overview of China

This chapter will provide a brief outline of China's history which has led to its current political and economic condition. Historically, China has always stood out for its prosperity. Its first contacts with the Western world took place during the times of Ancient Greece and Ancient Rome through what would soon be named the "Silk Road".

Towards the end of the 18th Century, Adam Smith, who is considered the father of the modern economy, claimed that China had been for a long time "richer than any part of Europe" and "one of the most productive, most fertile and most industrialized countries, best cultivated and most populous in the world" (Smith, 1975).

The secular Chinese history is characterized by the succession of numerous dynasties. The last of them, the Manchurian, reigned

from 1644 to 1911, starting with the rise to the throne of Nurhachi to the last ruler Puyi.

The last great emperor of this dynasty was Qianlong, who raised to power in 1736, and who brought China to the maximum territorial expansion and to the apogee of economic, social, and political progress. However, Qianlong's Empire was defined by several military campaigns that provoked the collapse of the Sinic economy, with the resulting development slowdown, palace betrayals and political corruption. A further consequence was the useless abdication of the emperor in favour of Jiaqing in 1796. The new ruler aimed at cleansing the state administration from corruption, nepotism, and idleness. Therefore, he attempted to limit Palace and State expenses with no economic effects. Hence, towards the end of his reign, the unavoidable decline of the Empire began. Upon his death in 1820, he left the country in poor conditions, with uncontrolled population growth, the undisciplined outflow of economic resources, continuous flooding of the Yellow River which forced to rebuild cities each time, and the importation of

opium, which affected the physical and psychical wellbeing of the Chinese population.

Furthermore, in the same period, China faced an increased control by the imperial government, which ended up causing internal rebellions in addition to the two Opium Wars and the Chino-Japanese conflict. As a consequence of these ages of transformation, in 1912 after a military insurrection, the revolutionary ideas of Sun-Yat-sen caused the end of the Empire with the rise of the Republic of China.

1.1 Forced Opening

“In imperial China, there was no foreign policy in the strict sense and diplomacy and "international law", as well as the concepts of defined borders and "national interests" were superfluous”

– (Weggel, 2002)

The year 1839 marked a crucial date in Chinese history. It represented a turning point since the British armed forces entered China intending to negotiate with the Qing Emperor access to commercial routes by at the same time forcing the Chinese people to acknowledge the existence of societies, civilizations, and customs different from theirs. This mission was not the first of its kind due to the previous expeditions with related purposes, such as the intervention by Lord Macartney in 1793 or the military action conducted from Lord Amherst in 1815. However, they both failed. In 1842, the British government forced the Chinese Empire to agree to cease hostilities by imposing the Treaty of Nanjing.

State instability and technological backwardness forced the emperor to sign a series of treaties with the Western world based on the assumption that his nation was in a position of inferiority, close to being considered as a semi-colonial nation. In response to the new circumstances, some Chinese supporters of colonialism

perceived the opportunity to exploit the Western culture as a way to broaden their horizons towards progress and development.

At the beginning of the 19th Century, the entire Chinese territory was divided into areas under the Western influence with the upper classes beginning to mistrust the traditional Chinese ability to rise from the ashes.

Almost all Historians agree in considering the Opium War as the beginning of modern Chinese history.

1.2 The Opium War and Internal Crises

China's trade flows with Europe started long before its political and social collapse.

During the 18th Century, Enlightenment philosophers showed admiration for Confucian rationalism to such an extent that Chinese goods, such as porcelain, tea, and silk, began to be appreciated by Western markets. Such commercial relations were

of benefit to China which, unlike Europe, did not need an import market and could, therefore, maintain a stable trade balance. This is the reason why in 1792 the British East India Company persuaded the English Government to send an ambassador to Beijing to propose new commercial relations, but the representative, Lord Macartney, only succeeded in being expelled from the Chinese territories. A further attempt in the same direction was made by Lord Amherst who, due to a series of misunderstandings, was not even received at the palace.

Substantially, the British requests concerned the opening of several ports destined for Sino-European trade, the establishment of an arranged customs tariff, and obtaining a British storage site on the Chinese territory that could be free from Chinese control. The last request appeared unacceptable to the imperial government since it would have damaged China's territorial integrity.

In the first decades of the 19th Century, Napoleon's Continental System affected trade balance to the extent that the Sino-European

trade ceased almost completely. At the same time, the East India Company found a valuable commodity, practical and not bulky: opium. This new traffic enriched the Company and Cantonese silver merchants, but it economically impoverished the Chinese population that used copper as a bargaining chip within the country. Since also taxes were collected in silver, the undervaluation of copper caused serious problems for the imperial treasury's financial stability. Also, the spread of drugs aggravated the situation causing unhealthy effects to farm people, serious enough to drive many local officials to request the emperor the suspension of the opium traffic.

Due to public pressure, Emperor Daoguang decided to send to Canton a delegation headed by the highly skilled Imperial Commissioner Lin Zexu to limit drug importation. As a response, in 1839, the city reacted with unusual energy by resisting to pressures. In the same year, a European opium shipment was confiscated and destroyed, triggering an armed intervention of

British forces who were concerned about the violation of the property rights of their subjects.

The Manchurian army could not withstand the British forces. Consequently, in 1842 the Empire was forced to sign the Treaty of Nanjing, which set the foundations for a series of "unequal" treaties that brought China to a semi-colonial status. A peculiar characteristic of these completely submitting contracts was a clause that allowed the possibility for the winner to trade or concede the right of superiority to other countries. The Treaty of Nanjing imposed by force all previous British requests: the opening of new ports dedicated to Western trade, the payment of a large indemnity, the cession of the island of Hong Kong and the setting of an arranged customs tariff.

The deep economic crisis inevitably led to social consequences. Hunger brought the population to look for an ideology that could motivate them to the point that in 1850 Hong Xiuquan declared the advent of the Heavenly Kingdom of Peace. The Manchu army

was unprepared to face the insurgency, so the Heavenly Kingdom could easily become official in 1853, with Nanjing as its capital city (Schmidt-Glintzer, 2002). Among the most relevant innovations, agrarian reforms and gender equation played a crucial part. Women shifted from a completely submissive status to important positions in the armed forces and administration; the marriage law was reformed, and monogamy was encouraged by the prohibition of concubinage and the selling of women's bodies.

Despite the initial perspectives, what is remembered as the Taiping Rebellion would never be completed: in 1844, the Imperial Government managed to organize a powerful resistance headed by Zeng Guofan, who formed a mercenary militia of Chinese coming from Hunan. The soldiers who survived the imperial massacre were first imprisoned and then sold as slaves by Cantonese traders to European human traffickers, and sent in particular to Cuba, taking the name of *contratados* (D'Alessio, 2020).

Until then, China had never faced simultaneously so many devastating events such as economic crises, defeats in an international scenario, and internal civil wars. This sequence of events saw various emperors succeeding frequently with the intent of trying to contrast Western domination and to quell the riots by implementing soon-to-be vane reforms.

The situation got worse when in 1894 a Sino-Japanese conflict broke out as a result of the privilege rights over Korea. After a hard conflict, Japan's privileges were recognized, which implied the reception of tributes. The Chinese Empire was forced to sign an unequal treaty with Japan that brought to a catastrophic war for China. These hostilities led the Chinese emperor to realize that the Japanese model, based on modern economic reforms and military power, could be considered as a model to follow to promote change (Scarpari and Samarani, 2009).

1.3 The Reformist Attempt and the Clandestine Movements

Between June and September 1898, Emperor Guangxu issued a series of decrees that radically reformed the state in both school and military organizations. These sudden reforms were unable to win the heart of the population, who, bewildered by the news, struggled to accept such a drastic transformation. This caused a delay and then a block of the reformist process.

Such a critical situation was a favourable scenario for the future Empress Cixi for taking the reins of the Empire with the aid of the Governor of Hubei. The Empress stated her predecessor mentally ill and exiled him to a little island located in a lake of the Imperial Palace.

Confusion and continuous power struggles were the quintessence of the numerous clandestine movements. The most complex was the Boxer movement, which was officially recognized by authorities in 1900 when its leaders were received to palace. This

secret society was allowed to fight against foreigners when the Chinese government declared war to all European governments represented in Beijing. Eight of the represented countries organized an expedition in response to Chinese offensive. The unprepared imperial army was defeated even before the beginning of the battle. It had been left by the Empress, who had clandestinely fled to Xi'an, leaving her predecessor to negotiate the surrender with the Westerners. Winners obtained both territorial and commercial concessions; moreover, they forced the Empire to apologize to all suffering powers and to pay a 400 million dollars penalty which nearly reached 1 billion dollars when interests were added.

In the following years, the Boxer Rebellion saw the ruling class striving to implement the previously proposed reforms; however, even the consent of the most moderate Chinese, who would have previously supported the reigning dynasty, decreased. Therefore, the emperor could only rely on the army and on the support of foreigners, who, on the other hand, solely cared about their

commercial interests and the payment of their debt (Scarpari and Samarani, 2009).

In 1908, Empress Cixi died. She was succeeded by the last Emperor Puyi, who was a three-year-old boy needing his father's regentship. He proved to be unable to face the arduous sequence of events.

In southern China, rebellions continued to break out until one of them, led by Sun Yat-sen, provoked the end of the Empire.

Sun came from a peasant family, but he had been affected by influential ideas arising in Western countries. He began studying English and attending Western schools; then, he graduated in medicine in Hong Kong. At a certain point, he abandoned his career to dedicate himself to travelling. In 1894, he founded the “Revive China Society”, also called *Xingzhonghui*, which planned the so-called "Three Principles of the People". In 1905, this sort of activities led to the birth of the “Chinese Revolutionary Alliance” or *Tongmenghui*, whose program included: the expulsion of oppressing foreigners, the establishment of a popular government,

and the allocation of arable lands on the basis of an equal principle (Schmidt-Glintzer, 2002). The defining idea of the program was the replacement of the ruling dynasty with the institution of a People's Republic based on the more profound meaning of democracy.

The association struggled since its foundation due to its organization as a secret society and not as a political party, so it did not have the appropriate strength to face and win the imperial army.

The army cadres were young enough, educated and open-minded to have the strength to start a rebellion in Wuhan in 1911, which ignited many more revolts throughout the entire Southern territory.

In such uncertain circumstances, the young emperor ceded his powers to the Prime Minister Yuan Shikai on 12 February 1902, intending to mediate between Republicans and Imperialists and to ask for forgiveness for all mistakes made by his predecessors on the condition that his court's privileges were maintained. Hence, Yuan

Shikai was proclaimed the first President of the Republic of China (Scarpari and Samarani, 2009).

The People's Republic was stated through an imperial edict and coexisted with the emperor himself. Yuan Shikai's power was not based on popular will, but on military forces deployed to quell the Republicans' riots. Shikai aimed at restoring the monarchy taking advantage of the changes brought in by the Guomindang, a political evolution of *Tongmenghui*, an attempt to start a series of new riots and thwart Shikaian ideas. Later on, it was forced to dissolve and refund itself as a political party, which took the name of the Chinese Nationalist Party with the intent of claiming that the revolution was far from the end. Popular acceptance of Shikai's beliefs also increased among the old ruling class until he obtained powers for life by the Parliament. When in 1915 he announced that he would have risen to the throne, the initiative was rejected by all the political branches mainly composed of democratic revolutionaries (Schmidt-Glintzer, 2002).

1.4 The Defeat of Shikai

The firm opposition mainly came from the so-called Twenty-one Demands, which resulted from the Japanese attempt to subdue China in 1915. Negotiations involved the two Asian governments for about the first half of the year and ended with an ultimatum to Shikai in May 1915. The Chinese President was pretty doubtful because, on the one side, he had managed to establish an autocratic regime; and, on the other, he could not risk a war with Japan. Yuan Shikai yielded to Japanese demands, arousing such feelings of resentment that he was forced to end his regime. With the demise of the aspiring emperor, began a period marked by weak governments, which had in common the desire to contrast the condition of supremacy granted to Japan. The power of the central government was useless, and the formally recognized Beijing government was merely a fictional authority to which to request the payment of the indemnities inherited from the Boxer Rebellion.

However, the Beijing government took action in 1917 during the First World War, even if marginally, by raising the issue of unequal treaties with Germany and Austria-Hungary.

1.5 The May Fourth Movement

The Peace Conference represented a disappointment for China. On the one hand, Japan asked to exercise its rights on German concessions in pursuance of the Twenty-One Demands already accepted by China; on the other hand, Beijing's government asked to wield the same power under the winning Triple Entente and the end of the Sino-Japanese treaty.

Diplomatic attempts to reach an agreement never saw the light; Japan obtained all concessions, and the Conference declared itself underqualified regarding the resolution of the treaty. Such circumstances created an atmosphere of riots, mostly consisting in

younger generations claiming the refusal of the Treaty of Versailles. The Beijing government refused to countersign the agreement after the repressions and began repatriating representatives to France on 4 May 1919 (Scarpari and Samarani, 2009).

After these events, both Sun Zhongshan's political program and the *Guomindang* party regained vigour; in particular, the party was supported by the Chinese Communist Party (CCP) founded in 1921 by Duxiu and Mao Zedong, who would exercise his power over the entire Chinese territory 28 years later. In 1922, the emissary of the Russian government committed himself to the Joint Manifesto of Sun and Joffe to establish a co-operation with the URSS to create national unity and independence. Therefore, the Socialist-inspired Chinese party was organized according to the model of the Communist Party of the Soviet Union. It introduced significant changes in the Sinic army, such as the formation of well-trained military cadres.

In December 1923, the Manifesto of the 1st Congress of the reconstructed *Guomindang* in Canton was published, stating the Three Principles of the People.

According to Sun-Yat-sen, the Chinese Constitution should have also included the three traditional democratic powers, legislative, executive, and judicial, and additionally two further divisions: the officials' exams and the supervisor's power.

Sun died of cancer in Beijing while he was attempting to peacefully convince opponents. Following the death of the political leader, *Guomindang* had to face inevitable internal conflicts, which gave rise to two movements: the first was the anti-imperialist branch led by Jingwei; the second was the military one led by Jieshi. These tendencies sparked a conflict until in 1928 Jingwei accepted Jieshinian leadership, the reunification of *Guomindang* and entire China, and the establishment of the Government in Nanjing. In August 1928, for the first time after a long period of internal struggles, China was unified and open towards a vast

modernization. However, during the following ten years, the democratization process was discontinued due to the single-party dictatorship, which led to the failure of the Guomindang project (Schmidt-Glintzer, 2002).

1.6 The Chinese Communist Party and The World War

The Chinese Communist Party (CCP) was officially founded in 1921. It gradually gained support despite its difficult beginning due to its relationship with Moscow.

The main problem was the adaptation of the Marxist theories to the Chinese context; in particular, the issue regarded the adjustment of worker-centred Marxist ideas to Chinese peasants. Defeats and errors were necessary to assimilate the attitude that in the future would lead the Party to take control.

While a way to adapt these theories to the Chinese agricultural context was being searched, a collaborative line with Guomindang began to emerge in the Party. Meanwhile, Mao Zedong and Zhu De, leading a few thousand poorly organized revolutionaries, inaugurated a new fighting style by establishing military bases in the mountains and by creating what would have become the Red Army, and then, the People's Liberation Army, by implementing an agrarian reform which represented a turning point for establishing a trustful relationship between the local population and the communist forces.

Conflicts with Guomindang continued until 1934 and endangered the survival of the red bases reducing Mao's communists. In 1935, he organized a meeting in Zunyi to decide the following moves. Mao prevailed on the other leaders of the movement and took control of the Party. His first action consisted of moving the military contingent to the north starting from the red bases with few weapons and supplies and facing the Japanese enemy. Thus, a

natural selection was made by the conflict: the party came out with fewer men, but with much more experience.

In July 1937, further Sino-Japanese hostilities broke out forcing Chinese communists and nationalists to join in an alliance; they formally joined the Nanjing Army with the Red Army but succumbed to the Japanese one. Consequently, the wealthiest and the most prosperous territory of China fell into Japanese hands.

In 1941, during the Second World War, all countries had colonial interests in China. Japan sided with Germany and Italy to expand its interests to Indonesia. However, after the initial successes, the conflict became a war of position for Japan and the other powers involved.

The hostility with the Chinese communists annoyed the Japanese army because it prevented it from expansion.

The surrender of Japan to the Soviet forces occurred after the atomic bombings on 14 August 1945.

Then, the Chinese nationalist government reconquered all the lost territories except for Manchuria which was partially under the communist influence (Scarpari and Samarani, 2009).

1.7 Mao Zedong and the CCP

With the rise of Mao Zedong, a new period of strong involution started in China: the country passed from an imperialist structure to a republican form, from being governed by an absolute monarch to the Soviet-inspired Communist Party. Mao's totalitarianism reduced every kind of freedom, causing poverty.

The Chinese Communist Party progressively obtained the control of mainland China, and on 1st October 1949, Mao Zedong proclaimed the People's Republic of China with Beijing as capital.¹

¹ See Mao Zedong (1949), “*The Chinese People have stood up!*”. Available at the site: <https://web.archive.org/web/20090218071231/http://www.international.ucla.edu/eas/documents/mao490921.htm>. Last access: November 25, 2020.

In 1950, the Government introduced several reforms such as the agricultural one.

Between 1953 and 1957, Soviet ideologies inspired the five-year plan based on the development of heavy industries instead of agriculture, a significant field for Chinese society. After the first five-year plan, the Chinese Government conceived and prepared the second five-year plan, but this was replaced by a new program.

One of the most significant reforms was the Great Leap Forward, a political, economic and social reform implemented between 1958 and 1962. This reform was to enable China to overcome financial difficulties and make the transition to socialism. The Great Leap Forward relied on the agricultural reform, with an estimated harvest of more than 450 million tons of cereals, and on the industrial reform whose objectives were to double the production of steel (Bergère, 2006).

The Great Leap was possible thanks to the cooperation between the political actors in a summit during the VIII Central Meeting, in 1957.

Following the first results, with an industrial production increased by 26 per cent compared to the previous year and thousands of hectares of reinvigorated land, an ideological and productivity fervour was unleashed.

Mao exploited this enthusiasm to turn peasants into soldiers to avoid a nuclear war against the USA; thus, the party recruited new members.

In this phase, there was a collectivization program that developed large entities. At the end of 1959, 750.000 associations merged into 24.000 corporations; these worked in all sectors, like farming and military affairs. Data were often falsified by the business entities to prove they were more "communist" than others. This mechanism caused an inefficient planning of activities and a structural

imbalance of the economy, which slowed production and pushed companies to increase their alleged productivity.

Around 1958, the Government priority moved from cultivation to steel production, which was especially important for the military use. However, the ideas of the Great Leap Forward failed and CCP began to lose power.

Mao wanted to strengthen its authority and to eliminate his political opponents; he began to encourage young people to rebel and this started the Cultural Revolution in 1966. Students and young people organized themselves in the Red Guard² and reacted with physical and psychological violence; they destroyed all the symbols representing capitalism, religion, and Western traditions; in this period China was paralyzed and most of China's cultural heritage was destroyed. In 1976, Mao died, all of his supporters lost powers and the cultural revolution gradually ended.

² In mandarin: 红卫兵 (Hóngwèibīng).

Mao's successor, Hua Guofeng, began to work to raise China again. A couple of years later, Guofeng's successor, Deng Xiaoping, tried with his government to apply new economic reforms which led to less government control of the business and land ownership. A new household responsibility system replaced a collective one, and the privatization of state enterprises contributed to China's economic growth.

In the 1990s, the Chinese economy had a significant growth due to this new socialist market economy. This system was based on the idea of public ownership in a market economy (Hart-Landsberg and Burkett, 2005).

In the Chinese Communist Party's Third Plenum of October 2003, Chinese legislators approved several amendments to the state constitution. The most significant reforms were to protect private property rights, reduce unemployment, rebalance income distribution between urban and rural regions, and maintain

economic growth while protecting the environment and improving social equity (Saich, 2010).

After these reforms, the 2006 five-year plan was drafted. It mainly focused on economic growth, population growth through birth promotion, and significant welfare development.

When the twelfth five-year plan was approved in 2011, Xi Jinping was elected as Vice-chairman of the Central Military Commission. The following year he became Chairman of the Military Commission and then, in 2013, Xi Jinping was nominated President of the People's Republic of China (Manzoni, 2019).

Xi's first speeches with the press revealed the new direction he wanted to give to China and the contents of his ambitious "Chinese street". It was in November 2012 that the Secretary, addressing international newspapers, hinted at his aspirations for a "Chinese resurgence", based on the ancient imperial memories of China, forgotten by previous leaders.

1.8 Political and Economic Reforms

In 1978, Deng Xiaoping introduced a new economic reform abandoning the planning of the 1950s. The reasons for the new reforms can be summarized in three concepts: first, the Cultural Reform of 1966 was very unpopular because of its disastrous effects; second, the experience had taught that a planning system was hard to manage and inefficient; third, the rapid economic growth needed a market economy for a better performance as shown by the neighbouring economies.

The major component of these economic reforms included the reorganization of the agricultural industry, with the introduction of “household responsibility system” as a national policy. In practice, it was a matter of redistributing the land to private individuals and paying more for each additional result after a fixed output had been obtained. The consequence of this renovation came rapidly, the farmer became rich, and the total output increased rapidly in China.

China adopted the “Open Door Policy” to encourage overseas trades and investments. As a consequence, in twenty years, the percentage of GDP due to foreign investments has increased from 7 to 37. It allowed foreign investors to establish companies and have advantages as experienced workers were paid at low prices, thanks to special tax agreements. In ten years, Shenzhen became a modern and industrialized city, thanks to the Government that encouraged selected foreign investments in new technologies for the sectors of agriculture, energy, transportation, raw material industries, prevention of environmental pollution and reusable energies (Chow, 2004).

The centre of gravity of the Chinese economy shifted rapidly away from agriculture toward industry and services (Fan *et al.*, 2013).

As a part of these reforms, even the banking and financial system were renewed. The People’s Bank of China (PBC) was a mono-bank that had branches to accept deposits from the public. Commercial banks did not exist yet. In 1983, the PBC was

nominally transformed into a Central Bank. Reforms of the banking system to serve a market economy gradually progressed until the 1990s, when the PBC Law and Commercial Bank Law were passed.

These reforms were a success because the GDP kept increasing by about 10 per cent per year for twenty years after 1978 (Yan, 2006).

To date, Xiaoping's reformist policies are supported and are a source of inspiration for Xi Jinping; the "four modernisations" in agriculture, industry, science and defence have led to rapid economic growth, following the disastrous results of the Cultural Revolution, which had resulted in the near-collapse of the economy.

In a speech on the 40th anniversary of the Shenzhen Special Economic Zone declaration, Xi Jinping said that the next steps to be taken would point in the direction already traced by his predecessor, and consisting in exporting the "Shenzhen model" to the rest of China.

The objective would be to move from a quantity economy to a quality economy.³

1.9 The Principal Actors of the Chinese Economy

The Chinese regime has been often defined as authoritarian, communist, socialist, and various combinations of these terms. The reality of the facts is that China was governed by a series of authoritarian and nationalist governments until 1912; then, it started a slow transition into a capitalist system.

China today is a People's Republic. The supreme organ of state power is the National People's Congress (NPC), whose 2979 members are elected for a five-year term by the provinces, autonomous regions, municipalities and armed forces. The NPC is

³ See “*Xi Jinping’s Speech on 40th Anniversary of China’s Reforms*”. Available at the site: <https://www.transcend.org/tms/2018/12/xi-jinpings-speech-on-40th-anniversary-of-chinas-reforms-opening-up-full-text/>. Last access: November 7, 2020.

a unicameral legislature, with the power to legislate and supervise the Government, the supreme court, the expert committees, the supreme procuratorate, and the central military commission. It also elects the officers of State.

The NPC, which usually meets once a year, forms a standing committee of 155 members, and exercises its functions in the intervals between sessions. The Assembly elects the President of the Republic, the Prime Minister and the Council of State, which accomplishes the tasks of Government, formulates laws, approves state plans and budgets. The People's and Local Assemblies and the Committees elected by them are the local bodies of State power (Weber, 2006).

Three overlapping institutions compose the Chinese State: the Party, the Government and the Armed Forces. The party has a hierarchical structure: its leader usually holds the main offices. He is secretary of the CCP, President of the Republic, and Head of the Central Military Commission (CMC). Politburo (formally known as

the Central Political Bureau) represents the highest decision-making body of the party. Another characteristic of the CCP is its internal organization, which reproduces the Governmental structure. The party is divided into departments, offices and agencies that replicate government ministries.

It is the CMC which takes military decisions in place of the Ministry of Defence, which is a weak institution. The Office for International Relations receives orders from the Ministry of Foreign Affairs and it does not only carry out diplomatic activities with foreign countries but also interacts with foreign communist parties of other countries, which are called "brother" parties. Some key functions ensure Party domination, such as the power of appointment to office, to control the information and influence the media (Rosa, 2008).

1.9.1 People's Bank of China and Stock Markets

History

The People's Bank of China (PBOC) was established in 1948 after the creation of the People's Republic of China. Since its foundation, it has been the only institution among other working banks to be authorized to carry out financial transactions. The Ministry of Finance controls it and the bank's main function is to coordinate the entire banking system with its own role. The conferring of credits is still politically controlled today.

After the 1978 reforms, PBOC only began to function as a central bank in 1984. The commercial banks consist of state-owned commercial banks, regional stock commercial banks and city commercial banks.

The People's Bank of China is responsible for the supervision of the financial institutions under the leadership of the State Council. It has the same general characteristics of central banks all over the world. The branches of the bank are distributed across the country,

with the head office in Beijing. All the units follow the directives given by the head office.

In 1998, the People's Bank of China reformed the supervisory system, abolishing 31 branches located in the provinces and municipalities under a central authority and autonomous regions. The local governments have inevitably influenced the local central subsidiaries; therefore, all the Provinces Capitals struggled for the district branches to be located in their cities. Since December 1993, the head office has centralized the powers of execution of monetary policy, and the local departments have lost their authority on loans and on distributing funds. In the same year, as reforms continued, the goal of the monetary policy changed; the long-term objectives changed in order to stabilise the exchange rate with other powerful currency like the dollar and the economic growth (Tinggui, 2001).

In 2003, after the *Law of the People's Republic of China on the People's Bank of China* and the *Law of the People's Republic of China on the Commercial Banks* were passed, the PBOC only kept the mandates

of maintaining financial system stability and resolving systemic risks. Other responsibilities of the PBC include the construction of the Chinese social credit system, economic statistics, financial consumers protection, and, more significantly, the management and protection of the Renminbi, the Chinese currency (Allen, Gu and Qian, 2018).

The history of share-lists in China began in 1866 with the first share-list appearing in Shanghai. However, China's stock market exchange, as we know it today, was founded in 1929, with the fusion of the Shanghai securities & commodities exchange and the Shanghai Chinese merchant exchange, the former Chinese merchant exchange (which had changed its name in 1914).

Until the 1940s, the market was dominated by shares of rubber industries, but in December 1941 the market closed after the Japanese occupation. It reopened in 1978 with Xiaoping's ascension to power (Thomas, 2001). In 2010, the Agricultural Bank of China completed the world's highest IPO, and in 2019 the

Shanghai stock market exchange launched the STAR market which collects technology-based industries.

Today, there are two classes of shares that trade on the Shanghai and Shenzhen exchanges, the A and B shares. A-shares are for domestic individual investors, and B-shares are for foreign investors. The differences between these classes of shares will be part of the discussion of the following chapter.

CHAPTER 2

2 EMT and Political Reform Effects on Chinese Markets: A Literature Review

The objective of this chapter is to analyse the literature on and the evolution of the analysis of Chinese financial markets over time. Seven papers, based mainly on Efficient Market Theory (Fama, 1998) and the correlation between different markets, published in the years 1999-2019, have been selected and compared as they analyse data taken from the Shenzhen and Shanghai markets.

2.1 Efficient Market Hypothesis

The efficient market hypothesis (EMH) assumption is that information is shared and that stock prices follow a random walk, so they are determined by the latest news.

The EMH is differentiated in three forms: weak, semi-strong and strong. The weak form of the theory states that public market information is reflected totally in prices. The semi-strong form says that stock prices are updated to reflect both market and non-market public information. The strong form states that prices reflect all public and private information.

The assumptions about information underlying EMH vary depending on the form, with the weak-form of the hypothesis assuming that only public market information is known to all market participants, the strong-form presuming perfect information transparency. In all forms, future stock price movements are independent of past stock price fluctuations.

At the time of Fama's theory, the idea of market efficiency became popular among academics but not between professionals. This situation changed in 1973 when B. Malkiel's book, "A Random Walk Down Wall Street", was published. The EMH spread from academics to professionals, according to Shiller (2003), but this

caused a market efficiency paradox: the more EMT is trusted by investors, the less efficient it becomes (Grossman and Stiglitz, 1976).

Grossman claimed that if there is a strong consensus that the market is efficient, the participants begin to act passively and cease to collect information, which would lead to inefficiency (Degutis and Novickytė, 2014).

The EMH describes perfectly trading conditions in the modern stock market because the information flows and trade movements are faster than ever, but, there are some patterns in stock prices which the EMH fails to explain (Shiller, 2013).

2.2 Review of the Literature on Efficient Market

Theory in China

In “An Empirical Analysis of the Equity Markets in China”, Mookerjee and Yu (1999) tested the market efficiency of the newly established stock markets in Shanghai and Shenzhen. They worked with daily stock price data and a battery of tests like the correlation test and a simulation of a random-walk trend based on Fama’s random-walk hypothesis. This paper aimed to test the EMT on the Chinese stock market and the presence of seasonal fluctuations in that. The authors used data collected from 1990 to 1993 for the Shanghai stock market and from 1991 to 1993 for the Shenzhen one. Before the statistic test for market efficiency, the authors presented and discussed the statistical profile of daily stock returns on both Shanghai and Shenzhen exchanges. For both, daily stock returns were not normal, evidenced by kurtosis and skewness statistics.

After conducting the statistical analysis, in the report, the authors performed an empirical analysis based on three popular tests of serial independence in daily stock returns.

The first one is the Serial correlation test, inspired by Fortune (1991), conducted jointly to the EMH test. The daily closing stock price indices failed to support the random walk hypothesis for both exchanges. The second test was the runs test to check for the randomness of stock prices on the two exchanges. A sequence of consecutive stock price changes in the same direction defined a run; typically, there were two runs, up or down. In the conclusion, the authors could not reject the randomness. The third test was the nonparametric distribution-free test for serial correlation, which report, as expected, the rejection of null-hypothesis of serial independence.

After this series of statistical tests, the working paper studied the seasonal anomalies on the Shanghai and Shenzhen exchanges. These anomalies were much more significant during the weekend

or holiday, but not in January. Hence, in China, there was no influence of the January-effect, a diffused phenomenon of the most important markets in the World (Mookerjee and Yu, 1999).

Five years later, Cajueiro and Tabak (2004), conducted similar research to demonstrate that the Chinese, Hong-Kong and Singapore markets have long-term memory dependence. After a brief introduction, the authors explain their methodology to calculate long-range dependence. They based their work on the R/S analysis, which was the most popular way to measure and detect the aim of the working paper and the Hurst exponent. The study compared three different stock markets, the Chinese, the Hong Kong, and the Singapore one.

They analysed A and B-shares traded from 1992 to 2000 in the Chinese stock market, and the information transmission effects. They compared the Singapore and Hong Kong markets because they were developed countries.

In the assumption that there was asymmetric information, caused by the institutional investors that had better information than the other players in the market, the weak-form efficiency characterised the market.

The authors used the daily returns for all the market share, also studying the Hong Kong index Hang Seng and the straits time index for Singapore.

In this journal article, Cajueiro and Tabak followed two approaches: they first used a static approach to calculate the Hurst exponent for the entire series; then, they considered a “rolling sample” approach. The methods indicated different results, not comparable to each other. To study the Hurst exponent coherently with the calculations, the authors made a statistical inference.

In their conclusions, the three markets analysed until 2000 showed the presence of long-range dependence and the most inefficient indices appear to be the B-shares for China and Singapore. The

authors also added that these phenomena should be studied in-depth and over time (Cajueiro and Tabak, 2004).

Under another perspective, the work of da Veiga, Chan and McAleer (2008) analysed the Chinese A and B-shares, to investigate the time-varying conditional correlations between them, using the Dynamic Conditional Correlation (DCC) model (Engle, 2002). The aim of the paper is explained in the introduction, which also contains references to past similar works.

All the studies mentioned in this text suggest that the B-share reform of the Chinese market had a significant impact on the covariance matrix between A and B-shares, which, even today, is the most significant input in most of the financial applications, such as risk management, asset pricing and portfolio construction.

Another aspect analysed in all these works is the study of information flow between the two Chinese markets. Chui and Kwok (1998) work demonstrated that the returns of B-shares lead

the returns of A-shares, due to asymmetric information and information flows.

The aim of the paper written by da Veiga, Chan and McAleer, was to examine the impact of the recent B-share market reform on the correlation dynamics between A and B-shares issued in the same market, by estimating the Dynamic Conditional Correlation model. The chosen data were the daily returns for the Shanghai A-share index, Shanghai B-share index, Shenzhen A-share index, and Shenzhen B-share index, from 1992 to 2005. In section 3, the authors presented the Engle's condition volatility approach (Engle, 2002), which was used to determine a random walk to simulate the dynamic correlations between A and B-shares in the Shanghai and Shenzhen markets. The result of empirical tests showed that the correlations increased substantially after the B-share market reform but started before it. The results had significant implication relating to the structure of the information flow between the markets; therefore, da Veiga, Chan and McAleer also calculated the Value-at-Risk (VaR).

VaR threshold forecasts are used to analyse the importance of accommodating dynamic conditional correlations between Chinese A and B-shares, and thus they reflect the impact of the changes in the information flow on the risk evaluation of a diversified portfolio (da Veiga, Chan and McAleer, 2008).

The fourth academic paper, here analysed, came after five years from Cajueiro and Tabak's (2004) work and its objective was the same: to study, using the single and multiple variance ratio tests, the EMH weak-form of A and B-shares on Shanghai and Shenzhen markets. Hung's (2009) work examined the influence of the reform on investment restriction of B-shares market on market efficiency. For the empirical test, Hung used the pioneering work of Andrew W. Lo and A. Craig MacKinlay (1988), known as LOMAC, to originate the variance ratio tests, because they developed tests of random walks under alternative assumptions of homoskedasticity and heteroskedasticity on the terms of the function that indicated the error. The stock price data in the study were obtained from the DataStream database and included closing price indices for the

Chinese stock market. The four Chinese stock market price indices were the Shanghai A and B-share index and Shenzhen A and B-share index. The sample period covered nearly ten years, from 1996 to 2005.

The working paper adopted different variance ratio tests to stress the data, including Andrew W. Lo and A. Craig MacKinlay's (1988) test, Chow and Denning's (1993) test and Wright's (2000) test, to investigate the weak-form EMH of the Chinese markets.

All the analyses revealed evidence of weak-form EMH, and that the changes in market efficiency were likely to result from the regulatory transformation associated with the reform of restrictions on the B-share market.

In “Testing Market Efficiency: Empirical Evidence From Developed Markets of Asia Pacific” (2012), the authors Nisar and Hanif, aimed to verify the efficient market hypothesis on the seven major stock exchanges in the Asia-Pacific area, including Japan, China, Korea, Hong Kong, Australia, India and Pakistan.

After an introduction where they explained the characteristic of all the markets, the authors declared the aim of the paper, which was to investigate the week-form of EMH in order to help local and foreign investors to design their investment strategies according to the nature of the markets.

The study presents a literature review, followed by a Purpose and Methodology section and subsequent Findings, Analysis and Conclusion sections.

The entire paper was focused on Fama's (1970) work on the efficient capital markets, and the methodology used was based on the empirical analysis using secondary data. The indexes considered were: Nikke N225 for Japan, Shanghai Composite for China, Kospi Composite for Korea, Hang Seng Index for Hong Kong, All Ordinaries ASX for Australia, KSE-100 for Pakistan and BSE-SENEX for India.

Every market was considered on daily, weekly, and monthly basis, in the period from 1997 to 2011. After the calculation of daily,

weekly, and monthly returns, the author first calculated continuous compounded annual rate of return, and then ran a test to analyse the market efficiency. Subsequently, he applied the Wald-Wolfowitz's test and the Variance Ratio Test, based on Andrew W. Lo and A. Craig MacKinlay's (1988) and Chow and Denning's (1993) articles, where simple and multiple variation tests were performed, to answer the question of whether the asset prices or returns were predictable or not.

After applying the variance ratio test, the authors got two types of results, one was a joint test, which was the result of multiple variance ratio tests, and the other was represented by individual period results that were the result of a static variance ratio test. They focused on the results of multiple variance ratio tests because they explained the joint probability.

After the application of runs test on all the stock exchanges, the authors found that Shanghai Composite, KSE-100 and BSE SENEX were not weak-forms of efficient markets because their

successive returns did not generate randomly. Whereas Nikkei N225, Kospi Composite, Hang Seng Index HSI and All Ordinaries ASX were a weak-form of efficient markets because their successive return series generated randomly.

In their conclusions, the authors gave some important recommendations: firstly, all policymakers had to realise the importance of market efficiency; secondly, they had to develop and provide an efficient market to investors; thirdly, they had to reform the whole system of trading in the stock market introducing a massive audit and information technology to allow all the actors to receive relevant information.

After the 2005-2006 reform, three Italian researchers, Beltratti, Bortolotti and Caccavaio (2016), decided to study the reaction of stock returns and trading volumes to the transformation of non-tradable shares (NTS) into tradable shares (TS).

Until 2003, on the Chinese stock market, A-shares could only be traded by domestic investors, while B-shares were denominated in

foreign currencies and reserved to foreign investors. In April 2005, the China Securities Regulatory Commission announced a pilot program to transform non-tradable shares into tradable ones (Li *et al.*, 2011). In the final version of this reform, the NTS holders negotiated the compensation to pay to TS holders, after two suspensions of trade and the approval of the negotiation. The payment could be made in various ways: new shares offered by NTS holders, new shares offered by the company, in cash or warrants.

The data used for the empirical tests were extracted from the DataStream database, Shenzhen GTA Information Technology Co Limited and Nomura Institute of Capital Market Research. The original sample involved 1440 companies, but it was later reduced because some of the companies had discrepancies from the other, like suspensions from trading for unspecified reasons, unclear negotiation of compensation paid and mismatch of datasets. The remaining sample was composed of 1007 companies to study.

The methodology used by the authors was the study of the residual from a pricing model. Beltratti, Bortolotti and Caccavaio measured the variance of the sample in three ways, firstly using the Campbell LOMAC (1997) method, the cross-sectional variance across mean cumulative and average abnormal returns of the various companies, and the Brown and Warner (1985) work.

The results obtained showed: abnormal positive returns in the past two days before the first suspension, caused by the non-diversifiable compensation risk; abnormal positive returns in the ten days after the initial readmission, possibly caused by a delayed reaction to positive compensation surprise; price drop after the second readmission. This outcome suggests that the speculation, though present, is not dominant, and that Chinese market efficiency progresses over time (Beltratti, Bortolotti and Caccavaio, 2016).

The last academic paper studied, written by Han, Wang and Xu (2019), examined the daily return series from the Chinese markets.

The authors used the MF-DFA methodology, introduced by Kantelhardt (2002), a powerful tool to detect and quantify multifractal properties in the markets. The analysis is composed of five steps that conduct to a final value. If the multifractal level is negatively correlated with the market efficiency, it is necessary to look at MD. The higher the MD value is, the less efficient the stock market is. There are two possible causes of multifractality: long-range correlation for small and large fluctuations and the fat-tailed distribution of the series. The data used were the Shanghai Stock Exchange Composite Index, the Shanghai-Shenzhen 300 Index, the Shenzhen Stock Exchange Component Index, and the CSI Small-cap 500 Index from 2000 to 2018.

The authors employed indices because they synthetically reflected the overall quotations and trends in the markets. Besides Han, Wang, and Xu also investigated sub-samples to give strength to their hypotheses. The empirical results indicated that the four index return series showed multifractal characteristics, resulting in inefficiency in stock markets. The assumptions raised by the

authors suggested that the inefficiency could be economically caused by government intervention and other market behaviour during the stock crash in 2015. They recommended investigating the causes of this inefficiencies because, in the long-run, they may be critical for the sustainable development of the Chinese capital market. The proposed solutions were: to promote the reform of the stock market to maintain it sustainable, apply progressive reform that could reduce the impact of external events, optimize the investor structure and reduce the excessive government administrative intervention to improve the operational and functional efficiency of the stock market.

EMH Table 1

Study	Mookerjee and Yu (1999)	Cajueiro and Tabak (2004)
Data reference period	SHI: 12/19/1990 – 12/17/1993 SZI: 04/03/1991 – 12/17/1993	10/01/1992 – 12/31/2000
Purpose	-Test the market efficiency of newly established stock markets in Shanghai and Shenzhen. -Test the presence of seasonal fluctuations in stock markets.	Test the efficient stock market hypothesis (EMH) for China, Hong Kong and Singapore to demonstrate the long-run dependence approach.
Methods	For market efficiency tests: random-walk simulated trend compared with effectively trend based on market efficiency (EMH), long-term returns, and behavioural finance (Fama, 1998). For seasonal fluctuations: random-walk model and empirical seasonal anomalies comparison.	Hurst's exponent calculated by the R/S analysis to determinate the measure of long-range dependence.
Data	Daily stock price data from Shanghai and Shenzhen Securities Exchanges.	Daily stocks price for the Chinese (A and B stocks), Hong Kong and Singapore markets with Bloomberg data.
Results and conclusions	The empirical evidence marshalled in Mookerjee and Yu work rejects the random walk implications of the efficient market hypothesis. Besides, the results document significant weekend and holiday effects. The inefficiencies of China's equity markets are due to several factors: restricted supply of stocks; excessive volatility due to policy changes by the authorities and scarcity of information causes cognitive bias.	The authors find evidence that the three markets show long-term dependence. The results suggest that more research is needed on testing for long-term dependence.

EMH Table 2

Study	da Veiga, Chan, and McAleer (2008)	Hung (2009)
Data reference period	10/06/1992 – 08/10/2005	04/05/1996–12/30/2005
Purpose	Analyse the time-varying conditional correlations between Chinese A and B-share returns using the DDC model (Engle, 2002).	Test the weak-form efficient market hypothesis of A and B-shares on Shanghai and Shenzhen exchanges and the influence of the investment restriction of B-share markets on market efficiency before and after the regulatory changes in 2001.
Methods	The DCC model was used to estimate the dynamic conditional correlations between A and B-shares for Chinese investors.	Use single and multiple variance ratio tests, which combined the methods of Andrew W. Lo and A. Craig MacKinlay (1988), Chow and Denning (1993) and Wright (2000), to investigate the weak-form of the EMH of the A- and B-shares markets of Shanghai and Shenzhen exchanges in Chinese stock market.

Data	Daily returns of Shanghai A and B-share indexes and Shenzhen A and B-share indexes.	Daily stock market prices, for a total of 2344 observations for each of four stock index price series from DataStream.
Results and conclusions	The results show that the conditional correlations increased substantially following the B-share market reform, whereby Chinese investors were permitted to purchase B-shares. The results are important because, as the correlation between Chinese A and B-shares approaches to 1, the benefits of diversifying across both types of shares diminishes and investors should focus on the class of shares that will yield the greatest expected returns.	For the whole sample period, it is consistently found that SHBI, SZAI and SZBI are not supported by the weak-form EMH basing on the single variance ratio test. For the analyses of sub-samples, the conclusions during the first sub-period are the same as the whole sample period. However, except for SHAI, opposite results are found for the two subsamples.

EMH Table 3

Study	Nisar and Hanif (2012)	Beltratti, Bortolotti, and Caccavaio (2016)	Han, Wang and Xu (2019)
Data reference period	07/01/2000-06/30/2011	03/01/2004-02/28/2007	01/04/2000- 09/11/2018
Purpose	Examine the weak-form of EMH on the seven major Asia-Pacific stock exchanges markets that are Nikkei N225 (Japan), Shanghai Composite (China), Kospi Composite (Korea), Hang Seng Index HIS (Hong Kong), All Ordinaries ASX (Australia), KSE-100 (Pakistan) and BSE SENEX (India).	Study the reaction of stock returns and trading volumes to the 2005–2006 structural reform which allowed the transformation of non-tradable shares (NTS) into tradable shares (TS) through the payment of compensation to TS holders.	Examine the daily return series of four main indices (SSE-SZSE-SHSE-CSI500) in the Chinese stock market. Compare the multifractality degrees of the four indices in three sub-samples divided by the 2015 stock market crash and the effect of the 2015 stock market crash on market efficiency from the statistical and fractal perspectives, which has theoretical and practical significance in the application of EMH.
Methods	This study is conducted in an empirical format by using secondary data. The test of Wald-Wolfowitz and the Variance Ratio Test are used to test the market efficiency.	The event study uses residuals from a pricing model. Regression could not be used because of the trading suspension. The authors simulate three artificial time series obtained with MCARs method (Campbell <i>et al.</i> , 1997), calculating the variance with the CLM (Asquith, 1983) and they test the robustness of that estimator under the null hypothesis of no abnormal returns.	The method of multifractal analysis was used to study price fluctuation in China's stock market; the MF-DFA method was applied to analyse the complexity and dynamics of financial markets.

Data	The daily, weekly, and monthly closing index values of Nikke N225, Shanghai Composite, Kospi Composite, Hang Seng Index HIS, All Ordinaries ASX, KSE-100 and BSE SENEX are used to calculate the daily, weekly and monthly returns.	Three data sources for the empirical work were used: DataStream, Shenzhen GTA Information Technology Co Limited and the data kindly provided by the Nomura Institute of Capital Market Research. The original sample involved 1440 companies, but 185 were later dropped.	The data source is the RESSET database. The selected SSE Index and the SZSE Index reflect the quotations and the trends of the Shanghai and Shenzhen markets, respectively, while the SHSE-SZSE300 index synthetically reflects the overall quotations and trends of the Shanghai and Shenzhen markets.
Results and conclusions	After applying the Test of Wald-Wolfowitz and Variance Ratio Test, it is found in the process that three out of seven developed stock markets of Asia Pacific do not follow Random-walk and hence Nikke N225 (Japan), Kospi Composite (Korea), Hang Seng Index HIS (Hong Kong) and All Ordinaries ASX (Australia) stock exchanges meet the weak form of EMH.	Main results are: abnormal returns are positive in the two days before the first suspension; abnormal returns are positive in the ten days after the first readmission; prices drop after the second readmission; volume increases to record levels during and after the reform, even accounting for the increase in the supply of shares assigned as compensation.	The empirical results indicated that the four-index return series exhibit multifractal characteristics with different levels in the sample, resulting in inefficiency in the stock markets. This inefficiency may be caused by government intervention and other market behaviours during or after the stock crash.

2.3 Literature Review on Regulatory Changes

As seen previously, China went through a long period of economic and social reforms that necessarily led to changes in the lifestyle and way of doing business. To investigate the effects that occurred over time, three academic papers have been selected: they show how the politicises changed these characteristics over time. The aspects examined were: the effect on the social and economic inequalities in the Chinese provinces, how the Chinese stock market could change after the improvement of minority-shareholder protection, and what solutions could be adopted to overcome the information problems that plagued the Chinese economy.

In the post-1978 reform's era, Tsui (1996) investigated the province inequality condition using the Gross Domestic Product (GDP) data comparison. Further analysis was conducted by decomposing GDP into sub-sectors to understand their influence.

Tsui covered the period between 1978 to 1989 and measured different indices to test the robustness of his hypothesis. The most used indexes were the Gini coefficient and the Coefficient of Variation. By decomposing the GDP into primary, secondary, and tertiary sectors, the authors obtained the same results of macro-analysis: the Chinese inequalities decreased in the first five years of the studied period and then rose again in the following five years. The study reveals that urban industrial-economic reforms, fiscal decentralisation policies, the rapid development of rural industries in the coastal region, the rapid growth of the tertiary sector and the flow of foreign capital in the enriched provinces seem to be responsible for the rise of interprovincial disparities in the second half of the 1980s.

Since 1994, the Chinese administration has implemented policies that could potentially reduce this problem, such as a new local-central tax sharing system. Since 2000 three new regulations, aimed at reducing expropriation from minority shareholders by controlling block-holders, have been influencing the Chinese stock

market. The changes in regulations were motivated by China's entrance into the World Trade Organization in 2001 (Berkman, Cole and Fu, 2010).

In Berkman, Cole, and Fu's works, the authors used the standard event-study methodology to analyse the link between investor protection and firm value. To reduce the potential external events that could influence the results, the authors used the cross-sectional regression and studied the value changes for the selected firms before and after the regulatory changes.

The results showed that firms with higher levels of expropriation from minority shareholders excessively benefit from the regulation and that the more the firms are influenced by the State, the less efficient the reform is.

In order to analyse how China could overcome the information problem that involves market efficiency, Leutert (2020) studied the correlation between government adopted strategies and their implementation.

China used the Policy feedback loops to control the level of implementation and the effects of the reforms.

There is a relationship between improvisation, experimentation and multi-level government that helps to adapt the strategies to the context, called “Learning by Doing”. Enterprise interactions with the Chinese government are more useful than ever to help develop and implement policies in biotechnology, urban transportation, and rural development (Leutert, 2020).

Study	(Tsui, 1996)	(Berkman, Cole and Fu, 2010)	(Leutert, 2020)
Data	(final version March 1995) Published 1996	12/2010	08/23/2020
Purpose	Explore two issues: the trend of interprovincial inequality in the post-1978 reform era in China and the factors behind the dynamics of interprovincial inequality.	Examine the wealth effects of three regulatory changes designed to improve minority-shareholder protection in Chinese stock markets using the value of a firm's related-party transactions as an inverse proxy for the quality of corporate governance.	Find the relationship between government improvisation, experimentation, and multi-level governance. Identify how China did overcome information problems and institutional gaps to successfully implement market reforms in its economy.
Main argument and methodology	National income data from the socialist national accounting system are used to identify the impact of interprovincial resource flows on interprovincial inequalities. The findings seem to suggest a relative decline in the role of redistributive budgetary transfers.	Standard event-study methodology to analyse the link between investor protection and firm value. In addition to reducing potential endogeneity problems inherent in the use of cross-sectional regressions that relate investor protection to firm value, event studies analyse the change in value for the same sample of firms before and after the changes in the regulatory environment.	Examine policy feedback loops in China's state-owned economy analysing three reforms: contract responsibility system, cost control system, reform and procurement management system reforms. The methodology used to conduct the analysis is traced to three decades of data.
Results and conclusions	Using the decomposed GDP, the author shows that interprovincial inequality decreased in the first half of the 1980s but started to increase in the second half. Urban industrial-economic reforms, fiscal decentralization, the rapid development of rural industries in the coastal region, the rapid growth of the tertiary sector and the flow of foreign capital in the richer provinces seem to be responsible for the rise in interprovincial disparities in the second half of the 1980s. The new policies applied can potentially reduce the income gap between rich and poor provinces.	Authors found that firms with higher levels of expropriation from minority shareholders disproportionately benefit from the regulations in firms with lower levels of expropriation from minority shareholders. They examine whether securities-market regulations to improve minority-shareholder protection in China can be effective. Authors suggest that the regulations benefit could be for firms that do not have close ties to the government.	Leutert identifies the micro-level mechanisms underpinning broader processes of policy experimentation and implementation. The enterprise interactions with the Chinese government are important today more than ever, as state-owned, and private enterprises alike increasingly partner with the Chinese authorities to develop and implement policies in biotechnology, urban transportation, rural development and many other areas.

2.4 Results

It is clear from the analysis that the Chinese financial structure has been subject to considerable reforms that have made foreign investors doubtful about the market stability.

A market is defined efficient when it has an efficient mix of investment strategies to permit the investor to differentiate the market risk. A balanced decision mix provides stable and efficient financial markets. Investors consider a market as well balanced by looking at three fundamental strategies: firstly, they examine the value-investment, involving assets generating economic value during the investment length; secondly, they consider the relative profit of the investment, including arbitrage; thirdly, they may contemplate speculation investments. The Chinese market does not have good-balanced investor strategies because credible data and low transaction costs are not effortlessly available in China. There are few value investors in China because most of the information they need to make investment decisions is not available,

such as reliable data, trustworthy corporate frameworks, and predictable government behaviour. This causes low-quality information; hence value-investors decide to avoid the market. Should they overcome the difficulty in finding the right information, the variety of non-economic factors would severely affect the rates required by investors to see their investment risk remunerated. Thus, the shareholder and the stockholder must be speculators if they expect to receive profits (Pettis, 2013).

The Chinese government could reduce the magnitude of speculative trends through the reduction of non-economic variables that influence investors' choices, the improvement of corporate transparency and the rise in the quality of available national economic information, to attract every category of investors.

CHAPTER 3

3 Chinese Macroeconomy and Foreign Relations

This chapter will examine the most significant macroeconomic trends and indicators in order to highlight some of the reasons for Chinese economic development.

It will first focus on China's GDP growth; then, it will describe the industrialization process, which has been the most influent stimulus of the growth process; finally, it will discuss population growth and governmental and market limits to make it sustainable.

After examining these economic variables, this work will explore Chinese foreign relations with the USA, Asia, and Europe; in particular, the Belt and Road Initiative and the implications for Italy.

3.1 Macroeconomic Trend Analysis

Source: www.macrotrends.net - GDP 1960-2020

Figure a

As shown in *Figure a*, after 1990s' reforms, the Chinese GDP increased continuously. Since 2008, however, and because of the economic slowdown of that year, it has grown at decreasing rates. In other words, it has continued to grow, but less than in previous years. In this period, a lot of Chinese migrant workers returned to China after losing their job, causing an approximate 7 per cent fall in the real GDP (Wang, 2010). The Governmental response was the implementation of an economic stimulus package, funding

infrastructure and increasing bank lending. The real GDP slowly decreased in the next years, so much so that the IMF, in the 2019 World Economic Outlook, estimated that it would fall by 5.5 per cent until 2024 (IMF, 2019). The factors that stimulated China's rapid economic growth were large-scale capital investments and rapid productivity growth. The economic reforms and the "Learning by Doing" philosophy led to higher efficiency in the economy. The World Bank defined China as a low-middle income economy in 1997,⁴ but the Chinese governance projected that China would overtake the high-income threshold by 2024.⁵ Indeed, today, the World Bank already defines China as a middle economy.⁶

Before the 20th Century, China was an agricultural-based society. In the 1990s, the Chinese industries increased by 8 to 9 per cent annually (Chang, 1969).

⁴ See David Ahlstrom, (2020), "*Why China is No Longer an Emerging Economy*". Available at the site: <https://cbk.bschoool.cuhk.edu.hk/why-china-is-no-longer-an-emerging-economy>. Last access: July 23, 2020.

⁵ See Kevin Yao (2020), "*China's leaders to endorse lower 2021-2025 growth target at key meeting – sources*". Available at the site: <https://www.reuters.com/article/china-economy-target-idUSL3N2GK2JV>. Last access: November 20, 2020.

⁶ Cf. the World Bank site at: <https://www.worldbank.org/en/country/china>. Last access November 19, 2020.

Chinese development achieved important goals: firstly, China established an independent industrial system relying on technology; secondly, China had a rapid economic growth thanks to state reforms and economic planning in the secondary and tertiary industry; thirdly, China's industrialization created new employment opportunities for rural people that would move out of agriculture. The population employed in the secondary sector reached 30 per cent of the total employed population in 2013. The last achievement was the contribution to global economic growth because the Chinese economic global output increased from 1.8 to 12 per cent in 2012, having a positive overflow effect on other countries.

The Chinese industrialization process can be divided into three stages. The first started in 1953, when China prioritized heavy industry in economic planning, and it lasted until 1978 with the Cultural Revolution, when the Government decided to introduce the three-front strategy. It consisted of dividing the country into three areas, corresponding to the three regions: coastal, central, and

western. This division permitted to finance different industrial projects based on specific local characteristics.

The second stage of industrial development was between 1979 and 1999, with more balanced industrial development. China encouraged the expansion of light industries, attracting foreign investors through opening policies.

The third stage started in 2000, when China decided to move back to heavy industrialization, with physical and financial resources. In twelve years, the heavy manufacturing industry increased from 53 to 72 per cent, the light one decreased to 30 per cent.

The industrial growth caused an environmental problem: enormous energy consumption exhausted scarce natural resources, causing sulphur dioxide emissions and pollution.

The Government released the Air pollution action plan in 2013 to reduce the dioxide emissions, setting to 2.5 the particulate matter (PM) for critical regions.

In 2018, China started the second phase of its pollution reduction policy, with the Three-year Action Plan for Winning the Blue-sky War, to extend the PM limit to all regions, and reduce it to about 18 per cent until 2020.

Another problem has afflicted China beyond pollution: overpopulation. Population growth in China began during World War II, when Chinese families were encouraged to have many children to help the State to produce and build a better army. In 1979, China's One-Child Policy was introduced to slow the population growth rate. This strong imposition stemmed from the fact that in the 1950s the population exceeded the hypothetical food supply, forcing the Government to promote birth control through incentives or rewards to the family who adhered.

Source: National Bureau of Statistics of China: China Statistical yearbook 2014 - Birth rate (in China) $\times 1000$

Figure b

However, this policy indirectly caused several problems for the population. One of the undesired effects was the gender imbalance, because parents-to-be preferred to abort female foetuses, as male children were considered more useful to the future of the family and the country. As shown in *Figure b*, the One-Child Policy had the desired effect, it succeeded in reducing the birth rate, but, consequently, the age of the population shifted upwards, causing a shrinking workforce.

The One-Child Policy caused long-term implications because it was a reform without scientific basis, dictated only by Party politics (Feng, Cai and Gu, 2013).

3.2 Foreign Relations

In China, foreign relations are carried out by the Ministry of Foreign Affairs, which is subordinate to the Foreign Affairs Leading Group.

The 19th Congress of the Chinese Communist Party established a new approach to international relations, based on Chinese aspirations of becoming a global power in the future. This objective fostered bilateral relations with traditional partners and new interlocutors.

The admission of China to the World Trade Organization (WTO), the most significant organism of global trade, in 2001 was a milestone for the Chinese Communist Party and its foreign relations.

Before the opening policy, as shown in Chapter 1, China was extremely closed to new cultures. In its long history, it participated in wars, tried to resist to invasions, and repeatedly rejected diplomats who wanted to open an institutional dialogue.

Everything changed in the 1980s when Li Xiannian, Xiaoping's successor, started to visit external countries and began to open China to the World. Indeed, he was the first Chinese President to visit the USA⁷ and North Korea.

The direction traced by Xiannian has guided China's foreign politics until today, despite the fractions with the USA. During the last plenum of the Communist Party of China, Xi Jinping presented the idea of increasing transparency in the decision-making process to build a positive image of China.

The main element of Chinese diplomacy has been its gradual acceptance and adoption of multilateralism. Since 1971, China has expanded its membership in 1568 nongovernmental organizations and participated in numerous negotiations on public health and climate changes.

⁷ For an account of the US-China relations see the Council of Foreign Relations website: <https://www.cfr.org/timeline/us-relations-china>. Last access: October 18, 2020.

The Chinese multilateral diplomacy has been based on four strategies: watching, engaging, circumventing, and shaping.

The watching strategy consisted in learning from others. Beijing, in some cases, took a hand-care approach to international institutions, sending representatives and experts to meetings, to which it would participate without promoting an agenda.

The engaging mode would be activated when the time was ripe to act, and the ideas were clear. A strategy of engagement implied that a State took a more active and, when necessary, assertive role in negotiations.

Circumventing the situation was a strategy to apply when the context did not permit to perceive a net benefit (Wuthnow, Li and Qi, 2012: pp.275-276). It meant for China to shirk its responsibility so that political and economic actors could operate outside the existing conditions, setting new objectives and new rules in their favour. Although it did not imply a direct challenge to existing institutions or norms, “circumventing the current order” was a

problematic strategy to use only when the political risk was low, because this could raise the probability of prejudice relations (Wuthnow, Li and Qi, 2012). When the existing rules were not satisfying, it was convenient to apply the shaping strategy to make them advantageous. China preferred to adopt an engaging strategy, an assertive political attitude but not a revisionist one (Wuthnow, Li and Qi, *ibidem*).

3.2.1 China - USA

China-USA relations began under US President G. Washington with the Treaty of Wanghia in 1845, modelled on the peace treaty of Nanjing (1842), during the Qing dynasty.

The relationship between the two countries, even today, are complicated and with different phases.

In 1911, the United States government recognized the Chinese Republic Government. During the Japanese conflict, China received aid from the USA, despite the various neutrality acts which officially prevented the United States from helping countries in a declared war. The United States formally declared war on Japan in December 1941.

In 1949, the United States did not accept the birth of the PRC because of its communist declared politics and because of US Senator McCarthy's anti-communist campaign. The US tensions with China exploded when the Chinese government signed an alliance treaty with Moscow, which was against Japan, but which also indirectly affected America. In the same period, the Korean war aroused suspicion and political tensions between the two powers, which lasted for a long time. However, at the end of the 1950s, the ideas supporting a change in American political attitude began to spread, favouring openness towards the PRC.

In 1965, the restrictions on intercontinental travels to Beijing were lifted and the "National Commission for US-China Relations" was established. The attitude of the Chinese government, however, with its support of the Vietcong in the Vietnam War, countered the American gesture of distension.

During Nixon's presidency, the Cultural Revolution, which devastated the entire Chinese region, and the deterioration of relations with Moscow contributed to alleviating tensions. This allowed the American President to create a commercial and institutional channel with the Asian government, also obtaining support to end the Vietnamese conflict, which cost America high human and financial toll.

In 1970, the American Ambassador Walter Stoessel and the Chinese Ambassador Lei Yang met in Warsaw to discuss the positions of their respective countries on some significant issues: for the first time, the United States tacitly acknowledged that Taiwan was a Chinese problem, while Beijing agreed to improve its

relations with the American government (Panasiti, 2006). Since Nixon's visit, every US president, except for Carter, made at least one institutional trip to China.

After 1980, the economic ties grew fast, as well as the hegemonic rivalry in the Pacific, and mutual suspicion over each other's intentions. Today, the military, economic, institutional, and ideational pillars that supported Pax Americana are being challenged by China; therefore, its decline may be not caused only by the USA.

Under Donald Trump's mandate, the relations have rapidly deteriorated because the US administration has declared the Chinese government as a competitor (Brown, 2019).

In 2018, the USA started the "New Initiative to Combat Chinese Economic Espionage", ⁸ against the Chinese state-owned companies and all strategic Chinese firms that had interests in the

⁸ See on this US Attorney General Jeff Sessions' declarations on Chinese Economic Espionage, reported at the site: <https://china.usc.edu/jeff-sessions-2018-new-initiative-combat-chinese-economic-espionage>, which was the opening address at the institution of the commission on trade espionage. Last access: September 6, 2020.

USA, to defend US National Security. This initiative implied the institution of a commission on trade espionage. It started the trade war between the two economic superpowers, which well reminds of the Cold War between Russia and the USA (Park, 2015).

Recently, after President D. Trump's announcement starting a trade war on China, there have been a series of frictions on the Washington-Beijing axis, exemplified by a sales ban of essential components of American firms to the Chinese ZTE.

In response to the hard-line policy taken by the US, President Xi Jinping made a diplomatic effort to open to America, asking Trump to do the same. Nevertheless, the trade war seems to be inevitable, considering China's aspirations to become a superpower and the conflicting US role as a world leader (Lanbo, 2018).

3.2.2 China - Southeast Asia

The diplomatic relations developed by China to demonstrate that it can be a global superpower rely on three elements: relations with its two neighbouring countries, Taiwan and North Korea, and the Chinese Sea issue.

It is possible to identify three main historical matrices and three political objectives of diplomatic relations in Asia. The Deng doctrine is one of the most ancient Chinese foreign policies, but it still has value because it designs China as a state that must face foreign countries with a weak mentality and a low profile. This political tactic has contributed to complicate some security issues in the Asian region, due to the disputes of the territories.

The second identifiable matrix refers to the Chinese imperial experience, built hierarchically around its leader, who wanted to dominate on its neighbouring countries, which paid a tax not to be invaded (Andornino, 2011).

Finally, the third matrix derives from the socialist past of Chinese foreign policy, which implemented what are defined as “strategical triangles”,⁹ leading to today’s identification of a new vision of politics, centred on the valorisation of national sovereignty, and the collaborative South-South relationship. The three interests preserved in the definition of the policy are: regime preservation, defence of national sovereignty and economic development.

Although it seems paradoxical, the most important relationship for China in the Asian Continent is with the USA, which has maintained a sort of “resident power” in the Pacific area after its involvement in the Japanese war.

The Sino-Japanese front is fundamental in the regional power balances, but it is always complicated by continuous territorial disputes.

⁹ See Ramesh Thakur (2007), “*Asia’s strategic triangle: China-India-Japan*”. Available at the site: <https://www.cigionline.org/articles/asias-strategic-triangle-china-india-japan>. Last access: November 22, 2020.

In the Chinese Sea, different groups of islands and different territories are disputed between the PRC, Vietnam, Taiwan, and North Korea, which have always been hot spots for China. The latter two are the most critical for the stability of diplomatic relations, due to the tensions regarding the recognition of Taiwan status and Korean nuclear ambitions. Although it is unsolved today, the Taiwanese problem is still politically manageable, but the Korean question remains unpredictable and unreliable for a good neighbourly relationship.

As far as the enemy-friend Russia is concerned, strategic partnership relations can be seen as a combination of suspicion and mutual interest between the two powers. At the end of the 1960s, the frictions between Beijing and Moscow were so strong that they risked a war that would have involved many European countries. Luckily, after the end of the Cold War, relations relaxed and consolidated. However, no inclusive politics have soothed the latent competition between the two communist countries (Andornino, 2011).

If the West is fighting to contain the damage caused by the Covid-19 global pandemic, Asia is looking to the future. The Regional Comprehensive Economic Partnership (RCEP), an agreement between countries in the Asia-Pacific free trade area, has been signed, forming the largest trading bloc in the World. It includes countries that contribute to 30 per cent of the World GDP, and it will be in force in 2022. The principal purpose is to facilitate trade: all nations that have signed it can avoid paying duties and, thus, can recover economically. The RCEP will strengthen Chinese influence, helping to reduce dependence on Western technology companies as a result of the Sino-American trade war (Yu, 2017).

3.2.3 China - Europe

The principles of international relations between China and Europe, officially established in 1975, were cooperation in peace, prosperity, and sustainable development. In addition to these objectives,

mutual respect with European partners was fundamental for Chinese trade because the EU was one of its major partners.

During the Qing period, and at the same time as the beginning of the relations with the USA, many European countries established an institutional connection with Chinese partners. After the birth of the European Parliament and the end of the Cold War, the relations between the two areas were chilly; in the 1990s, trade exchanges tripled. The political cooperation with China was difficult due to the EU-USA alliance because the Chinese government judged Europe too weak, divided, and dependent on America to consider it a significant power. The Kosovo conflict further exacerbated the situation between the three superpowers.

Nevertheless, the economic collaboration continued with the New Asia Strategy in 1996 and the EU-China Strategic Agenda for Cooperation in 2013. In the agenda, Europe and China signed the Memorandum of Cooperation in international security, politics, economic affairs, and socio-economic development. Additionally,

they refined their relations in a vast spectrum, covering the most relevant financial and technological areas (von Hauff, 2019). The considerable effort made by the EU to foster the dialogue began to have its effect, raising the issue of the climate change and helping China to change its policy in an environmentally-friendly way, by reducing its dependence on the carbon economy.

Closely related to the climate problem, the memorandum raised the issue of energy efficiency and the reduction of dioxide emissions. Due to the Chinese significant economic growth, energy efficiency was a central problem which urged China's commitment to change its energy mix and shift to renewable energies. To continue this collaboration, China developed the Belt and Road Initiative (BRI), which recalled the ancient Silk Road, and which meant inclusive cooperation for the economy and the peaceful coexistence of sovereign states. President Xi Jinping deeply wanted this project to display to other States the Chinese concept of harmony and "Different but Equal" philosophy. This plan started in 2013 and

received such great attention that in 2018 more than 130 countries had already signed cooperation with China.

To promote the BRI, the Asian Infrastructure Investment Bank (AIIB) was established in 2013 to reform the financial system and accommodate foreign investors. Since January 2016, the AIIB has provided finance for real investments in sustainable infrastructure and other productive sectors.

The BRI initiatives of multi-level cooperation and coordination, were facilitated by the Chinese decision to set up the air, marine, and rail environmentally-friendly connections (Dunford and Liu, 2019).

In addition to the structural reforms needed to implement the BRI, regulatory packages focused on international trade and on the objectives of countries that would work together. Beijing's "not easy opening" and European liberality finally found a synergy that allowed both to benefit from the initiative (von Hauff, 2019).

In the EU, Italy is a strategic junction in the BRI. This central role is not only motivated by commercial reasons but also by strategical and financial activities. Italy is the third European country for managed trade, being a link in maritime trade from the East with Northern Europe, and, since it holds a 2.8 per cent share in the AIIB, it is the fourth European country in this financial institution.

To ensure full cooperation a memorandum of understanding was signed in 2019 to seal the shared vision of intent (Panaro and Ferrara, 2017).

Among the projects to make the BRI operational are the expansion of the port of Gwadar in Pakistan; the improvement of the Belgrade-Budapest and Jakarta-Bandung railway lines; the enhancement of power plants in Pakistan and Indonesia; and the strengthening of rail links between Europe and China, which will extend the routes already created as shown below in *Figure c*. Thanks to the collaboration of China Investment Corporation, Export and Import Bank, and the China Development Bank, a monetary fund

of 40 billion dollars has been set to build and expand infrastructures, in addition to the creation of other funds from AIIB and European partners.

Source: www.alephas.org - Belt and Road initiative

Figure c

The major event for BRI was in 2016 when a train with chemistry, electronic, and mechanical products arrived in Lyon after fifteen days from Wuhan (D'Alessio, 2017). To celebrate and strengthen the strategic partnership between China and Italy, some events focused on the changes taking place in China were organized, such as the Science, Technology, and Innovation Week, held in

December 2018, which had the objective to share strategic choices between the two countries, and to cement their partnership on economic-scientific cooperation. During this week, seminars, workshops, and events were held to promote knowledge and cultural exchanges between Italian and Chinese operators (Ialongo, 2018).

At the same time, to underline the existence of goodwill, 190 Italian companies were invited at the China International Import Expo. Strongly desired by President Xi Jinping, this fair represented a stimulus to inter-connectivity expressed by the "One Belt, One Road" initiative included in the "Belt and Road" strategy. The main results achieved for Italian companies were in luxury, agri-food, and aircraft industry (Agostini, 2018).

It is clear that the BRI is a major economic project that aims to integrate Asia and Europe by building six transport passages by land and sea, through which goods, technology, and culture flow.

These initiatives represent the main steps of Chinese foreign relations. China's interaction with different cultures and its great economic expansion have made this country a recognized global superpower.

In the next section, the conclusions will present the results of this work and possible future paths for a continuous transformation.

CONCLUSIONS

The aim of this work was to analyse some relevant literature to find evidence of the existence of a Chinese market weak form. This topic has been selected due to the Chinese great economic growth and its different political and economic structure.

The literature review focuses on ten papers written from 1999 to 2019. Their research was complex because of the scarcity of relevant documents and the dissemination of unclear information.

The major difficulty in finding accurate data was encountered at the beginning of this study, when the initial research question was to test the Efficient Market Theory. Because of insufficient scientific information and available documents to conduct this kind of analysis, academic journal articles, which stress the EMT, have been chosen in their place.

All the scholarly works reviewed in this brief discussion draw the same conclusions: the Chinese market appears inefficient. When Fama's hypothesis is applied, analysis results demonstrate that weak

form efficiency holds in the Chinese market; therefore, the available information on past experience cannot be useful to predict future yields.

The empirical results show that China is not influenced by seasons; in particular, it does not suffer from the January effect, which can help to predict future trends.

This study has also revealed the problem of the scarcity of useful information for investment purposes, which can be easily overcome by making State and institutional transformation transparent.

The results of the papers do not change during the years: in 1999 the inefficiency of Chinese market depended especially on the excessive volatility caused by the policy changes and the scarcity of information, and the same results were also obtained in 2019.

This study also aimed at analysing the correlation between the policies implemented and the market.

The Chinese “open attitude”, adopted in the last years, is pointing in the right direction. Fostering cooperation and cultural exchanges can help solve the problem of data transparency. This characteristic is essential to raise information efficiency, which is the base of EMT.

The negative effect of continuous reforms for the Western countries is that Chinese policy-makers’ decisions strongly influence the market, and they make it unpredictable for us due to our lack of knowledge of Eastern philosophies, a condition which China is trying to fix by opening as many communication channels as possible with the West. Hence, the Belt and Road Initiative is paramount to cooperation with Europe and to rise to global superpower status.

China is trying to engage in this initiative a lot of European and Asian countries to increase its global influence and make its culture and history known. Italy has always wanted to cooperate with the

Chinese government being an enthusiastic supporter of the Belt and Road Initiative.

The linearity that the Chinese government was aiming at was halted by the Covid-19 global pandemic. It was the first time that the Chinese economy slowed down since 1992. However, this period did not stop the expansionist impulse in the market, which initially reacted negatively but then recovered, proving that operators continue to trust China's promises.

Between July and September 2020, the Chinese economy showed an increase compared to the same quarter of 2019. China was one of the first countries which had economic recovery, and it is expected to be the only G20 economy to grow in 2020.

Cooperation, inclusion, and transparency should be the three key elements on which the reconstruction and economic and social resurgence of the (near) future should be based in order to make the market more efficient and to attract investors.

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