Chapter VI
Cooperation in Global Trade and Investment Opening-up

Cooperation in opening-up of trade and investment is in the common interest of all countries in the world. Since World War Ⅱ, more countries have reduced barriers blocking cross-border flow of goods, capital, information, and personnel through multilateral, bilateral and regional negotiations, and become participants, beneficiaries and promoters of opening-up cooperation. Globally, international trade and cross-border investment facilitation and liberalization have continued to grow, which has promoted global economic growth and peaceful development.

I. Opening-up Practices in International Trade

Throughout the history of international trade, free trade and trade protectionism have engaged in long-term gaming. Since the GATT took effect, trade liberalization and facilitation have entered an institutionalized track. The multilateral trading system and regional bilateral trade agreements have jointly pushed for tariff and non-tariff barrier reduction, extending from *opening-up at the border* to *opening-up behind the border*. Remarkable progress has been made in market opening-up in global trade in goods and services.

1. Trade in goods

The actual level of tariffs in the world has fallen generally. The level of import tariffs of various countries has been significantly reduced, which has strongly pushed forward the development of international trade. From 1995 to 2017, the simple average applied tariff rate for all products in the world fell from 12.2% to 5.2%①, and the most-favoured-nation weighted average tariff rate from 15.4% to 9.5%②. After 2018, the tariff level of some economies has increased slightly. From a regional perspective, zero tariff would be applied to more than 90% of the traded goods after the RCEP takes effect.

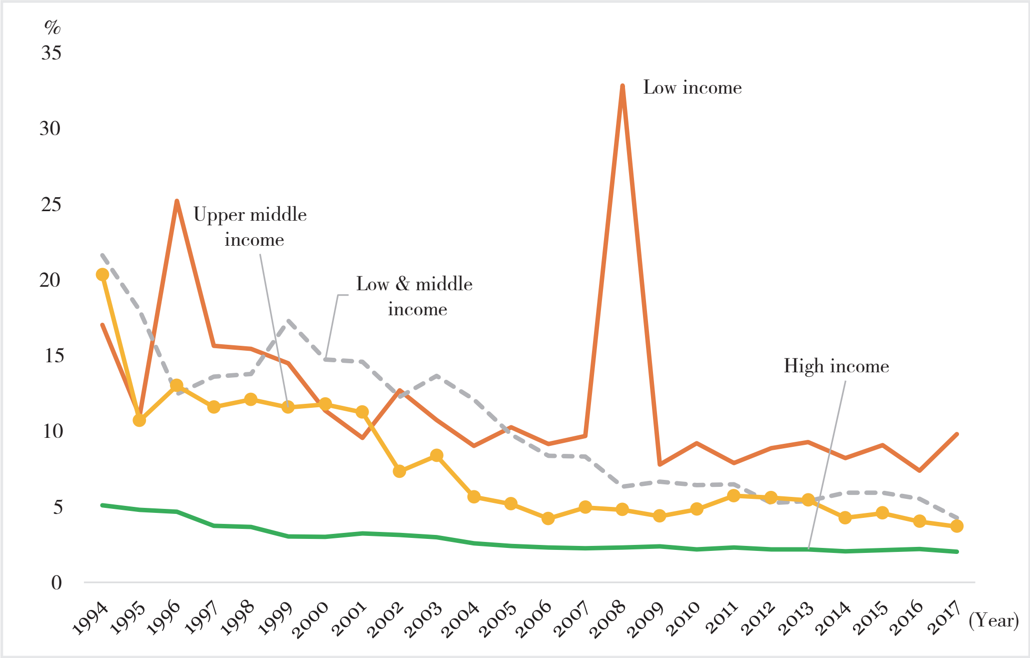

Figure 6-1 Weighted Average Applied Tariff Rate of All Products (%)

Source: The World Bank (2021). World Development Indicators, online dataset.

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① Simple mean applied tariff is the unweighted average of effectively applied rates for all products subject to tariffs calculated for all traded goods. Data are classified using the Harmonized System of trade at the six- or eight-digit level. Tariff line data were matched to Standard International Trade Classification (SITC) revision 3 codes to define commodity groups. Effectively applied tariff rates at the six- and eight-digit product level are averaged for products in each commodity group. When the effectively applied rate is unavailable, the most favored nation rate is used instead. To the exte. See webpage: https://data.worldbank.org.cn/indicator/TM.TAX.MRCH.SM.AR.ZS.

② Weighted mean most favored nations tariff is the average of most favored nation rates weighted by the product import shares corresponding to each partner country. Data are classified using the Harmonized System of trade at the six- or eight-digit level. Tariff line data were matched to Standard International Trade Classification (SITC) revision 3 codes to define commodity groups and import weights. Import weights were calculated using the United Nations Statistics Division's Commodity Trade (Comtrade) database. See webpage: https://data.worldbank.org.cn/indicator/TM.TAX.MRCH.SM.FN.ZS.

Headway has been made in reduction of non-tariff barriers. From 1995 to 2008, 1,728 non-tariff barriers were removed globally. After the global financial crisis, protectionism has been on the rise. The global trade environment came to be tightening, and some economies adopted unified standards to reduce non-tariff barriers through regional or bilateral negotiations. The EU and Japan, based on their *Economic Partnership Agreement* (EPA), have jointly adopted uniform safety and environmental protection standards in the automotive field, uniformly used international standards for quality management system in the medical device field, and uniformly used international textile labeling system in the textile field. On the basis of the WTO *Agreement on Sanitary and Phytosanitary Measures*, RCEP has further strengthened provisions for the implementation of pest-free and low-endemic areas, risk analysis, examination and approval, certification, import inspection, and emergency measures. In 2020, the novel coronavirus raged across the world. Some economies provided facilitation measures, such as tariff reduction and exemption for imports of anti-pandemic materials. According to the WTO report in July 2021, since the outbreak of the epidemic, members have implemented 248 trade promotion measures in the field of goods, which is much higher than the number of trade restriction measures.

The level of trade facilitation has risen significantly. Driven by the WTO *Agreement on Trade Facilitation* and other multilateral rules, many countries have continued to raise their trade facilitation levels and voluntarily improved their business-doing environment. For example, the Eurasian Economic Union pushed forward the establishment of a single window system to improve customs clearance efficiency. From 2016 to 2020, the compliance time for Russia's export documents was reduced from 72 hours to 66 hours, and its compliance time for import documents was reduced from 96 hours to 72 hours. In Kazakhstan, the border compliance time of export dropped from 133 hours to 105 hours. Former WTO Director-General Roberto Azevedo once pointed out that the implementation of trade facilitation measures by countries can increase global trade by more than $1 trillion each year.

2. Service trade

Market entry thresholds continue to decline. Accordign to the *General Agreement on Trade in Services* (GATS), all members have committed to opening up their services industry, and the level of openness of the developed economies is generally higher than that of the developing economies. Since the start of the 21st century, GATS negotiations have suffered setbacks, but through participating in bilateral and regional trade negotiations, countries have made more preferential commitments in the services industry and further lowered market entry barriers. For example, in the *Korea-US Free Trade Agreement* (KORUS), South Korea expands its market access commitments to almost all service sectors and allows cross-border services and commercial presence in the form of e-commerce. Canada opened up new maritime transportation market and dredging services to the EU after the EU-Canada *Comprehensive Economic and Trade Cooperation Agreement* (CETA) became effective. Another example is RCEP, under which the 15 RCEP members have all made opening-up commitments in the services industry that are more preferential than their commitments made in the ASEAN 10+1 Free Trade Agreement. Except for the three least developed countries of Laos, Cambodia and Myanmar, other signatory parties have all pledged to increase the number of service sectors to be opened up to more than 100 (out of 160 service sectors, according to WTO categorization).

Service liberalization continues to improve. In terms of trend of service trade liberalization, the *International Trade in Services Agreement* (TiSA) negotiations, which became effective in 2013, cover all areas of the services industry, including emerging services industries, such as e-commerce and information services, and conform to the development trend of global information technology and digital trade. Although they have not yet made substantial headway, they represent the direction of further expansion of service trade liberalization. In terms of practices of service trade liberalization, some countries have gradually relaxed areas that were once strictly restricted. In terms of foreign shareholding restrictions, India opened its retail industry in 2012, allowing foreign retailers to hold up to 51% of the shares of joint ventures; in 2016, foreign shareholding restrictions for civil aviation companies and broadcast and cable media were lifted. Regarding the movement of natural persons, Germany simplified the evaluation and certification procedures of foreign vocational certificates in 2012, lowering the threshold for high-quality talents to enter Germany. Later, it launched the MobilPro-EU program to facilitate flow of professionals from within and outside the EU.

The negative list model has gradually become the mainstream practice. Under the GATS framework, countries adopt a positive list approach and make commitments on market access and national treatment for the four service provision methods. TiSA requires adoption of a mixed list model, that is, a positive list for market access and a negative list for national treatment, which improves the flexibility of GATS commitments. In recent years, under the framework of FTAs led by developed countries, such as the *Comprehensive and Progressive Trans-Pacific Partnership Agreement* (CPTTP), the EU-Japan *Economic Partnership Agreement* (EPA), the *United States-Mexico-Canada Agreement* (USMCA), among others, a negative list model has been adopted; restrictions on service providers shall not be imposed outside of the sectors included in the negative list. At the same time, some agreements have also included a "ratchet provision" to lock in the service trade liberalization commitments made by the contracting parties so that they would not go back on their commitments; in this way, it promotes the continuous expansion of openness in the services industry. The eight members of the RCEP that have made promises on the positive list also include negative list elements, such as the ratchet plus most-favoured-nation treatment or transparency lists, to achieve a relatively high level of service trade liberalization based on the negative list model within six years after the agreement entered into force.

II. Opening-up Practices in International Investment

After the end of the Cold War, peace and development have become the main theme of the times; more and more multinationals have stepped out of national boundaries and developing countries have expanded entry of foreign capital, leading to the rapid growth of international investment. Countries have continued to relax restrictions on foreign investment, included more investment liberalization and facilitation provisions in regional bilateral agreements, and continued to explore multilateral investment rules to achieve substantial progress in the opening-up of international investment.

1. Significant relaxation of foreign investment restrictions

The developing countries have been bold in lauching reforms. In general, the developed countries have a better foundation for investment liberalization, while the developing countries have made greater progress. According to the latest FDI

Regulatory Restrictiveness Index released by the OECD in 2020, from 1997 to 2019, Vietnam, Korea, China, India, and Malaysia were the top five economies in terms of promotion of investment liberalization reforms, with their restrictiveness index declining by 0.54, 0.4, 0.38, 0.27, and 0.27, respectively. They were followed by such countries Turkey, Indonesia, the Philippines, Finland and Hungary, most of which are developing countries (see Figure 6-2).

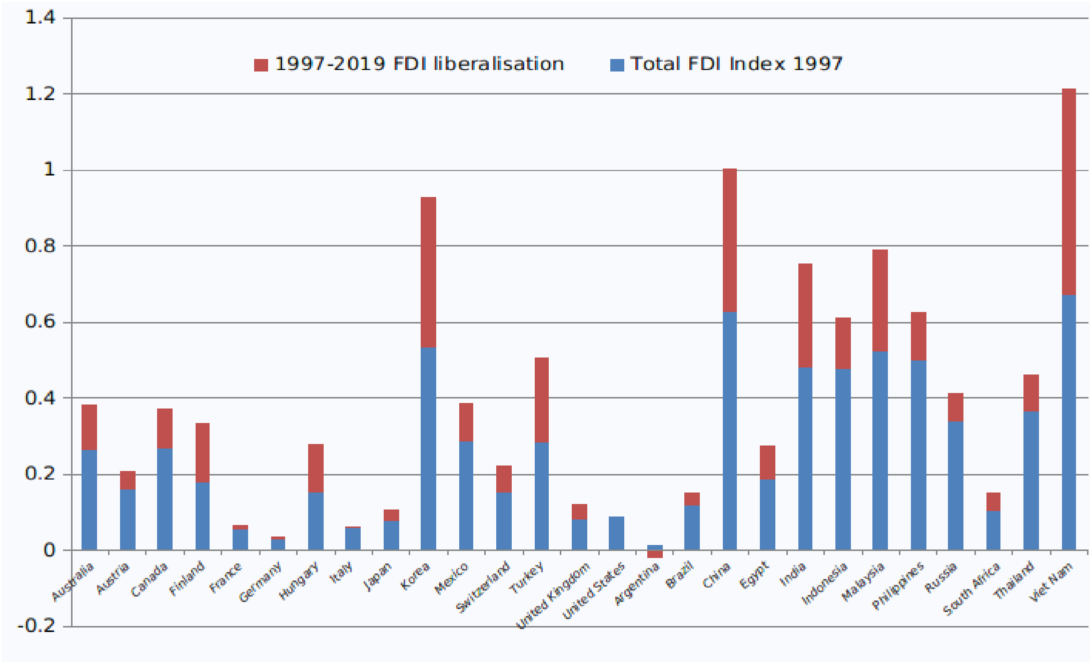

Figure 6-2 Economies with the Greatest Achievements in Investment Liberalization Reform
Source: OECD.

Some key industries made breakthroughs in opening-up. After tough negotiations, some sensitive industries that some countries have been protecting for a long time, such as finance, health care, telecommunications, and media, have been gradually opened up to foreign investment. For example, Brazil fully opened the medical and health industry in 2015, allowing foreign ownership to reach 100%. Ethiopia allows foreign capital to enter some transport services in 2021. Even in the most difficult financial field, some major economies have also abolished the restriction on the proportion of foreign shareholding, leading to equal treatment for domestic and foreign capital.

Table 6-1 Regulations on Foreign Shareholding Ratio in Financial Industries of Some Major Economies

	Country (2-alpha code)									
	AR	**AU**	**BE**	**BR**	**CA**	**CL**	**CN**	**FR**	**DE**	**IN**
Banking										
No restrictions on proportion of domestic or foreign shareholding	●		●	●		●	●	●	●	
Restrictions on shareholding ratio; domestic and foreign investment equally applicable					●					
Special regulatory procedures required if domestic or foreign shareholding exceeds a certain proportion		●								
Restrictions only on proportion of foreign shareholding										●
Restrictions on proportion of foreign capital in banking system										
Insurance										
No restrictions on proportion of domestic or foreign shareholding	●	●	●	●		●	●	●	●	
Restrictions on shareholding ratio; domestic and foreign investment equally applicable					●					
Special regulatory procedures required if domestic or foreign shareholding exceeds a certain proportion										
Restrictions only on proportion of foreign shareholding										●
Restrictions on proportion of foreign capital in insurance system										
Securities										
No restrictions on proportion of domestic or foreign shareholding	●	●	●	●	●	●	●	●	●	
Restrictions on shareholding ratio; domestic and foreign investment equally applicable										●
	IT	JP	KR	RU	SA	SG	ZA	CH	GB	US
Banking										
No restrictions on proportion of domestic or foreign shareholding		●			●		●	●	●	
Restrictions on shareholding ratio; domestic and foreign investment equally applicable	●									
Special regulatory procedures required if domestic or foreign shareholding exceeds a certain proportion			●			●				●
Restrictions only on proportion of foreign shareholding										
Restrictions on proportion of foreign capital in banking system				●						

(Continued)

	Country (2-alpha code)									
	AR	AU	BE	BR	CA	CL	CN	FR	DE	IN
Insurance										
No restrictions on proportion of domestic or foreign shareholding	•	•	•		•		•	•	•	•
Restrictions on shareholding ratio; domestic and foreign investment equally applicable						•				
Special regulatory procedures required if domestic or foreign shareholding exceeds a certain proportion										
Restrictions only on proportion of foreign shareholding										
Restrictions on proportion of foreign capital in insurance system				•						
Securities										
No restrictions on proportion of domestic or foreign shareholding	•	•	•		•	•	•	•	•	•
Restrictions on shareholding ratio; domestic and foreign investment equally applicable				•						

Note: The corresponce of countries' 2-alpha codes with its name are as follows: AR - Argentina, AU - Australia, BE - Belgium, BR - Brazil, CA - Canada, CL - Chile , CN - China, FR - France, DE - Germany, IN - India, IT - Italy, JP - Japan, KR - Republic of Korea, RU - Russia , SA - Saudi Arabia, SG - Singapore , ZA - South Africa, CH - Switzerland, GB - United Kingdom, US - United States.

Source: Compilation based on public information of central banks.

2. Significant strengthening of investment promotion

Tax incentives are used to attract investment. To bring out the role of investment in driving economic growth, all countries have adopted preferential tax policies to attract investment, including tax relief, preferential tax rates, accelerated depreciation, and tax credits. In 2017, the United States implemented the largest tax cut bill in 30 years, and the federal corporate income tax rate was reduced from 35% to 21%. India initiated a nationwide reform of the goods and services tax system to eliminate tax rate gaps among different regions and achieve free flow of goods and services.

Competing in establishing special economic zones. Both developing and developed countries regard Special Economic Zones (SEZs) as an important platform to improve their competitiveness in attracting capital inflow, implement fiscal and regulatory incentives in the region, provide infrastructure support, and promote industry investment. Special economic zones have sprung up "like bamboo shoots after a rain". By the end of 2018, 147 economies had established 5,400 special economic zones, an increase of 54% over 2008 (see Figure 6-3).

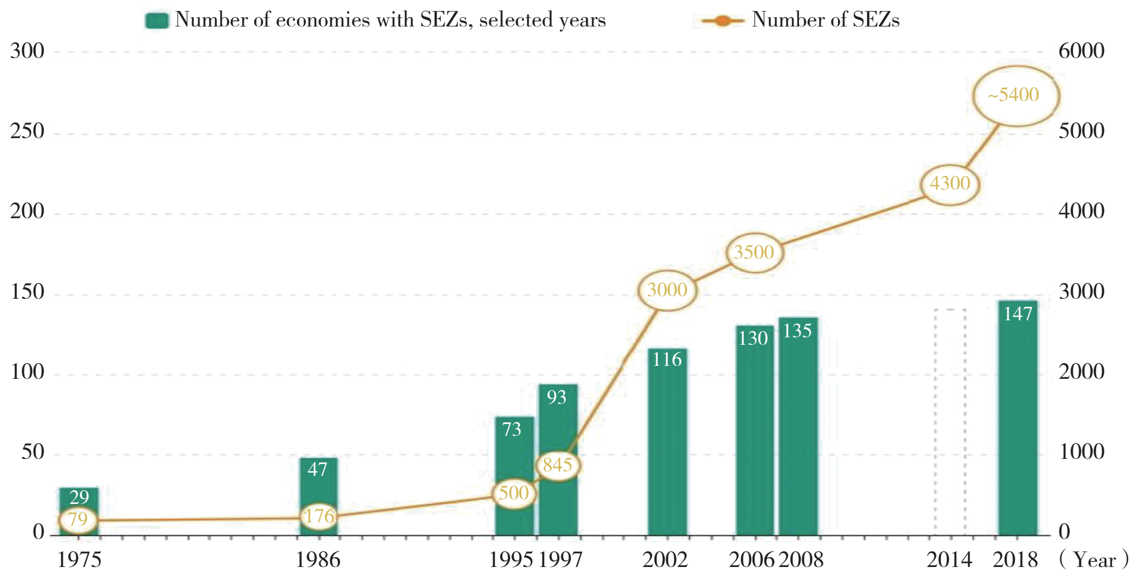

Figure 6-3 Development of Special Economic Zones

Source: United Nations Conference on Trade and Development.

3. *Pre-establishment national treatment + negative list* model widely accepted

For a long time, due to security and regulatory considerations, most countries have adopted a positive list model in managing entry of foreign investment, and foreign investment can only enter areas within the scope of the list. Led and pushed by developed countries, the more open *pre-establishment national treatment + negative list* model has become the central part of the new-generation international investment rules. The United States has signed BITs based on the *pre-establishment national treatment + negative list* model with more than 40 countries and regions, and the FTAs that it has signed with other countries and regions often include negative list arrangement. The EU has gradually shifted from a positive list to a negative list system, and the China-EU Comprehensive Investment Agreement is based on the negative list system. More and more developing countries are also adopting this model. Latest data shows that at least 77 countries, including more than 60 developing countries, have adopted the *pre-establishment national treatment + negative list* model in pacts they have signed with other countries. In 2020, the *Regional Comprehensive Economic Partnership Agreement* (RCEP), agreed by the ten ASEAN countries plus China, Japan, South Korea, Australia, and New Zealand, adopted the negative list system to promote investment liberalization, which significantly improved the transparency of investment policies.

III. Achievements of Trade and Investment Opening-up Cooperation

Over the past few decades, countries have actively participated in and promoted opening-up cooperation in trade and investment. The rapid development of international trade and investment has led to the steady growth of the world economy and also contributed to world peace.

1. Leapfrog development of international trade

Expanding scale of trade in goods. From 1990 to 2019, the total international trade in goods increased from $7.1 trillion to $38.1 trillion, an increase of 4.4 times, with an average annual growth rate of 9.8%, and its ration to global GDP increased from 31.3% to 44%. Due to the impact of the novel coronavirus pandemic in 2020, the World Trade Organization predicted that the total international trade in goods would fall by 9.2%. With the development of science and technology worldwide and the rising level of industrialization, the share of trade in manufactured goods had risen, while that of trade in agricultural and primary products had declined. Before the World War II, the share of trade in manufactured goods in international trade in goods was only about 40%. In 1953, it exceeded 50%. In 1995, it reached the peak of 80%, and it is currently kept at about 70%.

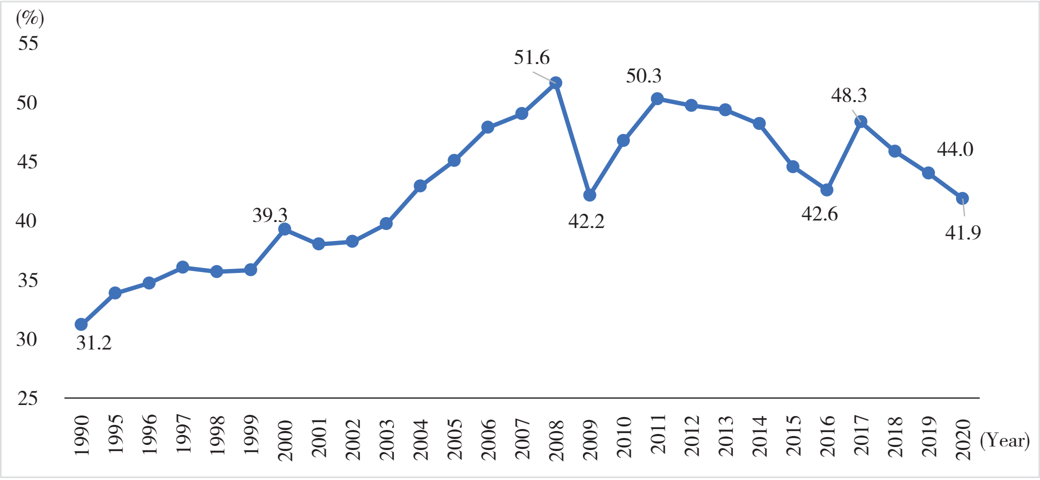

Figure 6-4 Global Trade in Goods to GDP Ratio

Source: WTO.

Rapid growth of service trade. From 1990 to 2019, the total international trade in services increased from \$1.6 trillion to \$11.8 trillion, an increase of 6.4 times, with an average annual growth rate of 11.7%, and its share in international trade rose from 18.5% to 23.6%. In terms of components of trade in services, emerging service trade and technical service trade have developed rapidly. Construction, insurance and pension, finance, information technology services, intellectual property rights, culture, entertainment, and business service, and other commercial services trade has become dominant, accounting for 53.2% of the total international service trade in 2019, up from 37.2% in 1990.

Entrenched trend of *rising South and falling North*. From the end of World War Ⅱ to the 1990s, the international trade had been dominated by the developed countries, or the North. The share of the developed countries' international merchandise export had been on the rise since the 1950s, reaching an all-time high of 72% in 1999. From 2000 to 2019, the share had fallen year by year to hit 54%, while that of the developing countries, or the South, had climbed from 30% to 46%. The overall trade landscape features a trend of "rising South and falling North". While the share of the developing countries' international merchandise export rose by 18 percentages, that of the developed countries had dropped by 18 percentages, with their balance shifting from 28:72 to 46:54. China joined the WTO in 2001 and its global share in export of goods

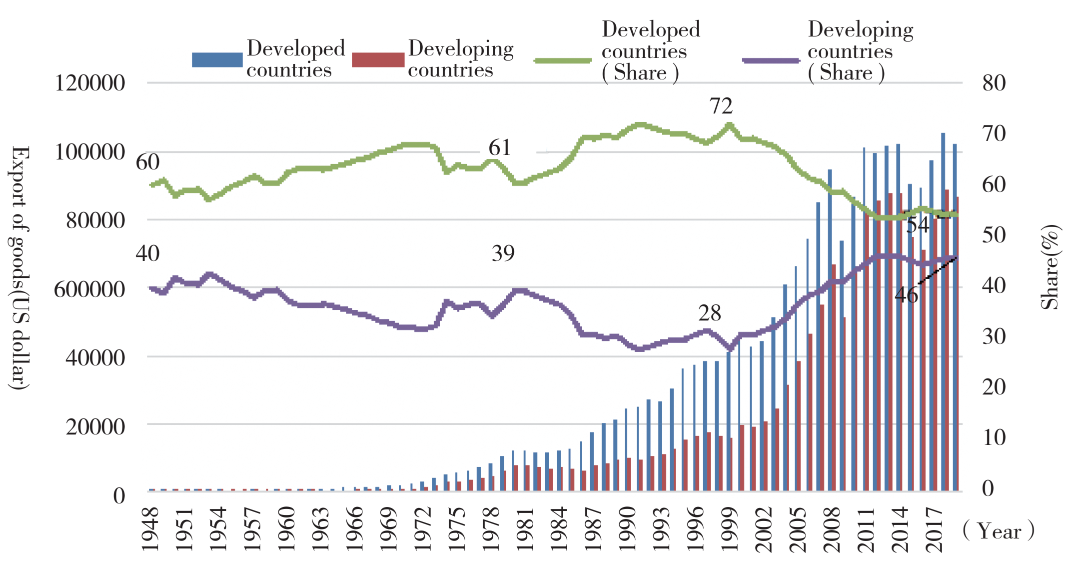

Figure 6-5 Value of Export of Goods and Share Changes of the Developed and Developing Countries and Changes

Source: WTO.

had increased rapidly from less than 4% in 2000 to 13.2% in 2019.

Significant innovations in trading methods. First, it is the rapid development of intra-product trade. In the international industrial chain, the developing countries generally engage in the midstream links, such as product processing and assembly, while the developed countries focus on upstream and downstream links, such as product research and development, design, and sales. Currently, trade in intermediate goods has accounted for two-thirds of the total international trade. Second, trade within multinationals has become increasingly important. In the 1970s, the internal trade of multinationals only accounted for 20% of total international trade. It rose to 40% in the 1980s and 1990s, and now it is about 80%. Last but not least, it is the sudden rise of e-commerce. E-commerce has made it easier for carrying out international trade. It has also helped reduce the cost of international trade development. Statistics from the United Nations Conference on Trade and Development show that the scale of global e-commerce had increased from $1 trillion in 2012 to $25.6 trillion from 2018.

2. Growth of international direct investment amid fluctuations

Investment scale gradually expanding. After the end of the Cold War, international direct investment activities had increased remarkably. From 1990 to 2007, the total global FDI flows increased from $204.9 billion to $1.89 trillion, with an average annual growth rate of 8%. In the wake of the outbreak of the financial crisis in 2008, the momentum of global FDI growth had weakened in volatility. In 2015, it surged to $2.03 trillion. From 2016 to 2018, global FDI flows decreased year by year, down by 5.7%, 22% and 5.8%, respectively. In 2019, it rebounded to $1.54 trillion. Due to the impact of the novel coronavirus pandemic, global FDI flows slumped by 34.7% to $998.9 billion in 2020.

More balanced geographical distribution. In terms of global FDI outflows, the proportion of the developed economies after World War II dropped from over 90% to about 70% at present. In terms of inflows, the developing countries attracted more foreign investment than the developed countries in 2012. In 2018, the developing countries accounted for a record 54% of global FDI inflows. The developing countries in Asia and Latin America and the Caribbean (LAC) have become hotspots in terms of foreign investment inflows, accounting for 41% and 11% of global FDI inflows,

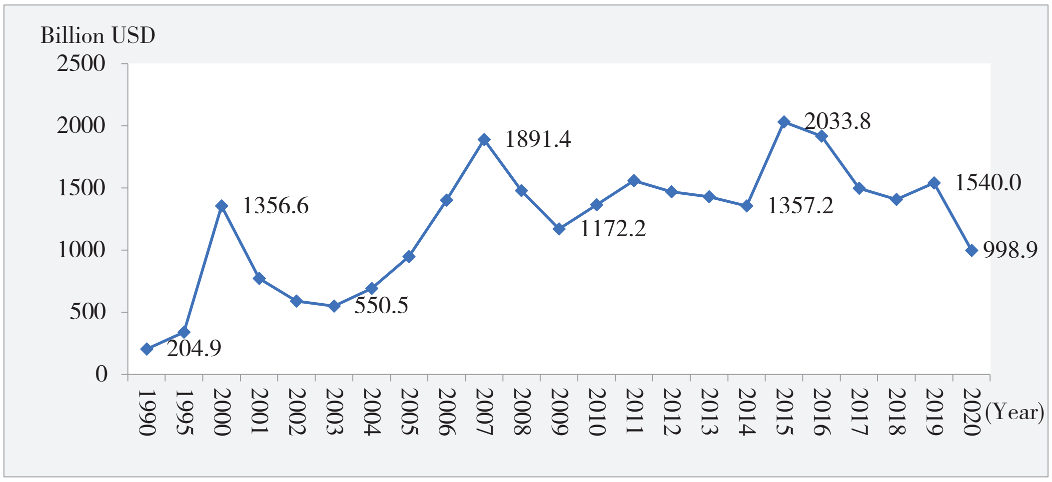

Figure 6-6 Global FDI Flows

Source: UNCTAD.

respectively, in 2018. In 2020, FDI flows to East Asia increased by 21% to $292 billion, while that to China was $149.3 billion, contributing 15 percent to the world total.

Adjustments of international direct investment structure. International direct investment has shifted mainly from mining and manufacturing industries to technology-intensive and service industries. After World War Ⅱ until the 1980s, direct investment among the developed countries mainly flowed into manufacturing. Since the 1980s, direct investment in the services industry had gradually increased. The share of FDI stock in the services industry increased from about 25% in the early 1970s to more than 60% at present. The FDI stock in the primary sectors is only about 6% and manufacturing accounts for about 26%.

Prominent role of multinational companies. Statistics from UNCTAD show that the number of multinationals increased from 80,000 before the 2008 global financial crisis to about 100,000 after the crisis, and the value added they created increased from $5.2 trillion to $7.5 trillion, and its share in global GDP increased to more than 10%. In 2019, the world's top 100 multinationals accounted for 58% of the total overseas assets of all multinationals; the proportion was 60 percent in terms of overseas sales, and 51% in terms of the number of overseas employees. It is estimated that the top 100 multinationals currently hold about $5 trillion in cash and are capable of providing $0.5 trillion in investment, accounting for about one-third of global FDI flows.

3. Pushing forward economic globalization

As the number of countries participating in international trade and investment increases, the world economy continues to grow steadily and in a balanced manner. In most of the years since World War Ⅱ,the growth rate of international trade has been about 3 percentages faster than that of the world economy. Since 1990, the growth rate of international trade has been about twice that of the world economy. The world Gini coefficient has steadily declined from a high of 0.787 in 2000 to hit 0.694 in 2013. The number of developing countries with high Gini coefficient has decreased. According to the World Bank's World Development Report, the Gini coefficient exceeded 0.6 in 4 countries in 2009, but now there is only one country with the coefficient higher than 0.6. In addition, international trade and investment have extended the global industrial, value, and supply chains. As a result, personnel exchanges have increased, so have exchanges among different civilizations; and economic and trade exchanges have become the ballast of inter-national relations. In short, the development of international trade and investment has led to the interdependence of different countries and the deepening of interactions among different interests; promotion of economic globalization contributes to world peace and stability.

IV. New Progress in Promoting Trade and Investment Opening-up under the New Situation

At present, the openness cooperation in global trade and investment have entered a new stage. More and more countries are benefiting from openness cooperation. A higher level of openness has become the common pursuit of all countries. With the continuous emergence of new technologies and products, demand for openness cooperation in new areas has also been increasing.

1. Digital trade and new issues on e-commerce attracting attention

With the application of big data, cloud computing, internet of things, blockchain, and artificial intelligence, digital economy and digital trade have become a new growth point. The establishment of a global digital trade service supervision and openness rule system has become a common demand from almost all countries as they pursue openness cooperation in new areas. In 2019, 76 WTO members launched trade-related e-commerce negotiations. In regional bilateral negotiations, digital trade and e-commerce have also become hot topics. However, the participating countries have been quite divided in interest distribution, and, therefore, progress in relevant negotiations has been limited. For example, there is no consensus among countries regarding the definition of digital trade. Another controversy is how to balance privacy protection and free flow of data. The United States stresses that personal privacy protection should give way to data flow, while the European Union attaches more importance to personal privacy protection. Then how to deal with cultural exceptions? The European Union and some developing countries require exceptions regarding digital trade rules, while cultural industry powers, such as the United States, disagree.

2. New rules cover more economic and social issues

The scope of areas that international trade and investment rules involve has continually expanded in recent years. Some new issues, such as environmental protection, have attracted increasing attention and become a focus of multilateral and bilateral economic and trade negotiations. For example, in the face of severe climate change, there has been very heated discussion on restricting carbon emission. The EU promoted the legislation of Carbon Border Adjustment Mechanism, and China announced that it would strive to achieve carbon peak in 2030 and carbon neutralization in 2060. The issue of carbon emission is closely related to a country's energy structure and economic growth patterns and involves the transformation of the country's national economic restructuring and future development space. Therefore, reactions of various countries have been mixed. Economic globalization has brought about job competition among different economies. In general, these new *non-economic and trade* issues, to an extent, reflect the new requirements brought about by the development of human society and scientific and technological progress. They have a different bearing on economies at different development stages. It is also necessary for all countries to cooperate and push forward a set of new rules that are relatively fair and equitable and cater to different levels of development.