CHAPTER 3

Status Quo and Prospect of Global Openness Policies

In recent years, there has been a decreasing trend in World Openness Policy Index. Profound adjustments occurred in the international trade and investment landscape, accompanied by an increasing number of unstable and uncertain factors. Trade openness policies now center around issues such as economic resilience, digitalization, and climate change, with related restrictive measures becoming more covert and diverse. Investment openness policies, on the other hand, focus on the tightening of national security review systems in developed countries, adjustments to investment agreements, and global tax reforms. To promote global openness, policy formulation should be more focused on cooperation, inclusiveness, and flexibility.

1. The World Openness Policy Index Has Experienced a Significant Decline

Based on the sub-indicators of the World Openness Index, it can be observed that from 2008 to 2022, there has been an overall downward trend in the World Openness Policy Index (as shown in Fig. 3.1). Moreover, the magnitude of this decline is significantly greater than that of the World Openness Performance Index. The primary reason for the divergence in the trends between these two indexes is that the positive factors driving global openness have notably offset the resistance brought about by the tightening of openness policies. This is particularly evident in the increased ease of movement of goods, services, personnel, and information, which has been greatly enhanced by the rapid development of Information and Communication Technology (ICT) and the specialization within the GVCs. Looking forward, in the long term, the negative impact of the tightening of the World Openness Index may further intensify, exerting downward pressure on the Global Openness Performance Index.

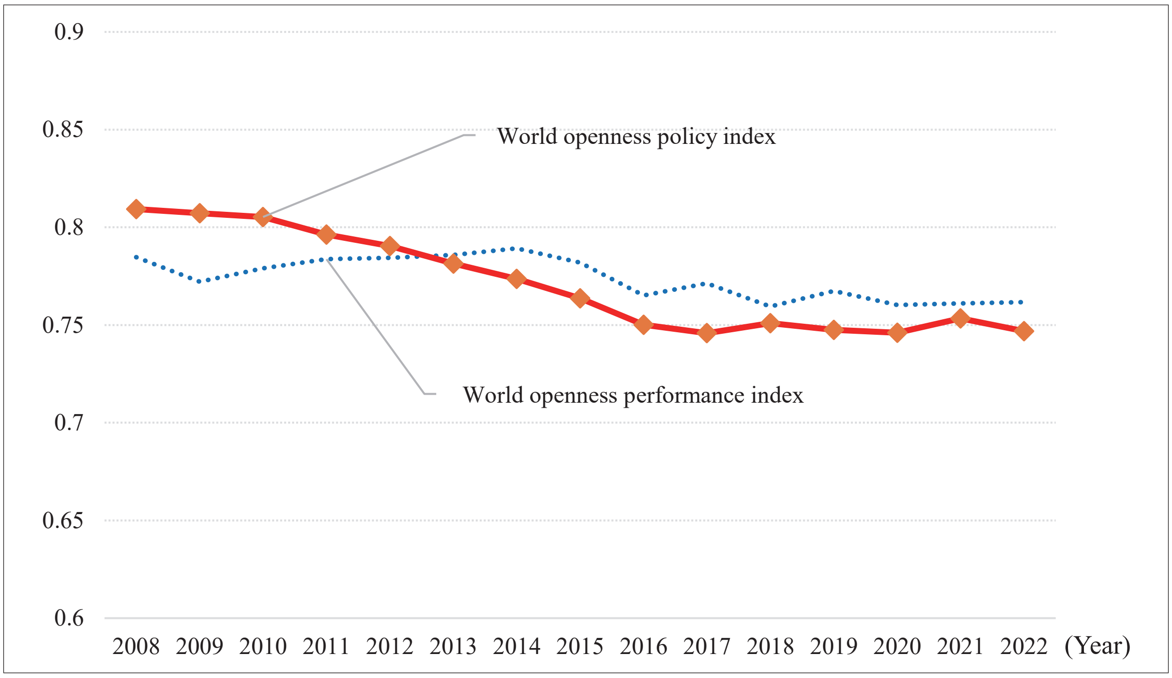

Fig. 3.1 World openness policy index and world openness performance index: 2008–2022

Source: Calculated based on the World Openness Index.

From the perspective of changes in the ranking of individual economies' Openness Policy Index from 2008 to 2022, the largest declines were observed in economies such as the US, Jamaica, and Egypt. The economies with the largest increases in rankings included Rep. of Korea, Cape Verde, and Iceland. European countries generally saw improvements in their rankings. The US was a major factor in the decline of the World Openness Policy Index, mainly due to recent trade tensions that raised tariff levels and increased non-tariff barriers.

Table 3.1 Economies with the largest declines and increases in openness policy index rankings, 2008–2022

Top 10 economies with largest declines in openness policy index rankings		**Top 10 economies with largest increases in openness policy index rankings**	
Ranking		**Ranking**	
1	US	1	Korea, Rep. of
2	Jamaica	2	Cabo Verde
3	Egypt	3	Iceland
4	Brazil	4	Zimbabwe

(Continued)

Top 10 economies with largest declines in openness policy index rankings		Top 10 economies with largest increases in openness policy index rankings	
Ranking		**Ranking**	
5	Bosnia and Herzegovina	5	Australia
6	Chile	6	Costa Rica
7	Japan	7	Sudan
8	Israel	8	Georgia
9	Norway	9	Lithuania
10	Sri Lanka	10	Colombia

Source: Calculated based on the World Openness Policy Index.

Looking at the sub-indicators of tariffs and non-tariff measures,[1] it is evident that global weighted mean tariff rates have remained relatively stable in recent years, hovering around the 6 percent to 7 percent range. There was a significant increase from 6.2 percent to 7.4 percent between 2018 and 2019. Since 2020, these rates have moderated to around 5.8 percent. Over the period from 2008 to 2022, global non-tariff measures have increased by 17.9 times, with a notably accelerated growth rate, particularly since 2020 (see Fig. 3.2).

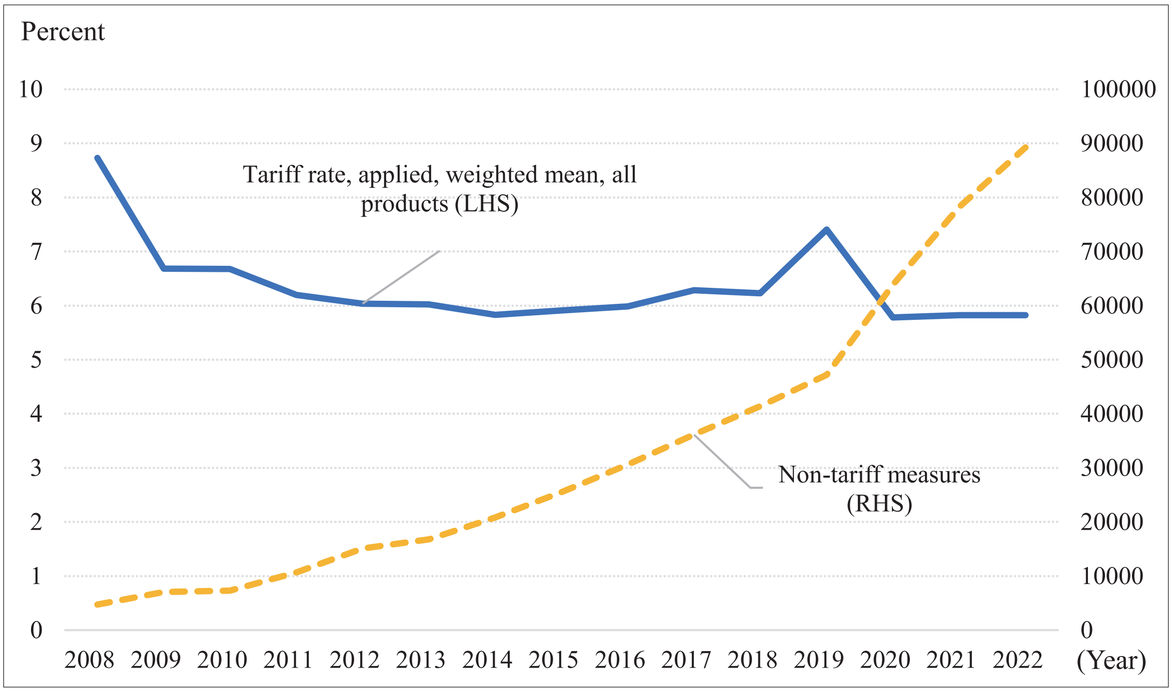

Fig. 3.2 Tariffs and non-tariff measures: 2008–2022

Source: Sub-indicators of the World Openness Index.

Box 3.1 US trade frictions and their implications

In the realm of trade openness policies, one of the most remarkable events in recent years has been the US initiating trade frictions with its major trading partners. These frictions include imposing tariffs of 30 percent on solar panels and 20 percent on washing machines, as well as tariffs of 25 percent on steel and 10 percent on aluminum. Additionally, significant tariffs have been imposed on China.

In January 2018, based on investigations conducted by the US International Trade Commission (USITC) and in accordance with Section 201 of the Trade Act of 1974, the US approved safeguard measures in the form of tariffs on imported solar panels and large residential washing machines. Under Section 201, the US has the authority to impose tariffs to alleviate import pressures in response to severe harm caused to the domestic industry due to a surge in imports. Pursuant to these safeguard measures, the US imposed a 30 percent tariff on solar panels and a 20 percent tariff on washing machines.

In March 2018, based on the results of the "232 investigation," the US initiated tariffs of 25 percent on steel and 10 percent on aluminum. This measure invoked Section 232 of the 1962 Trade Expansion Act, which allows for the imposition of import tariffs on goods deemed to pose a threat to US national security. When the measure was initially implemented, some countries were granted exemptions, but it was later expanded to include economies such as Canada, Mexico, and the EU.

In July 2018, the US, citing the Trade Act of 1988 and based on the results of the "301 investigation," imposed a 25 percent tariff on $340 billion worth of goods imported from China. In response, China also imposed a 25 percent tariff on US$340 billion worth of products imported from the US. In August, the US continued by imposing a 25 percent tariff on US$160 billion worth of goods imported from China, and China reciprocated by imposing a 25 percent tariff on US$160 billion worth of products imported from the US. In September, the US further escalated the trade dispute by imposing a 10 percent tariff on US$200 billion worth of products imported from China, with plans to increase it to 25 percent in 2019. In retaliation, China imposed tariffs ranging from 5 percent to 10 percent on US$60 billion worth of US imports.

In June 2019, the US increased tariffs on US$200 billion worth of goods from 10 percent to 25 percent. In response, China raised tariffs on some items from the US$60 billion list. In September 2019, the US imposed a 15 percent tariff on US$101 billion worth of goods, and China added tariffs to certain products on the US$75 billion list. In December 2019, the US and China announced an impending agreement, leading the US to cancel the 15 percent tariffs on US$151 billion worth of goods imported from China, and China also suspended its planned retaliatory measures. In January 2020, the US and China signed their phase-one economic and trade agreement, which came into effect on February 14, 2020. Both countries agreed to reduce by half the tariffs imposed on each other's goods in the previous round, starting from September 1, 2019.

China and the US are crucial trading partners to each other. The substantial amount of trade affected by the US' tariff imposition has resulted in a significant increase in the weighted average tariff rates for both countries. As of early 2020, the US' tariff rates on Chinese goods had risen sharply from 3.1 percent at the beginning of 2018 to 19.3 percent. China, in response, raised its tariff rates on US goods from 8 percent to 21.2 percent. Among the products China exports to the US, 66.4 percent were affected by these tariffs, while 58.3 percent of US exports to China were similarly impacted.

The negative effects of the US' tariff imposition became evident in 2019. During that year, China's exports to the US and imports from it declined by 12.5 percent and 20.9 percent year-on-year respectively. However, starting from 2020, the demand from the US for Chinese goods saw a significant increase due to the impact of the COVID-19 pandemic. In 2020, China's imports from the US surpassed the 2018 levels, and in 2021, China's exports to the US also greatly exceeded 2018 levels. The US tariff actions have severely harmed Sino-US trade, with the majority of the tariff burden falling on US consumers, thus compromising their welfare. Additionally, the imposition of tariffs has disrupted GVCs, adversely affecting other countries deeply intertwined in trade relations with both countries.

From the perspective of sub-indicators related to trade and investment agreements, the two are significant bilateral and regional openness measures. This manifests itself most vividly in the substantial development of regional trade and investment agreements in recent years, with increasing numbers of agreements and coverage of economies. Between 2008 and 2022, the Trade Agreement Index and Investment Agreement Index increased by 97.3 percent and 17.4 percent, respectively. Specifically, the Trade Agreement Index rose from 0.13 to 0.25, and the Investment Agreement Index increased from 0.47 to 0.55 (as shown in Fig. 3.3).

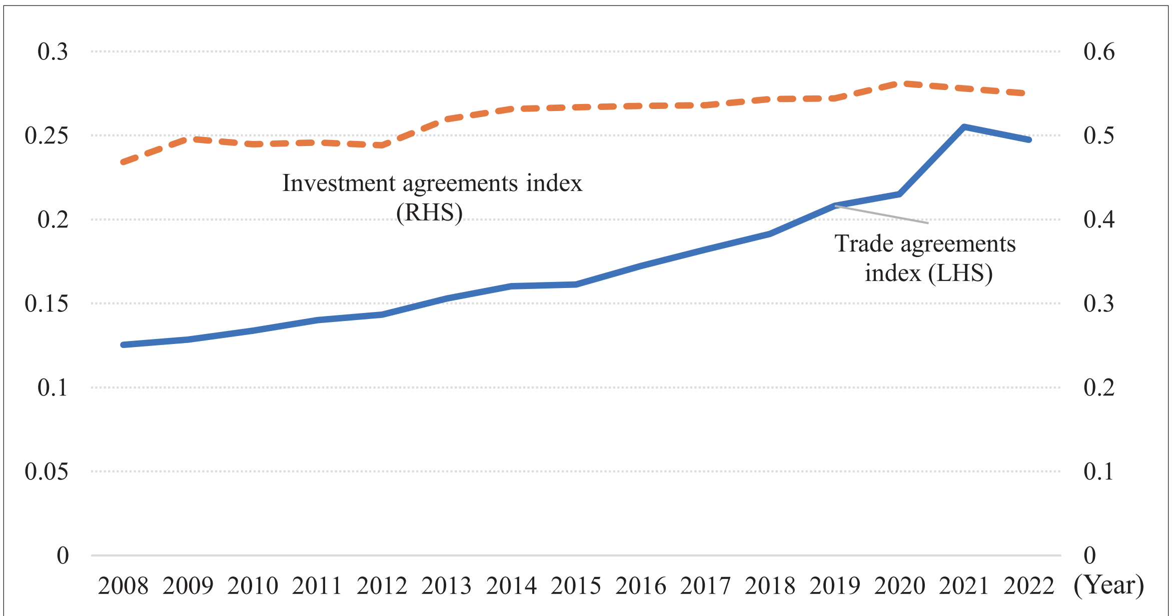

Fig. 3.3 Trade agreement index and investment agreement index: 2008–2022

Source: Sub-indicators of the World Openness Index.

Table 3.2 Recent representative trade agreements since 2018

Agreement	Date of signature	Members	Share in global GDP when signed, percent	Share in global trade when signed, percent
The Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP)	March 8, 2018	Japan, Canada, Australia, Chile, New Zealand, Singapore, Brunei, Malaysia, Vietnam, Mexico, and Peru	12.9	14.9
The EU and Japan's Economic Partnership Agreement (EPA)	July 17, 2018	Japan, EU	24.4	33.4
US-Mexico-Canada Agreement (USMCA)	November 30, 2018	US, Mexico, Canada	27.3	15.5
Regional Comprehensive Economic Partnership (RCEP)	November 15, 2020	ASEAN 10 countries, China, Japan, Rep. of Korea, Australia, and New Zealand	30.6	28.3

From the perspective of sub-indicators related to financial openness, the international financial crisis triggered by the 2008 "subprime mortgage crisis" in the US led to a worldwide slowdown in financial openness. To mitigate international risks, countries began to tighten their financial regulations, resulting in a steady decline in the Financial Openness Index from 2008 to 2013. After 2013, there was some recovery in financial openness levels, but the pace of improvement was slow. To this day, there remains a significant gap between the current level of financial openness and the pre-financial crisis period (as shown in Fig. 3.4).

From the perspective of sub-indicators for visa openness, between 2008 and 2019, the Visa Openness Index steadily improved, reflecting the convenience of people's mobility. However, in 2020, following the outbreak of the COVID-19 pandemic, many countries implemented control measures affecting cross-border movement. Consequently, the Visa Openness Index exhibited a tendency to plateau (as depicted in Fig. 3.4). The impact of these control measures on individual mobility varied. In 2020, the global number of emigrants increased by 2.7 percent, while the number of outbound students increased by 1.3 percent. In contrast, the number of outbound tourists decreased by a significant 63.0 percent. This indicates that the pandemic had a relatively substantial impact on short-term planning activities like tourism, while its effect on long-term planning activities such as immigration and studying abroad was limited.

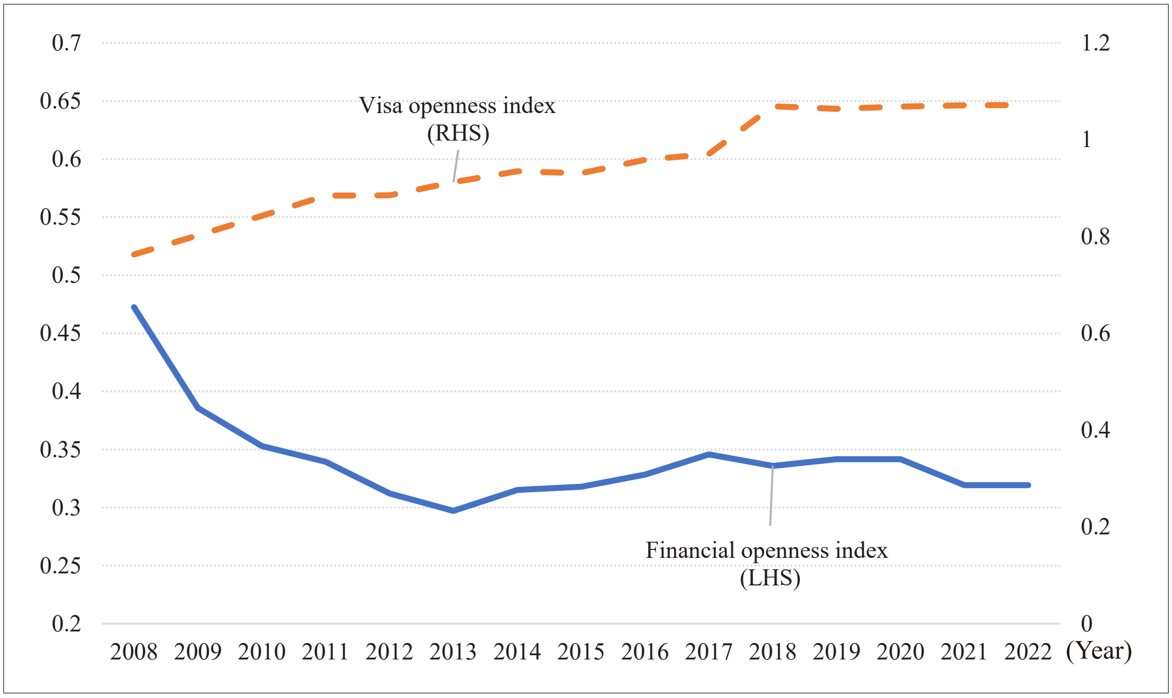

Fig. 3.4 Financial openness index and visa openness index, 2008–2022

Source: Sub-indicators of the World Openness Index.

Box 3.2 The impact of the pandemic on the global air passenger transport industry

Since the beginning of 2020, in an effort to control the pandemic, many countries have closed their borders and imposed restrictions on domestic travel, leading to a severe impact on the international aviation industry (See Fig. 3.5). By the end of March 2020, air transportation had virtually come to a standstill. In April, passenger numbers had declined by 92 percent compared to the previous year, with international travel seeing an average decline of 98 percent and domestic travel declining by an average of 87 percent. For the entirety of 2020, global domestic passenger volume dropped by 50 percent, while international passenger volume fell by 74 percent. Since the beginning of 2021, global air passenger traffic has gradually started to recover. According to data from the International Air Transport Association (IATA), international air passenger traffic has now rebounded to over 90 percent of 2019 levels since 2023.

Benefiting from effective pandemic control measures, the number of domestic flights in China has rapidly recovered. However, the count of international flights is still in need of acceleration. Since 2023, China has been committed to enhancing international air travel convenience, resulting in a steady increase in international flight volumes. According to data from the Civil Aviation Administration of China (CAAC), as of the end of June this year, there were 3,368 weekly international passenger flights to 62 countries, representing a recovery to 44 percent and 86 percent of pre-pandemic levels, respectively. It is anticipated that in the second half of the year, the international air passenger market will accelerate its recovery, with international flight volumes expected to reach 60–65 percent of pre-pandemic levels.

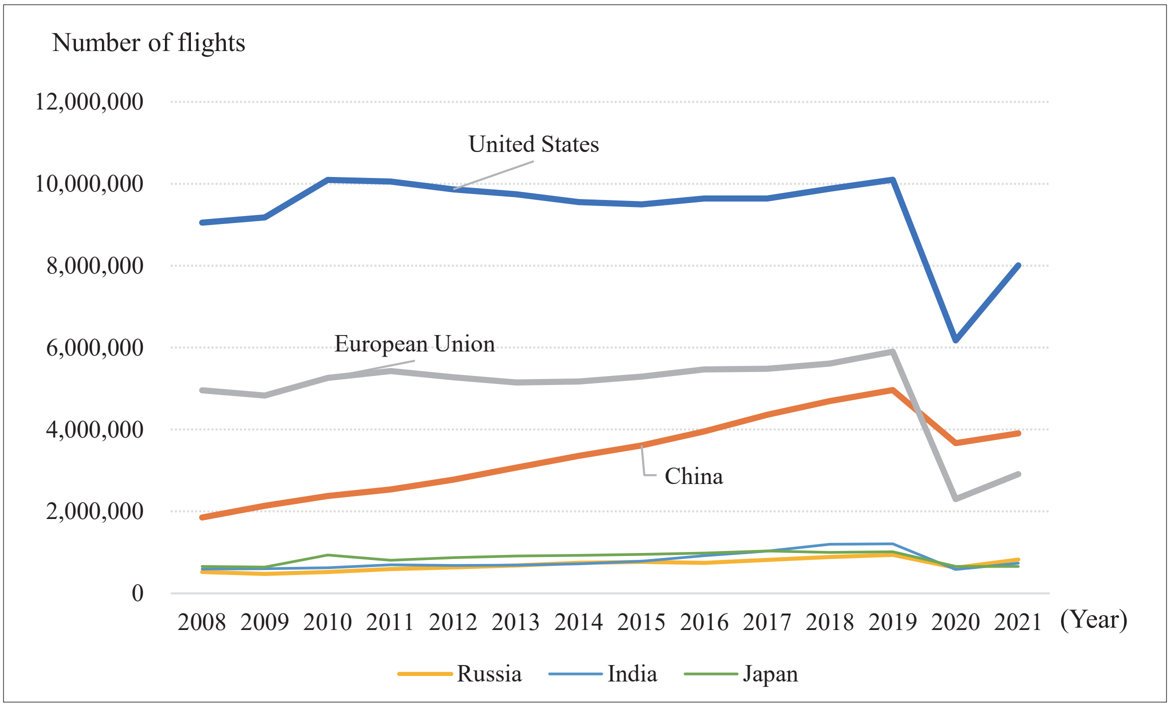

Fig. 3.5 Air passenger traffic for select economies: 2008–2021

Source: World Bank Database.

2. Five Key Factors Influencing the Direction of the World Openness Policy Index

(1) Increasing variability in openness policies due to unequal benefit distribution

Economic globalization is a "double-edged sword." When the world economy is in a downward period, the global economic "cake" is not easy to grow or even shrink, and the contradictions between growth and distribution, capital and labor, efficiency and fairness will become more prominent, which has led to a growing divide between proponents of openness and those against it, subsequently influencing the open-door policies of various governments. For instance, the expansion of populist political parties in Europe has led some European countries to adopt more conservative trade and investment policies. According to the Heckscher-Ohlin model, international trade can improve the overall welfare of all participating nations, but owners of scarce factors of production may suffer, and industries heavily reliant on these scarce factors may contract. According to the new trade theory, intra-industry trade can fully exploit economies of scale, benefiting all participating countries but also leading to the expansion of some industries and the elimination of certain businesses. These theoretical interpretations partially corroborate the trends observed in the World Openness Policy Index. When considering the impact of economic globalization on the world's openness policies, it is crucial to balance fairness and efficiency concerns. While implementing more proactive openness policies and advancing economic globalization, it is also necessary to take appropriate measures to mitigate and offset related adverse effects.

(2) The influence of north-south economic strength on the direction of opening-up policies

In recent years, changes in the World Openness Policy Index have been largely influenced by advanced economies. However, the influence of developing economies is continuously on the rise. Taking examples of the G7 and BRICS countries, while G7 countries still maintain an advantage in terms of GDP and international trade volume, there has been a trend of declining global shares for G7 and increasing global shares for the BRICS countries in recent years (See Fig. 3.6, Fig. 3.7). Examining the sub-indicators of the World Openness Policy Index, such as tariff and non-tariff measures, trade agreements, and investment agreements, individual advanced economies have selectively increased tariff levels and implemented various non-tariff measures, which have objectively tightened the Openness Policy Index. On the other hand, developing economies have actively reduced tariff levels through unilateral openness and signed more open and inclusive trade and investment agreements with other economies in their regions, to some extent mitigating the unfavorable trend of a tightening World Openness Policy Index.

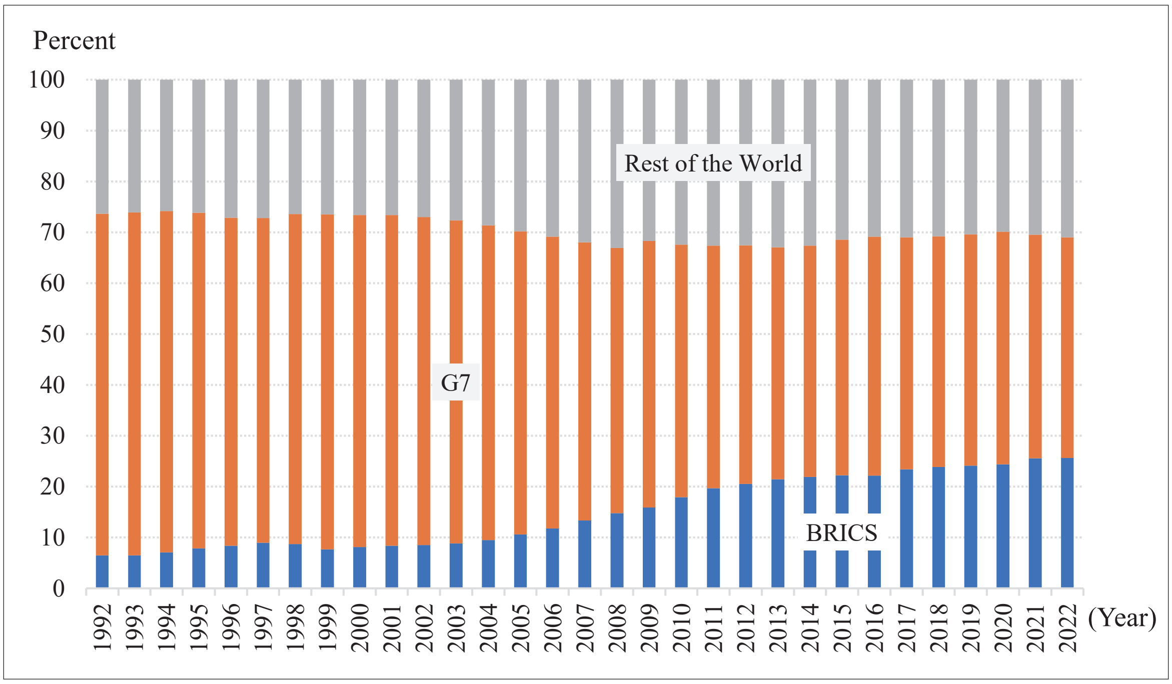

Fig. 3.6 Shares of G7 and BRICS in global GDP: 1992–2022

Source: Calculated based on the World Bank's World Development Indicators (WDI) database. "Rest of the World" refers to other economies within the sample of the World Openness Index.

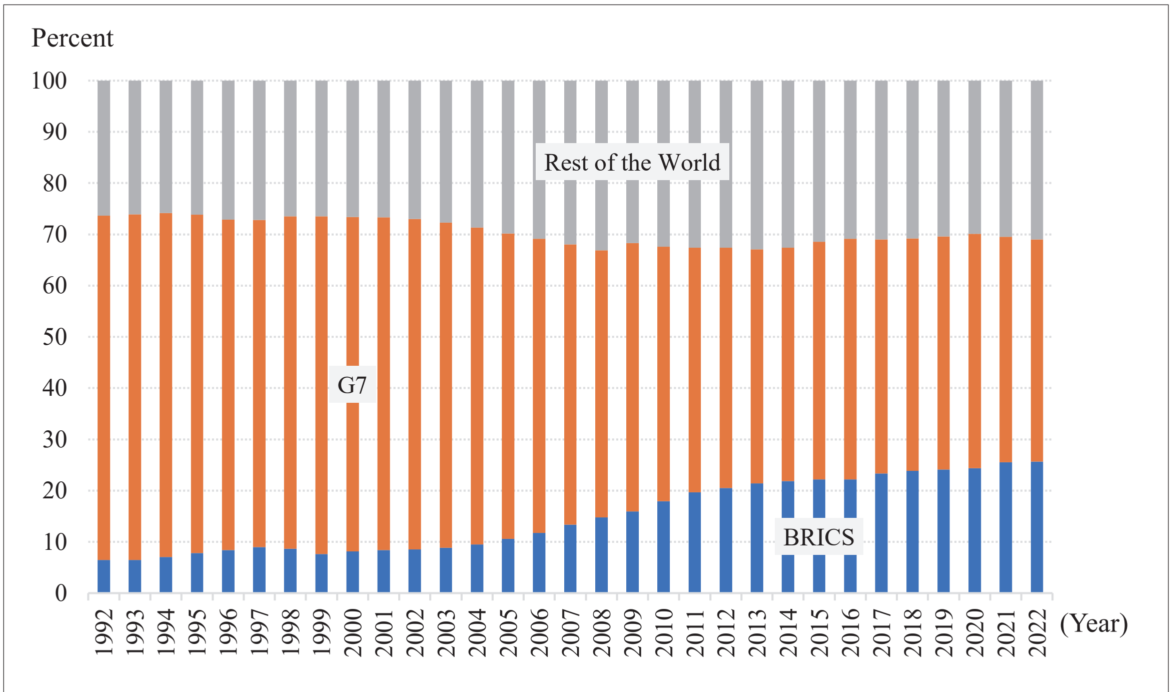

Fig. 3.7 Shares of G7 and BRICS in global trade: 1992–2022

Source: Based on calculations from the World Bank's World Development Indicators (WDI) database. The data for the year 2022 has not yet been officially released for some economies, so preliminary estimates are being used.

(3) Technological advancements enrich the essence of openness policies

The impact of technological advancement has permeated the entire process of formulating world openness policies. The new wave of technological development, represented by information technology, has further reduced barriers to the flow of goods, services, information, and other factors, significantly promoting openness policy performance. It has also driven changes and adjustments in openness policies. In recent years, many newly signed trade and investment agreements have focused on topics such as e-commerce, the digital economy, environmental sustainability, and financial services. The changes brought about by technological innovation are bound to provide more empirical support for the research and analysis of the World Openness Policy Index and its sub-indices, including trade and investment agreement indices, visa openness indices, and financial openness indices. This will become an essential component of observing, analyzing, and assessing world openness policy trends.

(4) Multilateral trade system continues to impact significantly on opening-up policies

For a long time, the multilateral trading system has been the primary channel for global trade liberalization and facilitation. China has consistently been committed to firmly upholding the multilateral trading system and has been deeply engaged in the reform negotiations of the WTO. China has proposed relevant position documents and proposal documents on WTO reform, participated in the establishment of the Multi party Interim Appeal Arbitration Arrangement, led the negotiation of Investment Facilitation Agreement, promoted the conclusion of the Fisheries Subsidy Agreement, and is actively strengthening international cooperation in digital economy. At the same time, the World Trade Organization still faces some issues, such as excessive emphasis on the principle of consensus, multiple interests and demands that slow down the progress of multilateral negotiations, and the paralysis of appellate bodies that make it difficult for dispute resolution mechanisms to constrain unilateral protectionist measures by some members, which bring certain downward pressure to the openness policy index, which requires to be given full attention.

(5) Short-term confluence of multiple factors impacting World Openness Policies

In recent years, the international economic situation has been complex and turbulent, with several "black swan" and "gray rhino" events occurring, which have had an impact on the openness policies of various countries. For instance, the bankruptcy of Silicon Valley Bank led to financial sector turmoil, and several countries, including India, implemented food export bans or export restriction measures. These short-term disruptions have objectively had adverse effects on world openness policies for their negative impact on global opening-up policies.

3. Advancing World Openness Policies Steadily

(1) Pressure for tightening global opening-up policies continues to exist

IMF projects that the global economic growth rate in 2023 will be only 3 percent, with advanced economies growing at 1.5 percent and emerging market and developing economies growing at 4.0 percent.[2] Meanwhile, the World Bank forecasts a global economic growth rate of only 2.1 percent in 2023, with advanced economies growing at 0.7 percent and emerging market and developing economies growing at 4.0 percent.[3] Against the backdrop of sustained weakness in the global economy, trade and investment openness are also facing significant downward pressure. According to the WTO, global trade growth continues to slow down in 2022 and 2023, and the overall trend of global openness remains unfavorable. The UNCTAD points out that international direct investment in 2023 will continue the downward trend observed since 2022. In recent years, countries have significantly increased foreign investment regulations and restrictive measures, and the trend of strengthening foreign direct investment scrutiny continues.[4]

(2) Advancing trade policy openness in key sectors

The first point is to commit to international cooperation aimed at enhancing trade resilience. According to the WTO, closing off does not increase economic resilience. Therefore, it is important to strengthen international cooperation, promote openness and connectivity, and collectively address global challenges.[5] Countries should take concrete measures to facilitate stable and efficient supply chains, improve cross-border trade facilitation, especially for the cross-border flow of critical medical supplies, food, and consumer goods. They should also maintain and leverage the foundational role of the multilateral trading system, enhance international negotiations and cooperation on key trade issues, and improve the resilience and security of global industrial and supply chains.

The second point is to effectively regulate and reduce restrictive trade measures. The decline in the World Openness Policy Index is primarily due to a significant increase in non-tariff measures. In response to this, it is necessary to address restrictive measures that go beyond reasonable limits in certain advanced economies. This can be achieved by promoting the role of dispute settlement mechanisms like the WTO, conducting effective trade policy reviews, assessing negative effects, enhancing transparency and standardization in trade restriction measures such as export controls, and curbing the trend of protectionism under various pretexts. These efforts aim to maintain a favorable trade environment.

The third point is to pay greater attention to new issues, such as digital and green topics. Currently, countries around the world are increasingly focusing on topics related to innovation, digital economy, smart manufacturing, and green, low-carbon development. Trade policies should strengthen communication and coordination in new areas such as cross-border e-commerce, services trade, and green standards for goods trade. This approach aims to reduce confrontation and containment, foster a healthy development environment, and collectively promote global digital trade development and trade's green transformation, thereby expanding the "cake" of digital and green trade.

(3) Promoting reasonable adjustment of investment policies

The first point is to appropriately utilize the investment security review system. According to UNCTAD statistics,[6] in 2022, 37 countries conducted reviews of foreign investments due to national security concerns, accounting for a total of 68 percent of global foreign direct investment stocks in 2022. To standardize investment security reviews, it is essential to define and safeguard "national security" accurately, enhance international communication and dialogue on security issues, adhere to prudent and necessary principles, avoid overgeneralizing "security" and politicizing economic issues, and prevent disruptions to the rational layout of multinational business operations.

Box 3.3 Investment security review systems in the US and the EU

The US' investment review agency is the Committee on Foreign Investment in the US (CFIUS). It conducts reviews of investments that involve national security risks in the US. CFIUS focuses on factors such as the background of foreign investment companies, the characteristics of the domestic entities being acquired, and the impact of the transaction on US national security. For many years, CFIUS exercised its review authority under the Foreign Investment and National Security Act of 2007. However, in 2018, the Foreign Investment Risk Review Modernization Act (FIRRMA) was officially passed, bringing about significant changes to the foreign investment security review system. The first key aspect of the Foreign Investment Risk Review Modernization Act (FIRRMA) is the expansion of jurisdiction. FIRRMA emphasizes that non-controlling investments in three critical areas—critical infrastructure, critical technology, and sensitive personal data—are now within CFIUS' purview. Even if such investments do not result in control over US companies, they are subject to CFIUS review if they could exert influence on US enterprises or gain access to non-public technical information. The second aspect involves targeted enhancements for specific countries, introducing the concept of "countries of special concern" and mandating regular reports to Congress and CFIUS by the US Department of Commerce regarding Chinese investments in the US. The third aspect underscores the importance of sharing and coordination with allied nations, requiring the establishment of mechanisms for information sharing and coordinated actions with US allies. This includes regular consultations with allied representatives and sharing critical information from ongoing reviews, strengthening cooperation in the investment security review process.

EU member countries each have their own security review systems, and these systems have been continuously strengthened in recent years. In 2017, the United Kingdom, Germany, and France revised their existing security review mechanisms. In 2019, the European Parliament for the first time adopted the Regulation on the Establishment of a Framework for the Screening of Foreign Direct Investments into the Union at the EU level, which came into effect in October 2020. This regulation established coordinating bodies such as contact points and expert groups, defined mechanisms for information exchange and mutual evaluation among member states, providing a communication platform for foreign investment security reviews among EU member countries. According to the regulation, EU member states consider two main factors when conducting security reviews: the sector of investment, including areas like infrastructure, high-tech, critical raw materials, and media, and the attributes of the investor, such as whether it is government-controlled or subsidized and whether it engages in activities that affect national security or public order. Compared to the US security review system, the EU's framework has less binding authority, and member states retain the ultimate decision-making power.

The second point is to accelerate the transformation and adjustment of investment agreements. In recent years, international investment rules have been undergoing significant changes. In July 2023, negotiations on the text of the WTO's Agreement on Investment Facilitation for Development were successfully concluded, which is regarded to be an important step towards reaching the world's first multilateral investment agreement. Bilateral investment agreements are also facing adjustments and reforms, with an increasing number of them incorporating highlevel provisions for investment liberalization and facilitation. There is a growing emphasis on balancing the regulatory authority of host countries with investor protection, particularly in areas such as climate change. The United Nations Commission on International Trade Law is spearheading reforms in investor-state dispute settlement mechanisms. Furthermore, many high-standard regional economic and trade agreements also include advanced investment rules.

The third point is to actively adapt to global tax reform. In the coming years, the international tax framework will undergo fundamental changes due to the implementation of the Base Erosion and Profit Shifting (BEPS) project, an international tax reform initiative undertaken by the Organization for Economic Cooperation and Development (OECD) on behalf of the G20. UNCTAD believes that Pillar Two of the tax reform[7] will reduce tax-sheltered cross-border investments, altering the nature of cross-border investments and their international positioning.[8] Countries should promptly assess the impact on their existing investments, adjust investment promotion policies, guide multinational corporations in modifying existing tax treaty preferences, and strengthen their capacity to address tax-related risks. They need to give attention to issues such as digital taxes and carbon taxes, and enhance global tax coordination.

(4) Properly responding to emergencies

In response to adverse impacts and disruptions on global openness caused by factors such as financial risks, geopolitical issues, and public health security, it is essential to strengthen policy analysis, effectively prevent and respond to "black swan" incidents. This should be done while adhering to a multilateral framework and fully leveraging the roles of international organizations such as the United Nations and the WTO in global governance. Meanwhile, fostering dialogue and negotiation, enhancing the transparency and international coordination of openness policies, and collectively addressing risks and challenges in globalization are also crucial steps.

NOTES

1. The calculation method for the Non-Tariff Measures in this context is the number of non-tariff measures multiplied by the number of products involved.
2. IMF, *World Economic Outlook*: *Near-Term Resilience, Persistent Challenges* (Washington, DC, July 2023).
3. World Bank, *Global Economic Prospect 2023* (Washington, DC, June 2023)
4. UNCTAD, *World Investment Report 2023: Investing in Sustainable Energy for All* (July 5, 2023).
5. WTO, *World Trade Report 2021: Re-globalization for a Secure, Inclusive, and Sustainable Future* (November 16, 2021).
6. UNCTAD, *World Investment Report 2022: International Tax Reform and Sustainable Investmen*t (June 9, 2022).
7. The Pillar Two tax reform aims to establish a global minimum tax system, combat tax evasion by multinational enterprises, and set a bottom line for competition in corporate income tax rates.
8. United Nations Conference on Trade and Development, *World Investment Report 2022*: *International Tax Reforms and Sustainable Investment* (2022), https://unctad.org/publication/world-investment-report-2022.