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# Global Openness and National Economic Security

Opening up is a necessary and powerful means for a country to maintain its sovereignty, security, and development interests. In the era of globalization, a country's openness and security issues are inseparable from global openness, development, and security. Economic security shows mutual, systemic, and global characteristics. "Prosperity and loss are shared by all." We should stand from the perspective of building a community with a shared future for mankind, take into account the positions and interests of all countries, adhere to genuine multilateralism, promote global openness, and achieve global security.

## 1. Choice of Openness Level from the "Security-Development" Perspective

For any country, the opportunities and challenges brought by opening up always coexist. To fully seize the opportunities and properly address the challenges, it is essential to coordinate the relationship between development and security and find the "golden intersection" between the two at different times and stages of development.<sup>1</sup>

The *warrantedness* of openness refers to the attribute that openness is warranted by the openness capability of the subject concerned. The realistic ability of an economy to handle the risks and challenges during the process of opening up is one important component of openness capability. In summary, the **warranted openness** of an economy is the level of openness that is warranted by that economy's openness capability. The maximum level of openness that can be warranted by the openness capability is the economy's maximum warranted openness, which we define here as its **optimal openness**.

Chinese scholars have constructed a general analytical framework in *A Theoretical Outline for National Security Studies for the New Era*.<sup>2</sup> Drawing on this model, this section focuses on the decision-making process for an economy's openness to the outside world and explores the

warranted openness and optimal openness of an economy from the “Security-Development” perspective. Through theoretical model analysis (see Box 7.1), the following conclusions are reached.

First, the key to an economy’s participation in opening up is the choice openness level, which itself is the result of a trade-off between security and development.

Second, the openness level of an economy should not exceed to its optimal openness. At this point, the security capability is precisely matched to the development output, and the utility is maximized. Any openness level higher than this is unwarranted and would lead to a deficit in national economic security.

Third, for different economies at different stages of development, the optimal openness varies due to differences in political and social conditions and economic endowments.

### Box 7.1 Theoretical model for choice of openness from the “security-development” perspective

This Report assumes that an economy, when participating in the globalization process, needs to determine its actual level of openness  $x$ , which ranges between 0 and 1, with higher values indicating a higher level of openness. A value of 0 represents extreme closure, while a value of 1 represents extreme openness. It is assumed that the economy faces a trade-off between security and development in the process of opening up.

Assume that when the level of openness of an economy is  $x$ , the development result it outputs is  $Y(x)$ , and the corresponding security it gains is  $S(1-x)$ .  $Y(\cdot)$  represents the production function for development result, and  $S(\cdot)$  represents the production function for security. For simplification, both  $Y(\cdot)$  and  $S(\cdot)$  are assumed to be linear functions. Fig. 7.1 illustrates the input-output relationship between development and security during the opening process of an economy. The NP line represents the output curve for a country’s development result, where the horizontal axis (from left) represents the level of openness  $x$ , and the right vertical axis represents the development output  $Y(x)$ . Its slope represents the marginal development gains that can be produced by increasing openness. The MQ line represents the output curve of the country’s security, where the horizontal axis (from left) represents the level of openness  $x$ , and the left vertical axis represents the security output  $S(1-x)$ . Its slope represents the marginal security gains brought about by reducing openness.

There may be three scenarios as follows.

- (1) In the first scenario, when the country’s openness level is at point F, it produces development result FH and security FG. At this point, the segment GH of development result is not secured, putting the country in a state of insufficient security. The utility level is FG.
- (2) In the second scenario, when the country’s openness level is at point A, the security produced can secure a development result up to level AD. However, the actual development result is only AB. In this case, the country is in a state of excessive security, and the utility level is AB.
- (3) In the third scenario, when the country’s openness level is at point C, its security CE is exactly equal to its development result CE. The country is in a state of balanced security, and the utility level is CE.

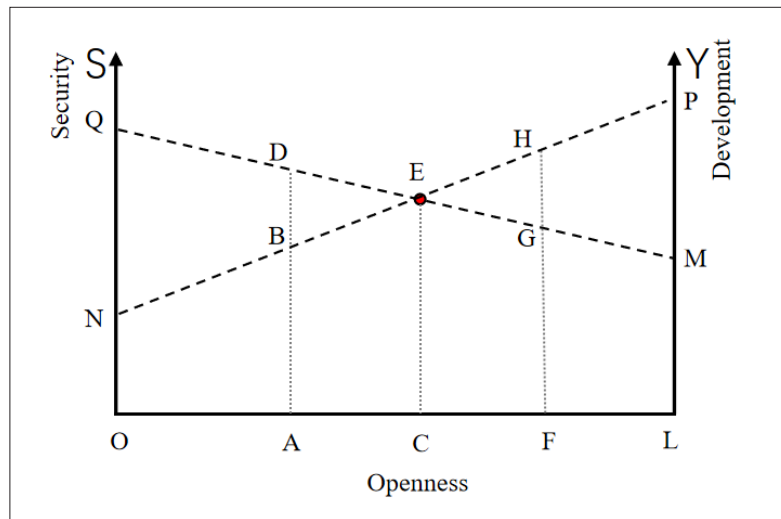


Fig. 7.1 Schematic diagram of openness decision-making from the “security-development” perspective

Through comparing the utility levels under these three scenarios, it becomes evident that a country’s optimal level of openness should be at point C, where the utility level is highest. Any deviation from this point will result in either an excess or shortage of security.

In summary, only when the country’s openness level is at point C, the security produced is equal to its development result, achieving maximum total utility. **Therefore, the openness level at point C is the optimal openness.** Correspondingly, for any point on segment OC, the country’s security is sufficient to guarantee its development result, and the openness level is warranted by the openness capability. **Therefore, the openness range along segment OC is considered as warranted openness.**

## 2. New Trends in Open Development from the “Security-Development” Perspective

### (1) Trade and investment barriers continue to increase

**A sharp increase in unilateral restrictive measures.** IMF experts, based on “Global Trade Alert” data,<sup>3</sup> have calculated that over the past decade, there has been a sharp increase in unilateral restrictive measures taken by various countries against cross-border trade and investment. In 2022, restrictive measures on global goods trade, services trade, and cross-border investment increased by 14 percent year-on-year, reaching 2,845 items (see Fig. 7.2). Among these, investment restrictions accounted for 239 items, which is 3.8 times the number in 2021. Digital services trade is also facing increasing restrictions, adversely affecting emerging industries as well as global industrial and supply chains.

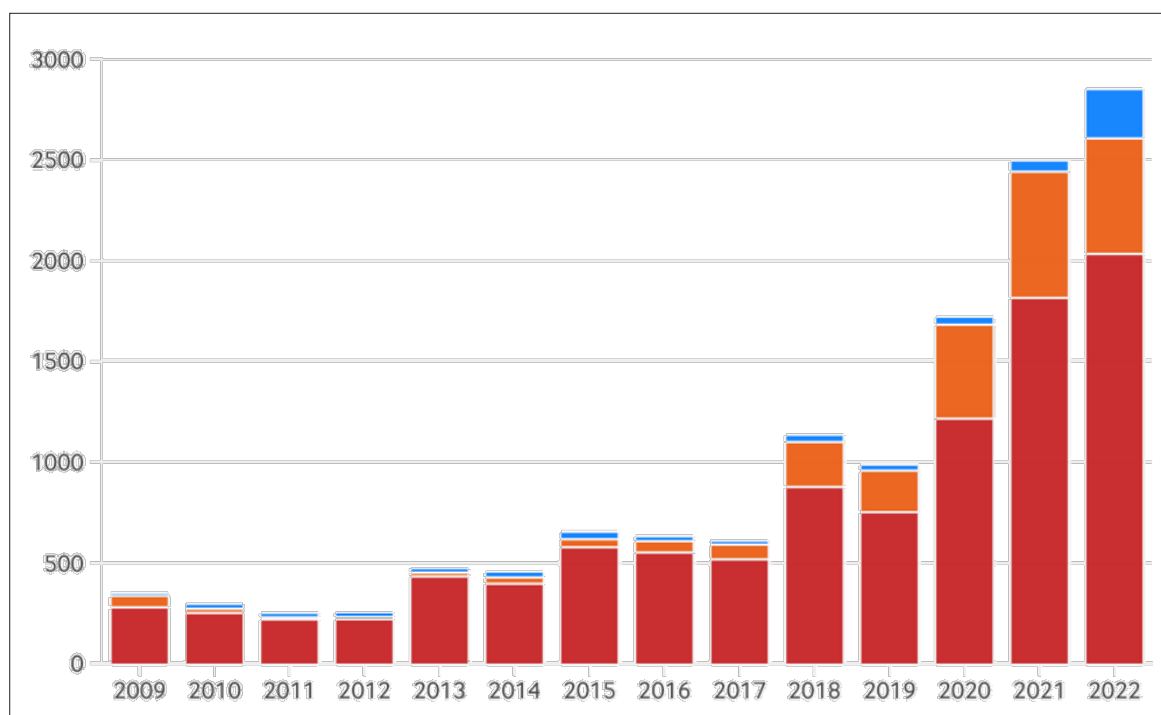


Fig. 7.2 Global trade and investment restrictive measures: 2009–2022

*Source:* Calculations by IMF experts based on “Global Trade Alert” data, quoted in the following website: <https://www.fdiintelligence.com/content/data-trends/protectionism-trade-restrictions-reach-an-alltime-high-82637>.

*Note:* The three parts from the bottom to the top of the above bar charts indicate measures of trade in goods, services, and international investment, respectively.

**Security regulatory measures keep increasing.** In the field of global trade and investment, an increasing number of countries have introduced regulatory measures on the grounds of national security. These measures specifically include strict scrutiny of foreign direct investment in critical infrastructure and sensitive technological sectors, as well as implementing import restrictions and export controls on certain countries or products. The generalization of national security not only results in more trade and investment barriers but also imposes additional limitations on the development of the digital economy.

## (2) Global openness pays more attention to both efficiency and security

Countries around the globe are beginning to seek diversified supply chains and collaborative partners to ensure the safe supply of critical industries and technologies and enhance resilience to risks and challenges. For example, as of August 2023, the WTO has received a total of 595 notifications regarding RTAs, with 361 RTAs currently in effect. At the same time, the demand for strategic resources among countries is continually increasing, leading to an increasingly stark

contradiction between supply and demand for these resources. With the acceleration of trade exchanges, personnel flows, and information exchanges, countries are becoming more dependent on strategic passages. For example, the Suez Canal handles 30 percent of global container traffic. The blockage of the canal in 2021 directly led to the obstruction of global trade valued at US\$9.6 billion. Therefore, ensuring the security of strategic passages and avoiding the impacts of terrorism, piracy, geopolitical shifts, and force majeure events is an urgent task faced by countries around the world.

### (3) Security-related demands become more diverse

**Energy security:** Countries need to ensure the security of traditional energy supplies, reduce dependence on external energy sources, and enhance energy self-sufficiency and efficiency. At the same time, they should adjust their energy mix and consumption patterns, promote renewable, clean, and low-carbon energy sources, and advance energy-saving and green development initiatives. Energy-rich countries hope to boost income by securing energy exports and gradually promote the transformation of economic structure to avoid the “resource curse.” Energy-scarce countries hope to lower the costs and risks associated with energy imports, improve energy efficiency and cleanliness, and reduce dependence on external markets.

**Food security:** Due to the influence of environment, resources, and economy, the food self-sufficiency rates of countries vary greatly, which, to a large extent, mismatch with global population distribution. For example, Africa accounts for about 17 percent of the world population but has many countries with self-sufficiency rates below 50 percent. Around 45 percent of Africa’s wheat and 80 percent of its rice are imported. Therefore, countries have different priorities and demands in terms of promoting the transformation of agricultural and food supply systems, enhancing agricultural productivity, and elevating food security.

**Technology transfer and intellectual property:** Technologically backward countries require massive investments in technology. Once high-tech countries generalize national security and tighten export controls and investment restrictions on high-tech products, the technological gap between the two groups will widen.

**Data and cybersecurity:** Rules of the digital economy must strike a balance between ensuring the efficient flow of data and protecting data privacy and other aspects of security. Different countries have different positions and policies on issues such as data governance, cybersecurity, and data flow, leading to a trend of differentiation and fragmentation of global rules in the digital field.

**Environmental security and sustainable development:** Developing countries face the pressures of globalization and industrialization, striving to find a balance between economic development and environmental protection. Developed countries, having achieved industrialization, are increasingly focused on green trade, sustainable investment, and the global economy’s green transformation.

#### (4) Demand for multi-level cooperation on open security continuously increases

**On the global level:** Global issues such as climate change, energy security, cybersecurity, and public health require global cooperation and countermeasures. Economic and trade rules on a global scale must be built upon a comprehensive, precise, and balanced foundation, creating a global cooperation framework and dispute resolution mechanisms. This is crucial for addressing global security challenges and should involve multilateral institutions in formulating universally applicable and binding rules.

**On the regional level:** Due to factors like geographical location, historical background, cultural characteristics, and levels of development, countries within the same region often have closer economic ties, as well as more specific and specialized cooperation needs and security challenges. For instance, European countries may focus more on environmental standards, Asian countries on market access and technological progress, and African countries on development and technical assistance. Therefore, economic and trade rules at the regional level need to be flexible and targeted, fully consider the interests and needs of all parties involved, and build regional cooperation frameworks and dispute resolution mechanisms that can effectively address regional security challenges.

#### Box 7.2 Typical case studies on openness and security issues

##### Case Study One: China's Reform and Opening-Up Policy Promotes Economic Development and Regional Security

China's reform and opening-up policy has significantly improved its comprehensive strength. From 1979 to 2022, its real GDP increased 40-fold, calculated in constant US dollars, and its share of the global GDP rose from 1.5 percent to 18.2 percent. In the 21st century, China has gradually become the most critical global manufacturing hub, with an ever-expanding foreign trade scale. In 2022, China's share of global goods exports was 14.7 percent, leading globally for 14 consecutive years, and its total import and export value remained the highest globally for six consecutive years.

Since its reform and opening-up, China has actively shared the fruits of its economic development with the region, promoting regional economic prosperity and stability and enhancing regional security. China proposed the BRI and has driven the establishment of institutions such as the Asian Infrastructure Investment Bank (AIIB) and the New Development Bank, offering a new platform for promoting regional connectivity and achieving mutual development. China also contributed to forming the RCEP with 14 major East Asian and South Pacific countries, establishing the world's largest and most developmentally potent free trade area. About 35 percent of China's total foreign trade is with its free trade partners, which cover Asia, Oceania, Latin America, Europe, and Africa.

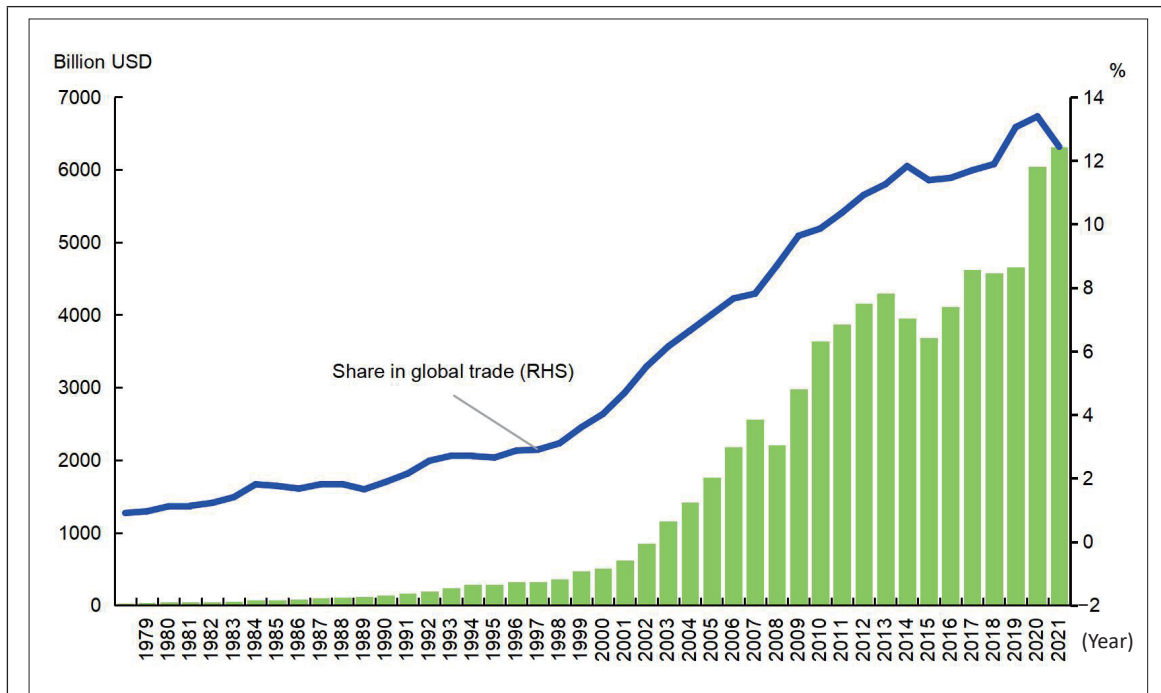


Fig. 7.3 China's share in global trade in Goods: 1979-2022

Source: World Bank Database.

China has offered its own solutions to global problems. China has proposed several important initiatives and ideas, such as building A Global Community of Shared Future, Global Development Initiative (GDI), Global Security Initiative (GSI), Global Civilization Initiative (GCI), advancing the reforms of the global governance system, and constructing an open world economy. China has actively engaged in the United Nations as a main channel and has deeply participated in the formulation of international rules in emerging fields such as cybersecurity, climate change, and space exploration. It has strengthened policy coordination with other developing countries and expanded cooperation and dialogue with the US and Europe. By focusing on emerging sectors, China aims to enhance the voice and influence of developing countries.

The history of China's reform and opening-up shows that openness is beneficial to national security and regional development.

### Case Study Two: US Tariff Cuts Boost Economic Development and Security Levels

Historically, the US promoted economic growth and improved security by cutting tariffs. During World War II, the US government began to develop ambitious plans for multilateral agreements to rapidly reduce tariff barriers, eliminate discriminatory trade policies worldwide, and expand international markets after the war.<sup>4</sup>



In 1944, the average import tariff for taxable products in the US was 33 percent, which was reduced to 13 percent by 1950. Goldstein et al. (2007) found that, compared to non-member countries, bilateral trade between the US and member countries increased on average by 136 percent within two years after signing the treaties.<sup>5</sup> In 1945, the US signed 32 reciprocal trade agreements with 27 countries, reducing the tariff rates of 64 percent of imported goods and thus lowering the US tariff rate by 40 percent compared to the 1930 level. The research of Subramanian et al. (2007) showed that the GATT facilitated the development of global trade after the war and promoted economic recovery worldwide.<sup>6</sup> Long-term significant reductions in tariffs also led to a steady decline in the US inflation rate from the normal level of 6 percent in the early 1980s to below 2 percent before 2019, significantly increasing the implementation space of US fiscal and financial policies (Hufbauer 2022). During the era of agreed tariffs guided by the concept of free trade, the US not only promoted its own development by reducing tariffs but also contributed to global economic growth.

According to research estimates by York (2023), the tariffs imposed by the US in recent years could only bring in a tax revenue of US\$73.9 billion over ten years. In the long run, this will lead to a 0.21 percent decline in GDP, a 0.14 percent reduction in wage levels, and a loss of 166,000 jobs.<sup>7</sup>

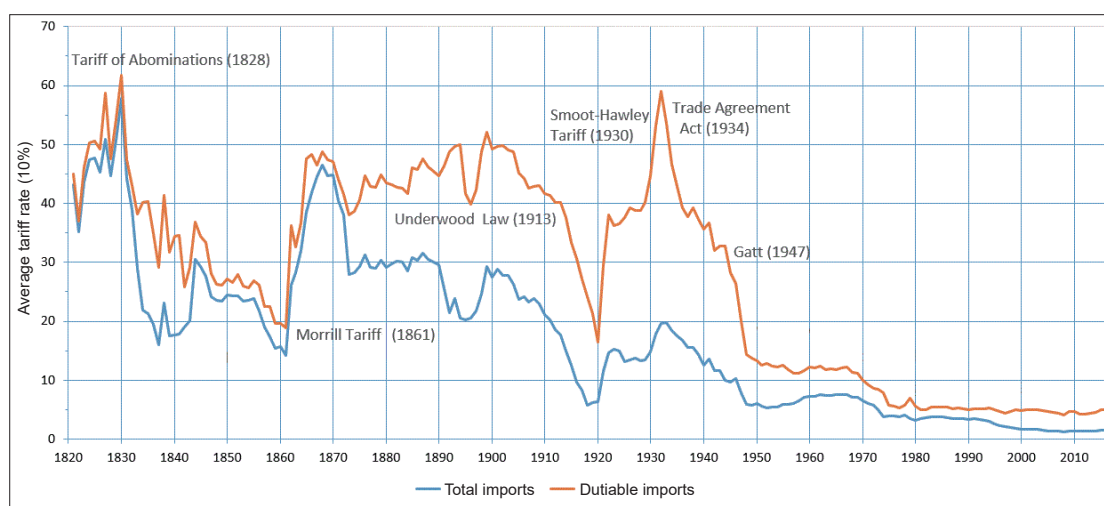


Fig. 7.4 US average tariff rates: 1821–2016

Source: US Department of Commerce, Bureau of the Census, *Historical Statistics of the US 1789–1945*, US International Trade Commission, [dataweb.usitc.gov](http://dataweb.usitc.gov).

### 3. Coordinated Advancement of Openness and Security in a More Inclusive World

Economic security is the foundation of national security. To establish an open concept of economic security, we should seek security dynamically in expanding opening up. From a global perspective, seeking security through openness has become an international norm. Countries



are opening up to each other to promote economic globalization, and the world economy is increasingly interdependent. Theoretically speaking, open systems are safer than closed ones. According to the “Law of Entropy,” open systems lead to order and generate new vitality, while closed systems lead to disorder and eventual decay. From a developmental perspective, expanding openness is a necessary path for the prosperity of all nations globally.

**Firstly, uphold the principles of openness, inclusiveness, equality, justice, and win-win cooperation.** Oriented towards openness, we should adhere to multilateralism and firmly maintain free trade and the multilateral trading system. We should oppose unilateralism and protectionism, promote interconnectivity, and encourage integrated development. With equality as the basis, we respect the social systems and developmental paths of all countries and push for a more equitable and rational global economic governance system. With cooperation as the driving force, we uphold the principles of extensive consultation, joint contribution, and shared benefits, fostering win-win cooperation.

**Secondly, enhance the role of existing multilateral mechanisms.** We should firmly support the United Nations’ central role in international affairs, safeguard multilateralism and the function of the UN, and expand the voice of developing countries in international matters. It is also imperative to accelerate the reform process of the WTO and swiftly restore the functioning of the dispute resolution mechanism. Within the existing framework of the multilateral governance system, we need to improve measures that secure the economic safety of all countries.

**Thirdly, explore the establishment of new global security governance platforms.** We need to foster synergies between global economic governance and security governance frameworks, exploring the establishment of new platforms such as the International Security Fund Organization. With a targeted approach, we strive to bolster the security of developing nations, facilitate a balanced and fair distribution of the benefits of globalization among various countries and social groups within each country, and achieve a dynamic equilibrium between high-quality development and elevated levels of security at a global scale.

### Box 7.3 Three paths for coordinating the advancement of openness and security

**Unilateralism path:** Under this path, each country makes completely independent decisions, choosing warranted openness based on its own balance of “security-development.” The path of unilateralism will bring huge social costs, leading to a significant retreat in globalization. On the one hand, the independent decision-making by countries will result in inconsistency in warranted openness, manifested as disparities in international standards like tariff rates and industry entry. This inconsistency can cause inefficiencies in resource allocation in the process of globalization, affecting the quality of openness. On the other hand, in the global division of labor, a single country’s decisions can have strong externalities. For instance, if one country withdraws from the global cooperation system due to national security considerations, it will act as a man-made supply cut-off for the upstream and downstream participants in the related supply chain, bringing the risk of negative spillover.

**Plurilateralism path:** Under this path, a few countries form economic alliances in specific areas. Members of the alliance jointly determine their warranted openness based on the “security-development” balance within their “small circle.” While achieving internal openness within the alliance, this path might bring about the effect of “each following its own set.” This could affect the level of openness between alliances, even leading to conflicts and escalating geopolitical risks.

**Multilateralism path:** Under this path, major economies enhance communication and cooperation, aiming to achieve a global balance of “security-development.” Taking into account the positions and interests of all parties, they promote multilateral cooperation to achieve more warranted openness on a global scale. This path can enhance trust among countries, deepen international cooperation, and reduce the global security governance deficit. It helps to coordinate the advancement of openness and security, propelling globalization to overcome its “bottleneck” to achieve global openness and common security.

## NOTES

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