Chapter I
World Openness Index: Concept and Theories

Modern civilization has continually grown amid opening-up and exchange of ideas among different countries. A country decides its own level and path of openness based on its own national conditions and stage of development. From a historical perspective, opening-up is the only way to achieve national prosperity and development, a key to solving development problems of the times, and the source of forces driving the progress of human civilization. Over the past few decades, the entire world has become increasingly integrated, and open-up and development have become a basic consensus. Description of the degree of integration of the world economy, analyzing its trends, analysis of its causes and trends, and exploration of its impact are important issues to which scholars, politicians and the public have paid much attention.

I. Concepts of Openness

In the existing literature, the basic meaning of opening-up to the outside world is clear and consistent, that is, the specific entitiess of at least two economies carry out exchanges at the economic, social and cultural levels to form the flow of goods, services, personnel, capital, information, knowledge and technology, so as to promote their respective development. However, when it comes to the denotation of the concept of opening-up to the outside world, there have been multiple definitions in various documents.

The subjects of opening-up to the outside world can be divided into three levels. One is the subject at the macro level, which refers to a specific economy (that is, a country or territory) or region (including at least 2 economies) based on geographic scope, territorial or sovereign connotations, such as opening-up between economy A and economy B, between East Asia and South Asia, and between Asia and Europe, for example. Second, it refers to the subject at the meso -level, which mainly refers to the institutional sectors that make up the national economy, such as government departments (including non-profit institutions serving households), non-financial corporates, financial sub-sectors, and households; China's financial sector opening-up as an example is at this level. Sometimes it also refers to industrial sector (general or detailed classification) or administrative level (such as province, city, county, and so on), such as the opening-up of China's service industry or the opening-up of Beijing. Third, it refers to subject at the micro level, mainly corporates and individuals, such as China's Huawei investing in Europe, and foreign citizens studying or traveling in China. Accordingly, each type of subject has its own way to open up to the outside world. They are not independent of each other; there are top-down cross-nesting and bottom-up intersection and summation relationships among those three levels. The subject of opening to the outside world mentioned in this report mainly refers to the macro-level economy, that is, the specific national economy. This means that the openness index takes the entire economy as the basic unit of observation. The subjects at the meso level and micro level have not been included in the current focus of this report.

The objects of opening-up include major opening-up categories, such as economic, political, social and cultural opening-up, among which the most common in existing relevant literatures are cross-border economic opening-up, cross border social opening-up, and cross-border cultural opening-up. Considering the sovereignty and internality characteristics of political opening-up, it is seldom defined and discussed in existing literature. Cross-border opening-up, especially cross-border economic opening-up, is closely related to some well-known concepts, the most important of which include globalization, regionalization, and internationalization; they also include interconnectivity, interdependence, degrees of freedom, and so on.

There are a vast array of related papers discussing the definition, nature, origin, and timeline of globalization, and many politicians, business leaders, international institutions and scholars have had various descriptions of globalization. The primary key word of globalization is "global", which refers to the entire earth, at least most countries and regions on most of the continents; the second is "transformation", that is, the trend of particular changes. "Globalization" encompasses the trend of cross-border opening-up and exchanges, which spread from a small number of countries and regions to a large number of countries and regions on multiple continents. Opening-up and exchanges limited to a certain continent or among a small number of countries and regions on a few continents are not globalization, but regionalization.

In most cases, *globalization* has actually been regarded as synonymous with "economic globalization", and typical definitions are as follows. First, economic globalization refers to the continuous internationalization of markets. The *market* here is in its broad sense, including commodities (goods and services), enterprises and industries, technology and competition. Second, economic globalization refers to the ever rising levels of interaction and penetration of human economic activities, including materials (goods, services, labor, capital, and technology, among others), system and concept. Meanwhile, economic globalization has always been accompanied by controversy, whether it is about its origin, development process, or various gains and losses. Those who support globalizatiion and those who are opposed to it have been violently debated over this issue for at least 20 years, and such debate has become even more fierce since the 2008 global economic crisis.

Internationalization is a trend of open exchanges between countries or regions — at least between two countries or regions (it does not need to be clarified if more than two countries and regions are involved). Of course, if a large number of countries and regions concerned are in a particular region (such as East Asia) of a particular continent, it can be defined as *regionalization*. If exchanges are among many countries or regions on multiple continents, then it can be defined as *globalization*.

The primary aspect of the connotation of globalization, regionalization and internationalization is the *extensity* or *breadth* of cross-border opening-up, rather than its *intensity* or *depth*. However, existing related indexes mainly measure the strength or depth of cross-border opening-up, leading to a dislocation of related concepts and connotations.

Box 1-1 Other Concepts Related to Cross-border Opening-up

1. Connectedness and interconnectedness

Connectedness refers to the degree of connectivity and smoothness between a country and the outside world, which can be described as participation in the international flow of products and services, capital, information, and people. Connectedness across the globe is global connectivity, and the corresponding concepts, naturally, are regional connectedness and local connectedness. In the Global Connectedness Index developed by DHL, globalization refers to global connectedness, that is, the concentration of relationships across borders: if there are more smaller countries in a country's international connectedness, the level of globalization will be lower; otherwise, it will be higher; and it has nothing to do with location or geographic distance.

Another related concept is *interconnectedness*. From the perspective of English etymology, interconnectedness is subordinate to connectedness. Generally used in the term "interconnected economies", it mainly refers to the mutual economic links between different countries, including the international flow or dissemination of commodities, finance (including investment), labor, and information (especially knowledge).

2. Interdependence

Interdependence has been popular in the world economy since the early 1980s. It refers to the interdependence between a country and other countries through trade, currency and finance (including capital), and debt financing. "Other countries" can be further defined in different geographical scopes. Whether the dependency relationship between different countries is symmetric has not been made explicit in this term. In fact, there is asymmetric dependence or imbalance, which has attracted widespread attention many years ago in the field of world economy, especially international trade.

3. Freedom

Freedom or degree of freedom mainly refers to the power distribution between different subjects and its trend at the meso level or micro level, especially the power distribution between the government and other subjects and its trend. Taking into consideration the specific fields of freedom, freedom-related concepts include economic freedom and political freedom. The Index of Economic Freedom (IEF) developed by the Heritage Foundation of the US refers to economic freedom as the basic right of every one to control their own labor and property: in an economically free society, individuals can work, produce, consume, and invest so long as they want to; the government allows labor, capital, and goods to flow freely, and does not force or restrict freedom beyond the scope necessary to protect and safeguard freedom itself. Both the Human Freedom Index (HFI) and the Economic Freedom of the World (EFW) Index, developed by the Fraser Institute in Canada, state that "individuals have economic freedom in the following circumstances: Property they have obtained not by force, fraud or theft is protected from violations by others, and they have the freedom to use, exchange or give it to others, as long as these actions do not infringe upon the same rights of others. Therefore, when there is voluntary exchange, competition, personal choice and property protection, there will be economic freedom. These two economic freedom indexes measure freedom at the micro-individual level. Obviously, the degree of freedom discussed here refers to the freedom of choice within a country or an economy.

Another related concept is *liberalization*, that is, the trend of the government loosening regulation of corporate behavior (See Smith, 2020[①]). This concept is sometimes related to the relaxation of laws related to social affairs, but it is most often used as an economic term, especially one that refers to reducing restrictions on international trade and capital. Obviously, liberalization includes both internal and external relations. Freedom related to opening-up to the outside world mainly refers to the distribution of power between local entities of a specific economy and foreign entities (overseas government, non-financial enterprises, financial enterprises, households, or a consortium of these entities). This is only a small part of the denotation of freedom as mentioned above, that is, cross-border freedom. Cross-border liberalization has played a central role in stimulating large-scale growth in international trade, foreign direct investment, foreign portfolios. However, companies in rich countries use cross-border liberalization policies to exploit workers in poor countries not only because the market is actually neither free nor fair, but also because rich countries cheat in the game of exporting to the rest of the world (Smith, 2020).

II. Theory of Opening-up to the Outside World

Among all the global practices so far, economy is the most important field of

① Smith, N (2020). Liberalization. *Encyclopaedia Britannica*, online edition.