

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<sup>①</sup>). 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

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

opening-up to the outside world, and that of society, culture and politics are relatively secondary field of opening-up. Therefore, this report mainly focuses on cross-border economic opening-up while also analyzes cross-border social and cultural opening-up by putting them in the context of cross-border economic opening-up. This is because even if cross-border opening-up can be clearly divided into economic, cultural, social, and political opening-up, each of these four fields remains very complicated; therefore, they must each be analyzed thoroughly, a task that still faces huge and even insurmountable difficulties. In particular, the definition of cross-border political opening-up and the optimal form of interaction between political opening-up and domestic and foreign economic, cultural, and social opening-up remains to be studied in depth.

Economic opening-up, as a term, first appeared in the literature of comparative political economy in the early 1980s. However, as an idea, the history of economic opening-up is much longer, especially in the field of international economics. In Western economics, the history of studying the causes and effects of open economy can be traced back to the 18<sup>th</sup> century, and, at that time, it occupies an important position in the works of classical economists, such as Adam Smith and David Ricardo. These classical economists focused on the impact of international trade on the domestic economy and the positive and negative effects of free trade. Initially, the focus of their measurement was put on exchanges of commodities and currency exchange rates; at present, it is more on the impact of economic open-up on the domestic economic system.

According to traditional methods of measurement, generally speaking, the economic opening-up of an economy is negatively related to its size, especially its size of population: large countries tend to produce more for the domestic market, which, in the past, would lead to economic self-sufficiency through protection. These protections have been eased through the development of international governance (such as GATT and WTO; Keman, 2020<sup>①</sup>). In the history of Chinese thought, the Huainanzi-Sima Qian Theorem, which advocates that “using what one has in large amounts to exchange for what he or she lacks”, “using what one has to exchange for what he or she lacks”,

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① Keman, H. (2020). Economic Openness. *Encyclopaedia Britannica*, <https://www.britannica.com/topic/economic-openness>.

and “using what one is skilled (in making) to exchange for what he or she is incapable (of producing)”, has concisely summarized the basic principles of modern market economies, especially cross-border market economies, in particular, the following three major trade theories: absolute advantage theory, comparative advantage theory, and factor endowment theory (Zhang et al., 2019<sup>①</sup>).

### 1. A hypothesis on U-shaped evolution of openness to the outside world

The degree of openness of most economies has undergone a U-shaped evolution following their improving economic development level. In the pre-industrialization stage, the level of openness was very high. Once local industries and enterprises are to be developed to promote industrialization, a fairly long protection period would be needed to protect local premature industries. In this way, the level of opening-up to the outside world will decline. As the competitiveness of local enterprises and industries improves, the level of openness of the economy will gradually rise and the economy may even enter a *laissez-faire* state.

Why has the level of a country’s opening-up undergone such a U-shaped evolution path? First, the development of a less developed country is, to a large extent, a process of learning from developed countries, especially Western countries, and establishing local industries. Therefore, adopting a completely closed-door economic policy will block the country’s exchanges with advanced countries, hinder the import of advanced science and technology and machinery and equipment, and be abandoned by modern civilization. Second, should backward countries go to the other extreme and adopt a *laissez-faire* open policy? No. In the early stage of economic development, if a country implements a policy of fully opening up to the outside world, it will be completely defeated by the developed countries in international competition, even in the local market competition. The local premature modern industries will be suppressed and, in the international division of labor, it would be in a position of supplying primary products and raw materials. As a result, it would be difficult for these industries to develop. A controllable and limited opening-up process would be a better choice for both domestic demand-based and export-based economies. Last but not least, only

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① Zhang, Y. (2019): *40 Years of Opening-up in China* (in Chinese). Beijing, China: Economy and Management Publishing House.

when the competitiveness of domestic enterprises and industries reaches a level that enables these enterprises and industries to compete with the developed countries can the country gradually increase the degree of openness to implement an open economy. In this way, the country's degree of openness will also undergo a U-shaped evolution during the entire process of its economic development.

## 2. Choices of path for the opening-up of economies of different scales

Does the degree of openness of all countries and economies go through the same U-shaped evolution trajectory? Not at all, because there are vast differences between countries and economies.

Modern civilization is based on the rise of nation-states, and the main support of the modern world economy is also nation-states and their derived economies. From the perspective of economic development, nation-states and their derived economies are very different. There are huge countries like Russia, which spans six time zones across Eurasia; there are also mini-countries, like the Vatican, with an area of less than one square kilometer; there are also super-large countries like India and China with a population of 1.3 to 1.4 billion; and there are also mini-countries, like the Vatican and Monaco, each with a population of less than 100,000. If we combine the two factors in our observation, we will find that there are not only sparsely populated major regional powers, such as Russia, Canada, and Australia, but also densely populated countries, such as Japan, Vietnam, India and other countries. Different types of countries have very different strategies and policy choices in pursuing development. Generally speaking, after World War II, a nation-state or region with a population of more than 20 million ("region" here refers specifically to a nation-state that, for various reasons, implements independent tariff and economic policies and can be regarded as an independent economy, such as Taiwan region, Hong Kong, SAR and Macao, SAR) can have significant economic influence. **We use this as a criterion to divide countries in the world into two categories: large countries and small countries, or large economies and small economies.**

**In general, a large economy undergoes a U-shaped opening-up process, while a small economy may not.** If a small economy opts to implement a laissez-faire policy, such as the free port policy in Hong Kong, SAR, Singapore's policy of relying on multinationals and foreign investment, and other countries' international tax

haven policies, then its process of opening-up will not be U-shaped in the process of economic development; rather, it will be a slanting line with increasing openness, or a horizontal line without significant upward or downward trend.

### **3. Wave-shape changes in the opening-up trajectory**

Admittedly, many factors have a bearing on the level of opening-up of a country or economy to the outside world. They do not only include size of the country or economy or economic development process. In reality, a more complicated scenario is that many countries and regions have experienced a bumpy and on-off economic development process, without a unified and clear track. In some countries, once a new government comes to power, it will readjust its policies; some will continue the policies of the previous government, and others will completely overthrow them. Even the current level of development has been the result of accumulation of various policies in many years; conversely, at this level of development, it is possible for policymakers to adopt a variety of completely different policy options in the future.

After the World War II, many developing countries adopted the protectionist policy of import substitution, with a very limited opening-up to the outside world, and they had achieved a certain degree of economic development. After the 1980s, for various reasons, they adopted an export-oriented opening-up policy, which greatly raised their level of opening-up. Later, after suffering from different forms of economic or financial crises, especially the 2008 global financial crisis, some protectionist measures were taken, leading to declining level of openness. Therefore, the trajectory and level of openness of these countries has shown a wave-shaped trajectory. As long as they do not reach a certain level of development, these countries will undergo similar wave changes in the future.

## **III. Opening-up Practices in Foreign Trade and Investment**

Mankind has had opening-up practices in many fields, especially cross-border trade opening-up and investment opening-up. Both history and reality have shown that mankind has had very rich experiences in opening-up to the outside world, and they have been very different from each other, whether in terms of fields of opening-up or levels of opening-up, or in terms of process of opening-up or outcomes of opening-