

Chapter IV

Economic Globalization and the Megatrend of Global Openness

Economic globalization is a basic characteristic of modern times. After the end of the Cold War, globalization has advanced rapidly, and the economic integration of the whole world has moved forward at an unprecedented pace, which has contributed to the development and prosperity of the world and the improvement in the well-being of the people. However, globalization and de-globalization always go hand in hand. In recent years, due to the unbalanced development of different countries and especially the impact of the new novel coronavirus pandemic, the rise of anti-globalization sentiment has prompted more people to reflect on the pros and cons of globalization. But in general, economic globalization is an irreversible historical trend. The current “countercurrent” conforms to the law of “spiral development”. With the new round of integration of rules and technological revolution, globalization will, amid twists and turns, embark on a new journey.

I. Development of Economic Globalization

1. Early exploration of the Silk Road and economic globalization before the 15th century – Version 1.0

Economic globalization is a concept that emerged after the industrial revolution, but mankind had begun to explore the outside world a long time ago. **The most famous of those explorations is arguably the ancient Silk Road, which can be seen as the embryo of economic globalization.** It was in the Han Dynasty when the ancient Silk Road first became prosperous. Since Zhang Qian made his first mission

to the western regions, trade along the Silk Road had developed rapidly among China, India, Southeast Asia, Sri Lanka, the Middle East, Africa and Europe. During the Tang Dynasty, the Silk Road became prosperous again and served as a major commercial channel, through which more commodities had been traded. With the rise of the Arab Empire and the southward shift of China's economic center, the Maritime Silk Road had increasingly flourished. By the Song Dynasty, the Maritime Silk Road had gradually replaced the traditional Silk Road in the northwestern region. At the same time, people on the vast Eurasian prairie, including Scythians at the early stage, or later the Huns, Sogdians, Turks, and Mongols, had been promoting the extension and development of the grassland Silk Road for thousands of years.

2. Formation of world market from the end of the 15th century to early 20th century – Version 2.0

As industrial revolution gradually started in all European countries, one after another, coupled with the development of navigation techniques, people had started to engage in long-distance voyages. Christopher Columbus discovered the new world, and Ferdinand Magellan completed his circumnavigation. With the colonial expansion of Western countries, human activities began to spread across the five continents and seven oceans. Before the World War I, one did not need a passport to migrate to other countries. As a result, more than 30 million people moved to the United States and 12 million to Canada and Argentina, which can be seen as the first peak of globalization, **leading to the gradual formation of a unified global market.** At that stage, international trade was mainly driven by the industrial revolution. Britain, France, and the Netherlands took the lead to complete the industrialization process, leading to large-scale modern production, which created an urgent need for the supply of raw materials and a global market. Driven by profit-making prospect, capitalist countries had searched the world for resources and expanded markets around the world; as a result, they had promoted connections between different countries and led to the initial formation of a global market, thus playing a role in laying the foundation for future economic globalization. As Marx said, because the bourgeoisie has opened up the world market, the production and consumption of all countries have become worldwide.

3. Accelerating production and trade globalization during the WW I and Cold War – Version 3.0

After the two world wars, there emerged two camps in the East and the West. Western capitalist countries built the Bretton Woods system and the “three pillars” of the General Agreement on Tariffs and Trade, the International Monetary Fund and the World Bank, **marking a shift from spontaneous economic globalization to institutionalized economic globalization**. Meanwhile, the acceleration of production and trade globalization, coupled with the accelerated technology and industry transfer, had led to the second peak of globalization. The post-war restoration of the international order and the establishment of international organizations had provided a relatively peaceful and free environment for all countries. **Multinational corporations had become the main driving force for the deepening of economic globalization during that period**. The post-war era was a golden age for the development of multinationals. From 1968 to 1969, there were about 7,276 newly established multinational corporations, which had more than 27,300 foreign subsidiaries. International trade developed rapidly during that period. The global trade volume in 1991 was 60 times that at the end of World War II. In the mean time, the Soviet Union and other countries that had adopted the planned economy system in Eastern Europe established the Council for Mutual Economic Assistance to engage in close cooperation. As a result, the world had two parallel markets.

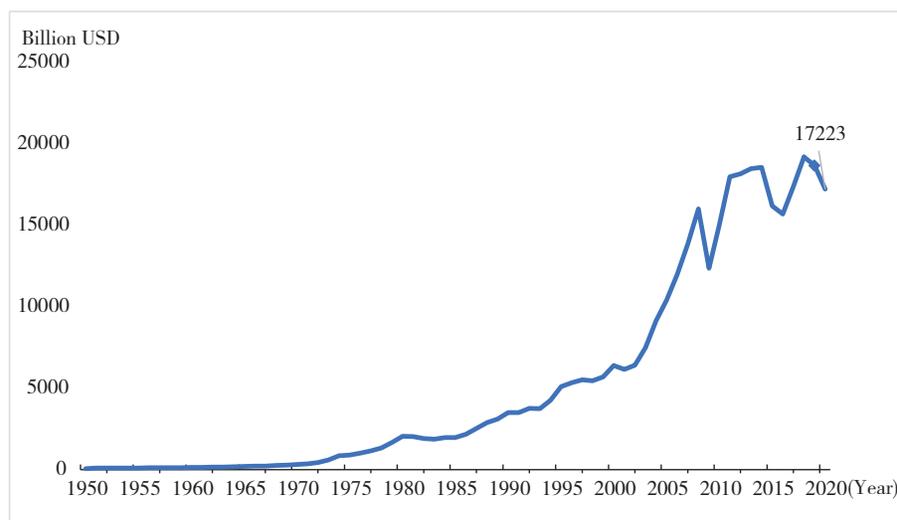


Figure 4-1 World Trade Volume

Note: World excluding Hong Kong re-exports.

Source: https://www.wto.org/english/res_e/statis_e/trade_evolution_e/evolution_trade_wto_e.htm.

4. Economic globalization develops at a fast pace post-Cold War - Version 4.0

As the Cold War came to an end, economic globalization started to develop at a fast pace. The Soviet Union and Eastern European countries embarked on the road of market-oriented reform through the implementation of economic transition. The WTO replaced the General Agreement on Tariffs and Trade. In particular, driven by the new technological revolution, the global flow of information, capital and commodities has accelerated, leading to the “shortened” spatial distance on the earth and the disappearance of “time gap” of information exchanges. This had accelerated the economic internationalization and made the world unprecedentedly open. **The original “one-country economy” that applies to all countries in the world has crossed national boundaries to become an integrated “world economy”, leading to trade, capital, production, consumption, technology, service, and organizational globalization and formation of global industrial, supply and value chains, thus creating a global interdependent and mutually supporting economic scenario.** During this period (1990-2019), the total world trade volume increased by 5.4 times, the global investment stock increased by 16.6 times, and the global air passenger traffic increased by 4.3 times. China joined the WTO in 2001 to get fully integrated into the world market and grew into the second-largest economy and the largest trading power in terms of trade in goods, accounting for 13.1% of the world’s total trade volume in 2020, up from 4% in 1990. Meanwhile, it accounted for 15% of the world’s total foreign investment inflow in 2020, compared with 6.1% in 1990. In terms of outbound investment, China accounted for 18% of the world’s total in 2020, compared with 1% in 1990, becoming an important force to promote economic globalization, making China an important driving force promoting the continual development of economic globalization.

Box 4-1 Global Production Network of Boeing and Apple

Boeing airplanes and Apple mobile phones are the most typical case. The manufacturing process of the two companies has become globalized. Boeing has made full use of globalized industrial chains in making its 787 passenger plane. When it made its 727 model, the workload of foreign suppliers only accounted for 2% of the total. When it made the 777 model, the ratio rose to 30%. And it reached an astonishing 70% in making the 787 model. The value of an aircraft can be divided into that of fuselage,

wings, tail, and landing gear, which combine to account for about 40% of the total value of the plan. In the 787 passenger plane, Italy's Alenia and the Water Aircraft Industry Corporation of the United States are responsible for the central part of fuselage, and most of the wings and tail are monopolized by the three Japanese heavy industry consortia, Mitsui, Mitsubishi, and Kawasaki. Boeing is only responsible for making about 35% of the aircraft and the final assembly. Boeing CEO Philip Condit has a classic description of such division, saying that Boeing is an assembly company, or it can be called an equipment integrator. Apple has 766 global suppliers from 28 countries and regions, including 69 American suppliers, 346 Chinese suppliers and 126 Japanese suppliers.

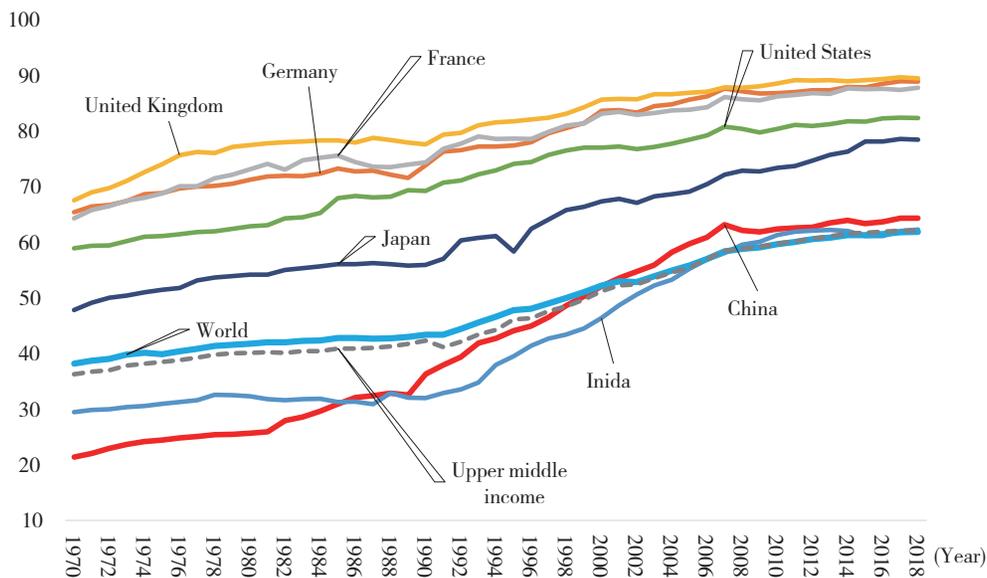


Figure 4-2 Globalization Index

Source: KOF Swiss Economic Institute.

The research report of the KOF Swiss Economic Institute has confirmed that process. Since the 1990s, the world globalization index had risen rapidly, from 43.3 in 1990 to 61.8 in 2018, and the level of openness had increased by 50 percent. After the 2008 global financial crisis, the pace of opening-up weakened in most countries, but the momentum had nonetheless been kept, with the globalization index kept at medium to high levels of about 60 on average. During that period, developing countries, such as China and India, began to rapidly integrate into the world. China's globalization index increased from 36.3 to 64.3, which exceeded average level of the world as a whole and was even higher than that of countries of the upper high income group. India's

globalization index increased from 31.9 to 62.2, roughly at the same level of the world as a whole. **Compared with developed countries**, developing countries, such as China and India, had a globalization index that is 20-30 percentage lower. **Generally speaking, economic globalization and the opening-up of countries reinforce each other. As the economic globalization develops, it will create demand for all the countries becoming more open. And the more open the policies of those countries, the better the economic globalization will fare.**

II. Increasing Resistance to Economic Globalization

“The more rapid its advancement, the more dangerous its path would be.” Economic globalization is a “double-edged sword”, with both driving force and resistance increasing simultaneously. After the 2008 global financial crisis, populism and extreme nationalism have been on the rise in many countries, which have blamed their own problems on economic globalization, setting off a counter-globalization wave. Economic globalization has entered a new stage of adjustment and momentum accumulation before it can re-start.

1. Rising protectionism

While economic globalization expands the “cake”, which refers to benefits of development, the problem of properly dividing and distributing the “cake” has become prominent. There have occurred increasingly serious contradictions between growth and distribution, capital and labor, and efficiency and equity. The global wealth gap has become so serious that the world’s Gini coefficient has hovered around 0.7. The “victims” of globalization have become increasingly dissatisfactory, setting off a global wave of protectionism. In recent years, there have been major events that typically reflect such a trend, such as Brexit and Trump’s election as the US president. The rise of far-right or far-left parties in some countries, emphasizing that their domestic and national interests should be the top priority of policymaking, while opposing economic globalization and adopting protectionist policies in dealing with other countries. According to a WTO report released in June, 2021, Since the outbreak of novel coronavirus pandemic, the G20 members initiated 140 trade and trade related measures, of which 39 measures or 28 percent were trade restrictive measures.

Box 4-2 Populist Movements in History

There have been three peaks in the history of populist movement. In the first wave of populist movement, including Russia's populist movement in 1870 and the People's Party movement of the United States in 1892, both safeguarding the interests of the peasant class and opposing demands of capitalists. The second wave happened from the 1930s to the 1960s, which included Latin America's populist movement, in which a series of populist economic policies was adopted. Latin America is a rare area in global politics that has provided room for long-term implementation of populist macroeconomic policies. The third wave of populist movement is a by-product of the political transformation of Asia-Pacific countries and regions. It was very influential and had been used as an instrument and political strategy in the transformation of those countries.

2. Global value chains to be reshaped

After the global financial crisis, the developed countries began to analyze the risk of industrial hollowing-out brought about by economic globalization. Many countries tried to revitalize their manufacturing industry. The US put forward the plan of manufacturing reshoring and devised preferential policies to support manufacturing, especially small and medium-sized enterprises, which has produced some results. At the same time, many countries have started the fourth industrial revolution featuring the widespread application of new-generation information technology. Taking the transformation of the German automobile industry as an example. It has transformed from traditional mode of mass production to personalized designing and customized production based on digital technology and artificial intelligence, making manufacturing reshoring more feasible. Study shows that after growing rapidly for many years, the division of labor in the global value chain has approached the "ceiling" of development. According to the *Global Value Chain Development Report 2019* jointly issued by the WTO and other organizations, from 2007 to 2017, the overall average participation in global value chain dropped by 4 percentages. It has become a trend that the global value chain will shrink temporarily and feature decentralization and localized production.

Box 4-3 New Development Trends of Global Value Chain

According to the calculation of World Input-Output Database (WIOD), from 2011 to 2015, the added value created by the production activities of domestic production and domestic consumption alone increased by nearly \$15 trillion, while the production activities of the global value chain involving more than two countries decreased by \$300 billion. It is estimated that by 2030, the proportion of offshore production activities of intermediate products in the total production activities may drop from the current 9.4% to 8.8%.

3. Restructuring of international rules intensifies gaming

“The East is rising and the West is declining” — this is the most revolutionary change in the international power balance. The voice and influence of emerging markets have increased, and the interests of developed and developing countries have clearly diverged. The emerging markets and developing countries as a whole have risen. Their share in global economy and trade increased by about 20% compared with the 1990s, and their proportion in the world’s total foreign investment increased by 18%. The developed countries require emerging market countries to assume greater international responsibilities, aiming to maintain and strengthen their competitive edge through rules, and shift from free trade to “fair trade”. The emerging market countries, as a whole, have risen and are unwilling to passively shoulder “international responsibilities” and “constraints” that have been put forward by the developed countries and that have made it unaffordable for them given their development stage and level of competitiveness. At the same time, the willingness and ability of developing countries to participate in global governance are constantly improving. Continual efforts are needed to promote a more fair and reasonable global governance system. Meanwhile, different countries have different demands in the fields of cross-border e-commerce, intellectual property, digital economy, emerging services industry, and even ecology and culture, which are not directly connected with economy and trade.

Box 4-4 Carbon Border Tariff of the United States and European Union

Tackling climate change is a global challenge. In 1992, the United Nations General Assembly adopted the *United Nations Framework Convention on Climate Change*,

which established the basic principles of *Common but differentiated responsibilities* for international cooperation in addressing climate change. Countries actively promote carbon peaking, carbon emission reduction and carbon neutralization in the form of *Intended Nationally Determined Contributions*. The European Union, the United States and other western countries accelerated the implementation of the Carbon Border Adjustment Mechanism (CBAM). In July 2021, the European Commission launched a carbon border levy plan to impose taxes on imported carbon intensive products such as steel, cement, chemical fertilizer and aluminum, so as to protect EU enterprises from being at a competitive disadvantage due to the adoption of higher environmental protection standards.

4. Eye-catching international governance deficit

The deep-seated contradictions of global development are becoming increasingly prominent: global problems are increasing, but solutions are insufficient; global rules are increasing, but international coordination is insufficient; the global market is expanding, but regulations and supervision are insufficient. Since 2016, some major powers have shown a clear tendency to focus on domestic development, with their stances and views divided on global issues. They have adopted a more selective and pragmatic approach, with the United States withdrawing from some important international organizations. In terms of multilateral trading system, progress of the WTO's Doha-Round Negotiations has been very slow; the selection process of the Appellate Body has been blocked; and the Dispute Settlement Mechanism (DSB) has been paralyzed. Therefore, the authority of multilateralism has been weakened. There lacks similar multilateral institutions and uniform standards and rules in the field of international investment. Trade barriers between countries and relevant sanctions have intensified, increasing costs of government supervision and business operation. In such fields as international finance, digital economy, and internet, new business models have continued to emerge, and the systemic construction of rules has significantly lagged behind the real needs of the businesses. Although the "hard power" of emerging markets and developing countries has somewhat increased, they still lack in "soft power", and they are still unable to undertake the important task of building and improving international economic governance.

III. Momentum of Economic Globalization Remains

From a long-term historical perspective, the development of everything has its own laws. The internal driving force of economic globalization is usually thought to be declining international transaction costs caused by natural or man-made factors, and is the result of productivity development and technological progress. The fall of the Berlin Wall, China's opening-up, the integration of the European Union, and the deepening of the global value chain system — the “global village” has for the first time become a reality in a real sense. Until today, this driving force has not been reversed, and no one can bear the price of moving backwards.

1. Market factor: Demand for economic development becoming the fundamental driving force for economic globalization

In terms of economics theory, market expansion → deepening of division of labor → economy of scale → efficiency improvement → economic growth is an objective law. In essence, all countries suffer from varying levels of contradictions, such as lack of natural resources, capital, labor, technology, and markets. To resolve those contradictions, they must make full use of international markets and resources and make utmost efforts to participate in the international division of labor. The 2008 global financial crisis and this year's novel coronavirus pandemic both have some impact on the international production model. However, the modern industrial production determines that global distribution is more reasonable and efficient. As long as this production pattern and the unified world market do not change fundamentally, there will always be the driving force for the in-depth development of economic globalization. In fact, after the 2008 global financial crisis, global production activities quickly recovered after a brief decline; although the growth rate was not as high as it was before the crisis, the global production had expanded steadily. People have experienced unprecedented integration and had access to the benefits of economic globalization, and it would be a historical “regression” to return to the previous state of isolation, which is not in the fundamental interest of mankind.

2. Technology factor: Technological progress having provided solid material foundation for economic globalization

The scientific and technological revolution is the main driving force for economic globalization. Generally speaking, the great advancement of scientific and technological revolution and the expansion of market division of labor have promoted the rapid development of productivity and led to accelerated globalization. Economist Richard Baldwin holds that economic globalization is an economic phenomenon caused by the successive reduction of three “transportation” costs. First, it is the decreasing cost of transportation of goods, which leads to the concentration of production and the formation of several regional manufacturing sections. Second, it is the reduced cost of information dissemination. The cost of cross-border communications has been greatly reduced, which has brought about another major change in the production model to form a global supply chain. Last but not least, it is the reduction in the cost of personnel mobility, which will further flatten the world in the future. As new energy, new medicine, artificial intelligence, internet of things, virtual reality, 3D printing, blockchain and other cutting-edge scientific and technological achievements become applicable and be applied to industrial production, they will create great new market demands. With the support of the global 5G network, the threshold for some small companies, start-ups and even individuals to integrate into economic globalization has been greatly lowered. Hundreds of millions of people have participated in cross-border e-commerce, and there are more and more cross-border personnel exchanges. Global interconnectivity and free flow of commodities and factors will become easier, and the global economic integration will be further deepened.

Box 4-5 Technological Development Promotes Economic Globalization

The United States has proposed to increase its R&D investment to the highest level in history of 3% of GDP, in an effort to achieve breakthroughs in the fields of new energy, basic science, stem cell research, and aerospace. The EU has increased its investment in the green economy to maintain its leading position in the world in the field of green technology. Japan has focused on the development of energy and environmental technologies, and taken information technology, environmental protection, electric vehicles, medical care, and solar energy as key areas for the development of emerging industries. Russia has proposed to develop nano and nuclear energy technologies. In

tackle climate change, all countries have actively developed new energy industries and accelerated the energy revolution marked by green and low-carbon technologies. New energy vehicles have become the development direction of the global automotive industry. The information network industry is an important driving force for the recovery of the world economy. The global internet is being upgraded to the next generation, and the sensor network and the internet of things are on the rise. In these fields, breakthroughs in key technologies and industrialization will promote industrial revitalization, leading to a new round of industrial transfer, international division of labor, and global market expansion, making it difficult to separate a country's economy from the world economy, with economic globalization thus becoming irreversible.

3. System factor: Global market system and international rules provide institutional foundation for economic globalization

After the end of the Cold War, many countries have successively embarked on the road of market-oriented reform, which has vigorously promoted economic globalization. At present, although the multilateral trading system is struggling, as the global economy undergoes major changes, adjustments and reconstructions, international rules are evolving rapidly, and market-oriented reforms in various countries are deepening, the institutional foundation of economic globalization is still being reinforced. At the same time, regional integration is booming; more and more economies have signed free trade agreements to promote regional openness cooperation, which is an important supplement to the multilateral system and a devious process of multilateral governance. Regional economic integration strengthens internal alliance and the concerned countries can not only enjoy the benefits of the open market in the region, but also rely on it to formulate a higher level of opening-up standards. After the implementation of the rules becomes mature, they can be adopted at the global level, become the universal global rules, and provide the institutional foundation for deepening economic globalization.

4. Security factor: openness security provides new inherent demand for economic globalization

The theory of dissipative structure indicates that an open system can constantly exchange matter and energy with the exterior and move towards an orderly state. In a

closed system, entropy will continually increase, pushing it towards disorder and decay. The same is true for the economic system. Economic globalization has knitted all countries together, and they have to share interests and risks, reducing the possibility of large-scale hot wars. In today's globalization, a country's financial and economic policies can never be confined within its own border. Changes in the monetary policy of the US affect global financial markets, and China's economic policy adjustment also has a significant spillover effect. As their interests are intertwined, economic security has also become a global issue, and no country can deal with it alone; cooperation and joint response need to be strengthened on a global scale. At the same time, global challenges such as climate change, pandemic, and food security are increasing. Global cooperation and global governance need to be strengthened to cope with those global challenges. It has become a pragmatic choice for all countries to strengthen international cooperation, ensure their own security through opening-up, and improve common security. The experiences of East Asia show that a country can have more room for manoeuvre if it has higher level of openness. If one learns to swim in the sea, it would be easier for he or she to swim in the river. the same is true for the opening-up of a country, which can gain an edge in international competition if it voluntarily and pro-actively open up.

IV. New Economic Globalization Trends against the Backdrop of Novel Coronavirus Pandemic

“Warm and cold, we share together.” Globalization has made it easier for the novel coronavirus to spread. But the pandemic will not put an end to global interconnectedness. It is more accurate to say that the basic direction of globalization has not been changed. Only the adjustment of globalization has accelerated to ensure globalization can be more sustainable in the future.

1. Pandemic triggers reflections on economic globalization

The huge impact of the epidemic has plunged the world economy into serious contraction, which is second only to the two world wars and the great depression in 1929 during past 100 years. According to statistics, the world economy shrank by 4.3% in 2020, and the GDP of more than 85% of economies declined. **The epidemic has**

changed people's view of globalization, prompted people to rethink the risks of globalization and re-examine industrial security. In the name of ensuring supply chain security, some countries begun to build self-supporting or diversified industrial chain supply chains. In 2020, the Japanese government implemented the projects Promoting Domestic Supply Chain Investment and that of Supporting Overseas Supply Chain Diversification to support medical, automobile, electromechanical and other enterprises to increase local investment or disperse to Southeast Asia. In 2021, the US' government launched a investigation into the supply chains of four key products, including semiconductor chips, electric vehicle batteries, rare earth minerals and pharmaceuticals, increased the domestic production of key products, and cooperated with Asia Pacific economies for the diversification of their supply chains. Transnational capital also hunted for rebalance between security and efficiency, preferring to sacrifice part profits but also shortening supply chains to avoid risks. Lamy, former director general of the WTO, said that “preparedness” will rise after the epidemic, production will be more localized, and the global value chain will become shorter; “De globalization” may be exaggerated, and it is more likely to be local decoupling, especially in the medical industry.

2. Pandemic highlights urgency of improving global economic governance

Some people can also see opportunities in crises. Some people hold that the existing international governance model has failed to adapt to the development of economic globalization, and **the pandemic has exposed the defects of international governance, which may become a turning point in modern history and bring about a new world order.** The weakening of international cooperation, and the rise of protectionist unilateralism —these characteristics existed before the pandemic hit and became more prominent after the eruption of the pandemic. Henry Kissinger holds that mankind is standing at an epoch-making historical juncture; the pandemic will permanently change world order and it is necessary to prepare for the transition of order and usher in the future world order. In fact, whether the international governance will improve or worsen after the pandemic will depend on the common choice of the international community, especially the choices of major powers, such as China and the United States. In particular, the decoupling theory, the new cold war theory, and the “Thucydides's trap” must be prevented from becoming self-fulfilling prophecies.

The development of digital economy in the post-pandemic era has provided opportunities for improving global economic governance. The pandemic has highlighted the bright future of the “digital economy”. In the post-epidemic era, cross-border data flow and digital trade will become new carriers of globalization, and digital technology, digital infrastructure, and the data governance system will become new opportunities for globalization transformation. Ian Goldin, former vice-president of the World Bank and an globalization expert in the UK, holds that the pandemic will not terminate globalization, but highlight the importance of global cooperation. In the post-pandemic era, trade, investment, and travel will all recover and rebound, and the rapid development of the digital economy may also accelerate the process of globalization.

3. Pandemic can hardly stop mega-trend of economic globalization despite twists and turns

From a long-term historical perspective, “counter-globalization is a necessary episode, and globalization is the mega-trend of the world.” Globalization represents the historical torrent of human progress. Even if there are setbacks in the short term, the general direction of development will not fundamentally change. After a round of governance adjustments and rule revisions, globalization may bring about a new round of economic growth. Raphael Cohen, a US expert in RAND Corporation, holds that globalization has undergone the test of two world wars, the Cold War, the war on terrorism, as well as multiple pandemics and multiple waves of anti-globalization. It has become quite resilient and able to withstand pressure. The current pandemic will never become “the last straw to crush globalization” and will not put an end to globalization. From a dialectical perspective, the anti-globalization force has arisen from globalization. It hinders the development of globalization in the short term, and in the long term, it will in turn force countries to make policy adjustments, which help reduce the resistance to the deepening of globalization and promote its in-depth development.

History speaks volumns about the fact that the development of globalization does not be accomplished overnight. Plague, war, crisis, and changing international landscape may all hinder or even interrupt its development. Economic globalization may hit a trough within a certain period of time, and be blocked, or suffer setbacks, but it is set to move forward, like a river flowing towards the sea despite twists and turns.

Globalization and global openness are two sides of the same coin. Pushing globalization to continually move forward and expand openness of the world is the only way to solve the development problems the world faces today. In the same time-space conjuncture where history and reality meet, all countries should follow the law of historical advancement to move forward, pursue development in accordance with the trend of the times, and adapt to the mega-trend of economic globalization. Those who hesitate and adopt a wait-and-see attitude will only lose opportunities and get lost, while those who forge ahead will gain development and contribute to the world.