Chapter 3 U-Shaped Evolution of Openness: Cases of Typical Countries

For post-industrial countries, the level of openness usually shows a U-shaped evolution, in which it first falls before it rises. The United States and Germany had seized the opportunity window of the industrial revolution through trade protection policies to grow into industrialized powers; Latin American countries mostly had implemented an Import Substitution Strategy in the early stage of industrialization, but after that, they had generally been trapped in economic difficulties, and forced to pursue opening-up; the East Asian economies had at an early stage started to transition from a domestically-oriented development mode to an export-oriented development mode and actively received industrial capacities transferred from the developed economies, thus achieving a growth miracle. China's recent and modern opening-up process still conforms to the law of U-shaped evolution. According to the U-shaped evolution law, China's pace of opening-up will not stop in the future; it will continue to advocate economic globalization, while supporting the establishment of more inclusive international economic and trade rules that are more tolerant of developing countries.

I. Law of U-shaped Openness Evolution

It is generally believed that with the improvement of the level of economic development, the level of openness also gradually increases. But in reality, changes in an economy's openness are often non-linear. On the one hand, the opening-up policy will change in a wave-like pattern with the change of factors such as regime change and external environment; on the other hand, for countries in the process of industrialization, the level of opening-up usually shows a U-shaped evolution, in which it first falls before it rises.

Trade openness is the most important measure of a country's openness, and it is also the most complete and continuous indicator to meansure openness. Some countries had finished industrialization dozens or even a hundred years ago, but were yet to have a complete statistical system. To summarize the U-shaped evolution law of openness in each historical period, in addition to using the World Openness Index, this chapter uses the level of trade openness in the historical data of some earlier stages for research. The level of trade openness is measured by the ratio of total imports and exports to GDP, to be exact.

Traditional industrial powers, Latin American countries, East Asian, and South Asian countries have all proved the law of U-shaped evolution in their opening-up process. The following is a detailed analysis of the opening-up process of the above-mentioned countries amid the U-shaped evolution, and then the U-shaped distribution in the 2020 World Openness Index will be analyzed.

1. Traditional industrial powers

a. Britain

As the most dominant old imperialist power that took the lead in completing the first industrial revolution, Britain began to adhere to a free trade policy in the mid-to-late 19th century. But before that, Britain still experienced a U-shaped evolution from free trade to trade protection and back to free trade again. In the 15th century, with the great geographical discovery and the development of European industry and commerce, a global market began to emerge, leading to the rapid development of European foreign trade, and the level of British trade openness increased during that period. Since the 16th century, to meet the needs of primitive accumulation of capital, Britain began to pursue a mercantilist policy and adopted a series of trade protection policies, which reduced its level of openness. The early mercantilist policies emphasized the deep intervention of the government. After the Glorious Revolution, Britain mainly carried out trade protection through tariff policy. In the mid-19th century, Britain completed its industrial revolution and achieved an absolute dominance in the world market, so it abolished the Corn Laws and other mercantilist policies, and began to move towards laissez-faire.

Box 3-1 Corn Laws: Mercantilism Vs. Laissez-faire

The Corn Laws, promulgated in 1815, prohibited importing foreign grain when the domestic grain price fell below 80 shillings per quarter. The Corn Laws were in nature trade protectionist policies under the guidance of mercantilism, aiming at protecting the interests of the British landed aristocracy.

During the Napoleonic Wars (1803-1815), the price of British corn rose rapidly. With the advent of peace time, the price of corn began to drop significantly. To protect their traditional interests, the British landlord class passed the Corn Laws in 1815 to resist competition from foreign traders selling low-priced grains and maintain domestic grain prices. The Corn Laws, in the first place, harmed the interests of urban factory owners, who hoped to reduce wages and raw material costs through grain imports. The Corn Laws also harmed the interests of workers and peasants, and call for free trade of grain had grown ever stronger. In 1836, the Anti-Corn Law League was established and since then, it had gradually won the support of all classes in the UK.

The Corn Laws were ultimately repealed in 1846, marking the UK's full entry into laissez-faire.

b. United States

After the War of Independence, the United States began to try to get rid of its trade dependence on suzerain Britain and implement an independent tariff protection policy. However, at the early stage of independence, the US' federal system of government resulted in the lack of unified trade policy and the federal government cannot sign trade agreements with foreign countries. Tariffs varied greatly among states, and some states even implemented tariff exemptions. After the Constitutional Convention, Alexander Hamilton's trade protectionism had had a profound impact on the country's trade policy formulation at that time. The Tariff Act and the Duties on Tonnage statute came into effect in 1789, clearly stating that the purpose of tariffs was for "the encouragement and protection of manufactures". In 1816, the United States promulgated a new tariff bill, and the average tax rate on manufactured products soared to 25%, which was obviously aimed to protect its infant industries. In the mid-19th century, the United States vacillated between trade protection and free trade. In the latter part of the 19th century, when the second industrial revolution began, that the United States ultimately passed the McKinley Tariff Act in 1890, with the import tariff rate exceeding 48%. At the turn of the 20th century, the United States became one of the most important industrial powers, and it began to expand globally, proposing the "open door" policy and starting advocating free trade. At that time, the tariffs of the United States were still higher than those of European countries, and only after the implementation of the Reciprocal Trade Agreements Act in 1934 did the United States truly start to embark on the road of free trade.

c. Germany

Germany is a typical country that has achieved industrialization through a U-shaped opening-up path. After its reunification in 1871, Germany first implemented trade liberalization reform, and reduced tariffs several times from 1873 to 1877. As a result, its average tariff level of the manufacturing industry was much lower than that of France, a major industrial power at that time. In the late 19th century, imports from major industrial powers seriously affected Germany's domestic industries, especially the steel industry. In 1879, the Otto von Bismarck government revised the tariff law, sharply raising tariffs on agricultural and industrial products, and Germany began to embark on the road of trade protection. Since then, Germany had maintained high tariffs, consciously supporting the domestic industrial sector; it had levied lower tariffs or even exempted taxes on raw materials and intermediate products, while levying higher tariffs on industrial final goods. Through protecting domestic industries, Germany quickly established its international competitiveness in some fields, such as heavy industry. After the 1890s, Germany signed reciprocal trade agreements with European countries, and the average tariff level had continually declined.

In addition, during the same period, Japan also completed the industrialization process and achieved economic catch-up; its level of openness also showed a U-shaped trajectory (See Fig. 3.1).

Box 3-2 Friedrich List's Infant Industry Protection Theory

German economist Friedrich List (1789-1846) put forward the theory of infant industry protection, which was the first economic theory to describe the U-shaped evolution of openness.

List was originally a supporter of the free trade theory. He migrated to the United States in 1825 and was deeply influenced by Alexander Hamilton's thought on trade protectionism. In 1841, he published The National System of Political Economy, which systematically expounded his economic theory. List divided national development into five stages: primitive undeveloped stage, pastoral life stage, agriculture stage, agriculture united with manufactures stage, and the stage where agriculture, manufactures and commerce are combined.

To promote the development of national productivity, different trade policies need to be adopted at different stages. List believes that trade policies should also be divided into three stages. First, free trade policies should be adopted to pass through the primitive undeveloped stage, the pastoral life stage, and the agricultural stage; then it is necessary to adopt trade protection measures to protect the domestic infant industry as it advances from the agriculture stage to the agriculture united with manufactures stage; finally, the free trade policy should be restored so that the country can actively participate in international competition at the agriculture, manufactures and commerce stage.

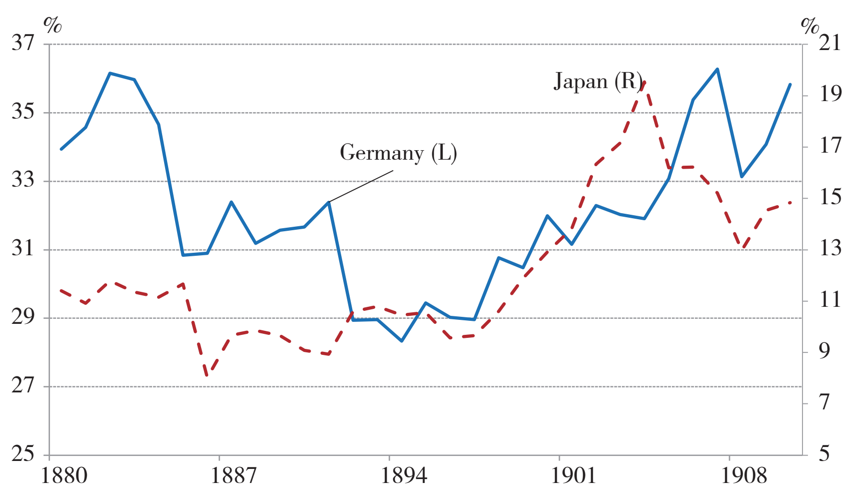

Fig. 3.1 U-shaped evolution of trade openness in the 2nd Industrial Revolution of Germany and Japan, 1880-1910

Sources: International Historical Statistics: Europe, International Historical Statistics: Asia. In the figure, the left axis refers to Germany's level of trade openness, while the right axis refers to Japan's level of trade openness.

2. Latin America countries

The opening-up of Latin American countries has generally gone through a U-shaped evolution trajectory. From the 19th century to the first half of the 20th century, Latin American countries had a relatively high degree of openness. Most Latin American countries had shaken off the colonial rule and achieved independence in the 19th century, becoming relatively open regions in the world. During that period, Latin American countries had a low level of industrialization and their exported products were very limited; they mainly exported primary products, such as agricultural products and mineral, in exchange for industrial manufactured goods from developed countries. After the World War II, the surging wave of national independence worldwide also had a bearing on Latin American countries. In 1949, Latin American countries jointly initiated the United Nations Economic Commission for Latin America and the Caribbean, marking the start of Latin American countries in their pursuit for an independent development path.

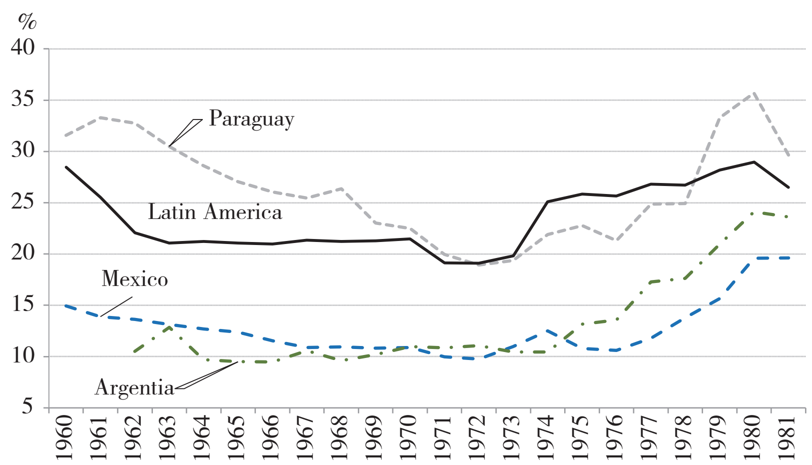

Fig. 3.2 U-shaped evolution of trade openness of Latin American countries, 1960-1981

Source: World Bank WDI database

In the middle and late 20th century, Latin American countries gradually adopted trade protection measures. Reforms in Latin American countries had been deeply influenced by Argentine economist Raul Prebisch. Prebisch found that since the 1930s, foreign trade conditions of Latin American countries had continued to deteriorate, and prices of their exported primary products in comparison with those of developed countries' manufactured goods had moved on a long-term downward trajectory. On the basis of that finding, he put forward the "Centre and Periphery Theory", arguing that the international division of labor at that time was unequal, and the developed countries "in the centre" have enjoyed the dividends of international trade for a long time, while the vast number of developing countries "in the periphery" can only be attached to developed countries; with their productivity levels locked, they can only provide primary products to industrialized countries. To get out of such a predicament, it is necessary for the developing countries to actively develop the import substitution strategy and take trade protection measures to protect domestic industries. Influenced by his theory, major Latin American countries, such as Argentina, Brazil, Chile, Colombia, and Mexico, had generally adopted the import substitution strategy from the late 1960s to the late 1980s, and they had once achieved good economic results. Brazil, for example, created an economic growth miracle in the 1960s.

In the latter half of the 1960s, the drawbacks of the import substitution strategy gradually surfaced and became obvious, and the national competitiveness of the Latin American countries stagnated, which hindered the development of export enterprises and led to continually declining foreign exchange earnings. In the 1970s, due to the impact of the oil crisis, some Latin American countries tried to carry out trade liberalization reform, but most of the Latin American countries still continued to implement the import substitution strategy.

After the start of the 1980s, the Latin American countries gradually shifted to economic liberalism. In early 1980s, the debt crisis that originated from Mexico spread rapidly to the Latin American continent; meanwhile, the East Asian economies, which had adopted an export-oriented strategy, performed well in terms of economic growth. As a result, the Latin American countries started to reflect on and reform their development strategy. To alleviate the debt crisis, they accepted the advices from the IMF and started to open up their economy to the outside world. In the middle and late 1980s, they partially opened up their economy, and then in the 1990s, they carried out comprehensive, full-scale economic opening-up. In 1989, the “Washington Consensus”, which serves to guide the reform and opening-up of Latin American countries, came into being, marking the systematic establishment of economic liberalism in the economic reform policies of Latin American countries. Since then, the trade openness of Latin American countries had continually improved. They had successively joined the World Trade Organization and actively pushed forward regional trade liberalism. In 1995, the Southern Common Market, or Mercosur, was officially launched, becoming the first common market launched and organized entirely by developing countries.

Box 3-3 Washington Consensus

Pushed by the US-based Peterson Institute for International Economics, some international organizations, such as the International Monetary Fund, the World Bank, and the US Treasury Department, and relevant countries held a conference in Washington in 1990 to reach the Washington Consensus, which focuses on the economic reform of Latin American countries.

The Washington Consensus includes ten main contents:

1). Strengthening fiscal policy discipline, with focus on reduction of fiscal deficits and inflation to stabilize macroeconomic situation;

2). Redirection of public spending toward fields with high economic returns and those that contribute to fair income distribution, such as primary education, primary health care and infrastructure investment;

3). Carrying out tax reform to lower marginal tax rates and broaden tax base;

4). Implementing market-determined interest rates;

5). Adopting a competitive exchange rate regime;

6). Trade liberalization and market opening-up:

7). Liberalization of inward foreign direct investment;

8). Privatization of State enterprises;

9). Deregulation;

10). Legal security for property rights.

The Washington Consensus was later widely used in guiding reforms in developing and transition countries. Joseph Stiglitz summarizes it as “minimization of the role of government, rapid privatization and liberalization”.

3. East and South Asian economies

East Asian economies, represented by the “Four Asian Tigers”, have attracted widespread attention due to their success in export-oriented strategy. However, those economies have also undergone a transition from an import substitution strategy to an export-oriented strategy, with their openness still first declining before moving upward.

Unlike Latin American countries, East Asian economies have long been affected by colonization and invasions, and were not able to adopt independent economic policies until after the World War II. To get rid of the control from their former suzerain countries, those East Asian economies had usually adopted an import substitution strategy in developing their economy. For instance, South Korea began to implement an import substitution strategy in 1953, levying high tariffs on, or directly prohibiting imports of, products that can be made domestically. Its economy quickly recovered to pre-war levels and continued to grow. However, such a domestically-oriented development model limited South Korea's ability to utilize overseas markets and resources, which later affected, to an extent, its economic development. Other economies in East Asia that adopted the import substitution strategy were also caught in trade and balance of payments predicament, and so they quickly turned to adopt the export-oriented strategy. In the 1960s, South Korea and Singapore had already started to move towards an export-oriented economy. In the 1970s, some ASEAN countries, such as Malaysia, Indonesia, the Philippines and Thailand, began to implement the export-oriented strategy. Laos and Vietnam, which had long adopted the planned economy model, began to open up their economy in the 1980s.

The East Asian economies has seized the opportunity window of labor-intensive industry transfers by the developed economies and achieved economic growth miracle through adopting an export-oriented strategy. Now much headway has been made in regional trade liberalization. In 2022, the Regional Comprehensive Economic Partnership (RCEP), led by major economies in the region, came into effect, becoming the world's largest free trade agreement in terms of population and economic scale.

India, a major South Asian economy, has also gone through a process in which its openness first decreased before starting to move up in the post-independence era. Although it was one of the earliest members of the GATT, India still practiced trade protectionism for a long time. It is committed to the development of a mixed economy combining capitalism and socialism. In 1951, it started to implement its first five-year plan, putting the economy and trade under strict control while establishing the development strategy of import substitution. The import substitution strategy has provided India with a relatively independent and complete industrial system, but it has also increasingly put it in a growth dilemma. After the 1980s, India began to explore new opening-up policies. In 1991, India abandoned its former development model and began to embrace a free market economy, marking the start of the historical process of gradual opening-up.

4. U-shaped distribution of openness of various countries in 2020

The U-shaped evolution trend of the level of trade openness is reflected not only in the process of economic development of various countries, but also in the comparison of countries with different economic development levels under the same time section. The distribution of the World Openness Index in 2020 is in line with the above-mentioned U-shaped evolution trend.

As shown in Fig. 3.3, an economy with a population of more than 20 million, after its per capita GDP reaches $2,700, would see its economic openness performance index first fall before rising following the increase in its per capita GDP; and the U-shaped bottom is somewhere between $3,000 and $10,000, which falls into the category of lower-middle and upper-middle income economies under the World Bank criteria. As the economy enters the upper-middle and high-income stages, its openness level begins to increase steadily. Among the middle-income economies, Vietnam has the highest level of openness, with its openness performance index reaching 0.246. However, Morocco and the Philippines, which have higher per capita incomes, have lower levels of openness, standing at 0.185 and 0.178, respectively, and Argentina has the lowest level of 0.163. Then after a country's per capita GDP reaches and exceeds $10,000, its openness index begins to gradually increase following the increase in per capita GDP.

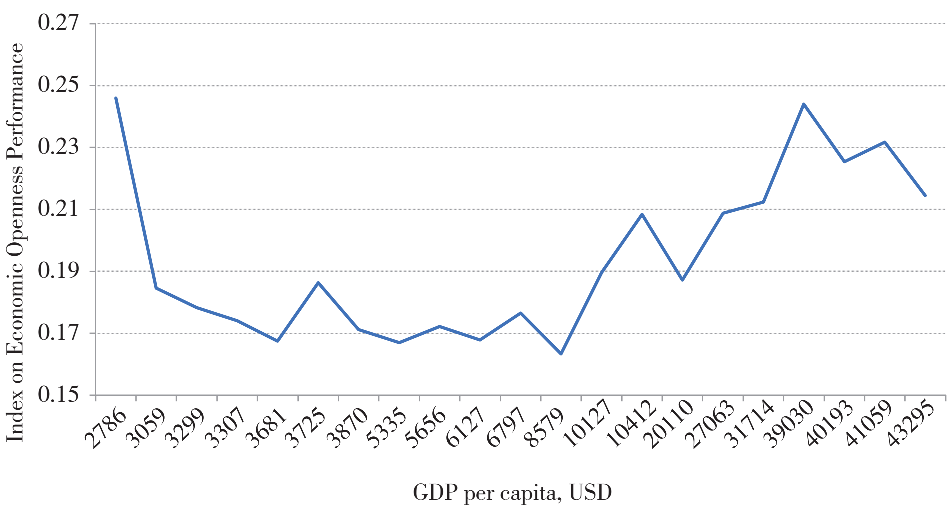

Fig. 3.3 Economic openness performance index in relation to per capita GDP, 2020

Source: World Openness Index 2020 Annual data.

II. Causes of the U-shaped Evolution Law

The law of U-shaped evolution of openness prevails in the process of a country's industrialization. The main reasons are as follows.

1. Choice of development strategy

The main purpose of a country's trade protection is to promote its development of industrialization. The choice of development strategy in the process of industrialization has a direct bearing on the level of openness. At the early stage of economic development, a country exports agricultural products, raw materials, and primary products in exchange for industrial manufactured products from developed countries, and its productivity increases at a relatively slow pace. To eliminate its disadvantage and gain an edge in international trade, it is necessary for a country to promote its domestic industrial development. To that end, it is necessary to reduce the impact of foreign competitors on domestic infant industries; therefore, at such a stage of development, a country usually adopts an import substitution strategy and implements trade protection policies. When a country has had a quite solid domestic industrialization foundation and, as its international competitiveness increases, been able to make profits from overseas markets, then generally it would reduce trade barriers and improve its level of openness.

Box 3-4 Import substitution strategy and export-oriented strategy

The import substitution strategy and the export-oriented strategy are two main economic development strategies in opposite directions.

Import substitution strategy: It refers to a country taking various measures to restrict the import of certain foreign industrial products, promote the production of domestic related industrial products, and gradually replace imported products with domestic products in the domestic market, so as to create favorable conditions for the development of its own industry and achieve industrialization. . It is an inward-looking economic development strategy.

Export-oriented strategy: It refers to the strategy implemented by the governments of developing countries to encourage the export of processed products to replace the original export of primary products, improve the industrial structure, and increase foreign exchange incomes, thereby promoting domestic economic development. It is an export-oriented economic development strategy.

2. The difference of international division

At the initial stage of economic development, a country, based on division of labor of comparative advantages given their different resource endowments, exchanges its abundant domestic resources for the scarce industrial products from developed countries, and its gains from trade are relatively significant; the process of industrialization is actually one of division of labor of "reverse comparative advantages"; to cultivate its domestic industries that are at a disadvantage compared with foreign industries, a country needs to artificially distort prices through necessary trade protection measures; with the further completion of industrialization, the comparative advantage division of labor based on global value chains or the intra-industry division of labor based on economies of scale and differentiation becomes more profitable, and its level of trade openness increases accordingly.

3. International bargaining powers

Economically less developed countries are often put in a disadvantage in international trade and their early-stage opening-up is often a passive move made under the pressure of developed countries; some of them even become de facto economic colonies or vassals of developed countries. As its industrialization process continues, a country will see its international competitiveness improve, and, therefore, it will become more independent in the choice of its trade policies, so that it can be capable of adopting a more independent opening-up strategy. For instance, the North American Free Trade Agreement was first negotiated between the United States and Canada, and on that basis, Mexico joined in. The United States and Canada are both developed countries, and the trade agreements they have formulated have a relatively high level of openness, and Mexico has no choice but accept them.

4. Influence of domestic interest groups

At the early stage of economic development, a country's domestic commerce and trade groups are relatively weak, but as its international trade grows continually, some vested interests would come into being. They generally pursue trade surplus, call for the protection of domestic enterprises, and promote the introduction of trade protection policies. Once that country's productivity increases significantly and becomes relatively strong international competitiveness, its domestic interest groups often change their stance and support free trade to facilitate their efforts to grab profits in overseas markets.

5. Influence of major global powers.

The concepts and trends of free trade and trade protectionism are generally influenced by the leading powers at that time. For instance, Britain had influenced the modern European thought of trade liberalization and the United States' influence had given rise to Germany's theory of protecting infant industries. After the World War II, the Soviet Union became an important pole in the "bipolar" structure and the global influence of socialist countries increased day by day; some developing countries at that time opted to achieve fast industrialization through planned economy and import substitution strategy. After the 1980s, the United States gradually gained an upper hand in the competition between the United States and the Soviet Union, and market economy and free trade, advocated by the United States, began to become the international norm, which affected the adjustment of opening-up policies of the developing countries.

The above-mentioned factors combine to shape the U-shaped evolution in the opening-up process, but they are not the only elements to influence an economy's level of openness. Some economies, due to other factors, may deviate from the U-shaped openness evolution trajectory. For instance, in terms of cross-sectional comparison, large countries tend to have a larger domestic share, and their level of openness, measured by the proportion of trade in GDP, is significantly lower than that of small countries; in terms of time scale, the anti-globalization trend has become apparent in recent years, and the openness level of various countries tends to decline. Those adverse factors, however, are not typical in the process of economic development, and generally do not change the U-shaped evolution trajectory.

III. China's Opening-up Process and Law of Evolution

1. China's opening process and law of evolution since 1840

Since 1840, China has undergone dramatic changes and it has not had consistent trade policies. However, during different historical periods, China has been faced with the issue of modernization and opening-up, and the law of U-shaped evolution of openness has remained applicable to China's modern development process since 1840. Before the founding of the new republic in 1949, China had been forced to open up under the oppression of foreign powers; after the founding of the new republic, the West imposed economic blockade on China and the latter started to pursue an independent development and industrialization strategy; since the start of reform and opening-up in late 1970s, China has actively embraced economic globalization, and its level of openness has continued to rise.

a. Before the founding of the new republic

China became a semi-colonial and semi-feudal society after the opium wars, and the Western powers forced China to sign a series of unequal treaties, which led to China opening up to the outside world. China opened up trade ports and established a modern customs system. Judging from the tariff rate, the import tariff rate of ordinary goods at that time was only 5%, which was even lower than the average tariff level of countries in Europe and America in the same period. However, it must be pointed out that the opening-up of the Qing Dynasty government at that time was passive and the government did not independent in the formulation of the opening-up policy. After the Treaty of Peace, Amity, and Commerce, between the US and the Qing government, and the Treaty of Whampoa, between France and the Qing government, were signed, China accepted the principle of "agreement on tariffs" and lost the right to tariff autonomy. Even China's customs were taken over by foreigners. Although such passive opening-up brought massive fiscal revenues to the Qing government, it had failed to bring the prosperity of the Chinese economy. China continued to mainly export primary products, such as agricultural products, and its terms of trade continued to deteriorate.

In the wake of the 1911 Revolution, or the Xinhai Revolution in 1911, China was yet to complete its industrialization process, and gradually lost its traditional comparative advantages in agricultural products. Although the customs at that time were still managed by foreigners, China had obtained the right to formulate tariff policies. From 1921 to 1928, China's import tariff rate was 3%-5%, and it rose to 8.5% in 1929, and eventually to 25-27% in 1934-1936. However, the protectionist measures during that time failed to bring about an increase in exports and economic prosperity.

b. Pre-reform and opening-up period

After the founding of the new republic in 1949, Western countries began to block and impose embargo on China, and China was forced to adopt a "lopsided" trade model, engaging in trade with socialist countries, such as the Soviet Union. To catch up with and emulate the industrialized powers within a short period of time, China adopted a development path that prioritizes heavy industry, which, in essence, remained an import substitution strategy. During that period, China was at the bottom of the U-shaped openness evolution, and it established an independent and complete industrial system, laying a solid foundation for the economic take-off after the start of the reform and opening-up initiative.

c. Post-reform and opening-up period

After it started its reform and opening-up drive in late 1970s, China actively integrated into economic globalization, achieving a miracle of economic development and trade growth through bringing out its comparative advantages and participating in international division of labor. Unlike the "shock therapy" advocated by the developed countries, China's opening-up is a gradual process. On the one hand, it has maintained economic and social stability, and, on the other hand, it has gradually opened up different regions and sectors. China's level of openness has been continuously improved, and the total tariff level has dropped significantly from 43.2% in 1992 to 15.3% in 2001. After joining the World Trade Organization in 2001, China expanded its opening-up in an all-round way and deeply integrated into the global value chain. Since the 18th National Congress of the Communist Party of China in 2012, China has further expanded its opening-up, and its overall tariff rate has declined to 7.4% in 2021. China has deeply integrated into the global industrial chain and supply chain, and has become the center of regional division of labor. It is the main trading partner of more than 120 countries and regions, and the largest trading partner of more than 50 countries and regions. It plays a pivotal role in the global division of labor and trade.

2. The U-shaped evolution of openness and prospect of China's future opening-up pattern

In recent years, economic globalization has continued to suffer setbacks, and the world openness index has been in a descending channel. Since the outbreak of the novel coronavirus pandemic, or COVID-19, trade, investment, and personnel flows across different countries have suffered serious setbacks. In the new historical era, where will China's opening-up head for? Based on the law of U-shaped evolution of openness, this paper looks into the future trend of China's opening-up.

a. China will not stop the pace of opening-up

General Secretary of the Communist Party of China Xi Jinping has reiterated that no matter how the international situation changes, China will unswervingly expand its opening-up. From the perspective of theoretical support, the law of U-shaped evolution of openness shows that China has completed its accumulation of industrialization basis, gained quite strong global competitiveness, and become a beneficiary of, and contributor to, economic globalization. China now is in the ascending channel of the U-shaped openness evolution trajectory, and there is no reason for it to turn back in the future.

b. It is the common feature of any country with a large population or economic size to mainly focus on "domestic economic cycle"

The U-shaped openness evolution theory emphasizes that only by examining countries with similar characteristics can scientific and reasonable laws be concluded. The degree of openness, measured by trade as a share of GDP, is not suitable for comparisons between countries with large differences in economic size. For a country with a large population or economic size, due to its vast domestic market, even if its level of openness is high, it will not maintain a high degree of trade dependence for a long time. If we take the ratio of trade to GDP in the US and Japan as a benchmark, then China's trade-to-GDP ratio is still too high (see Fig. 3.4)[①], indicating that China's past development has mainly relied on "external cycle", and a reduction in its trade-to-GDP ratio in the future does not mean China's level of openness will decline, but a normal adjustment to achieve a more rational trade dependence.

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① Fig. 3.5 shows that the US and Japan each have a stable trade-to-GDP ratio, which has been kept between 20% and 30% in recent years. China's trade-to-GDP ratio gradually peaked after it joined the WTO and has declined gradually and shown a stabilizing trend in recent years, although it remains higher than that of Japan and the US. As a major country whose economic size is close to that of the US and whose population is multiple times that of the US, it is reasonable for China to have a higher ratio of "domestic economic cycle".

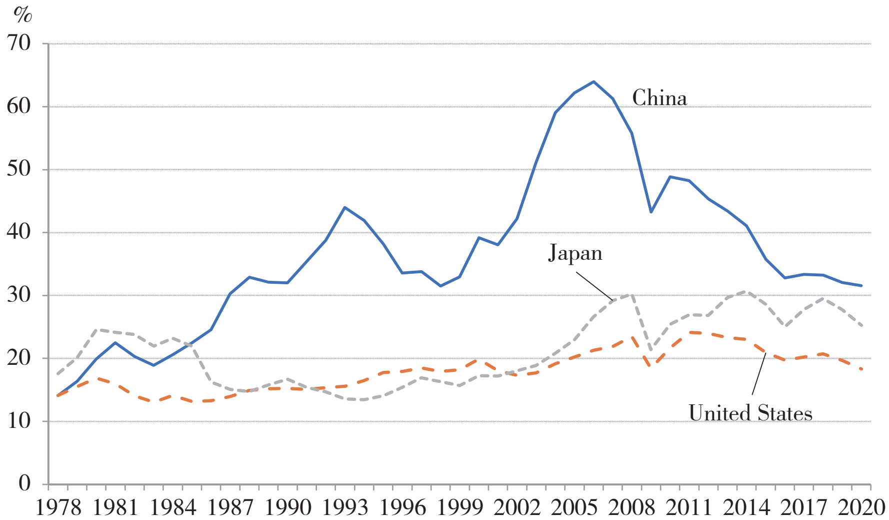

Fig. 3.4 Comparison of trade-to-GDP ratio in China, United States and Japan, 1978-2020

Source: World Bank WDI database

c. The level of openness, as a country's choice, is highly related to the stage of its economic development, and international economic and trade rules that are more inclusive to developing countries should be established.

The law of U-shaped evolution of openness shows that it is necessary for economies that have not yet completed industrialization to protect their infant industries, and should not go beyond its capabilities to pursue the same level of openness as developed countries; meanwhile, the objective laws of economic development, such as that of comparative advantages, should be respected. The protection of a country's infant industries should be conducive to promoting the development of productivity so that the country can become able to integrate into the global division of labor as soon as possible. China will continue to advocate economic globalization, encourage and help developing countries improve their level of openness; at the same time, it will safeguard the interests of developing countries in the international economic and trade system, and call for the establishment of more inclusive international economic and trade rules for developing countries.