

The Positive Correlation of the International Openness of an Economy and Its Development Speed

The growing internationalization of almost all economies was a decisive trend during the long period of relative global international economic stability and growth after WWII – a marked contrast to the 1929-45 global



Alibaba founder and Executive Chairman Jack Ma at a meeting with then President-elect Donald Trump at Trump Tower on January 9, 2017.

economic fragmentation, marked by the infamous U.S. Smoot-Hawley protectionist tariff, which witnessed the greatest economic crisis in modern world history.

Theoretical understanding of these economic advantages has existed for more than 200 years. The first sentence of Adam Smith's seminal work of modern economics, *The Wealth of Nations*, from which the rest of its analysis stems is: "The greatest improvement in the productive powers of labour ... have been the effect of the division of labour."

But division of labor in a modern economy has reached the point where it is necessarily international in scale. International supply chains, which alone ensure the cost-efficiency of modern production, flow from the reality that different countries have different advantages in different parts of production. Attempts to create self-contained national economies inevitably make economies less efficient.

Therefore, every strategy of "import substitution" in



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Canadian Finance Minister Bill Morneau and President of the Asian Infrastructure Investment Bank (AIIB) Jin Liqun hold a joint press conference at the AIIB headquarters in Beijing to announce Canada's application for AIIB membership.

the attempt to create a national self-contained economy, whether of a capitalist type (Argentina, Brazil) or a socialist one (the U.S.S.R.), has failed.

Protectionism's negative effects would hit even the U.S. – the world's largest economy – increasing prices of imported goods for consumers and producers, while restricting export markets. Even for the U.S., three quarters of the world market in financial terms, and 95 percent of the world's customers in people terms, lie outside its borders. A protectionist U.S. economy focused only on its domestic market can never match the advantages of orientation to a global economy.

For Germany, 95 percent of its potential market is outside its borders, for Brazil 97 percent, for Australia 98 percent, and for Thailand over 99 percent. Such countries, therefore, applaud Xi Jinping's unequivocal defense of globalization, not because of deference to China but from national self-interest because globalization really is "win-win."

Even a notably anti-China analyst such as Philip Stephens therefore notes, "It is a U.S. president who is now bringing down the curtain on the Pax Americana." As a consequence, Stephens adds: "There is ... an opportunity for China. Classical geopolitical theory has it that, in a collision between established and rising powers, the upstart is the destabilizing force. When the elites of Davos gather for their annual fest of self-congratulatory backslapping, it would be something of an irony were Mr. Xi to appear as the voice for stability."

These fundamental facts, with their political consequences, are why numerous countries, including American political allies like Germany or Australia, expressed open disagreement, even alarm, over Trump's protectionist statements.

For political reasons, the leaders of these countries will not state openly that they agree more with China's positions on globalization than with the U.S. President. While minority protectionist political currents do exist in a number of countries, anti-globalization policies are only in force and being actively pursued in some Anglo-Saxon countries – the U.S. under Trump and a U.K. which shot itself in the foot with Brexit.

This is why China is now openly acquiring “thought leadership” in the global economy, and why Xi Jinping's speech has aroused such interest. China is not only the world's second largest economy, but by far the largest that is unequivocally committed to globalization.

Seeing as, for political reasons, key allies of the U.S. can only speak in muted tones, China openly articulates what others think. As Stephens puts it: “China can cast itself as a guardian of global governance and the torch-bearer for the open trading system. Mr. Xi champions the Paris Climate Change Accord, defends the international community's nuclear deal with Iran and expands trade liberalization in Asia ... It is the president-elect who now threatens to upend a decade-long Sino-U.S. understanding that has kept the peace in the Taiwan Strait.”