Making Economic Globalisation Win-Win for All

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Introduction

- How can countries cooperate and compete with one another constructively?
- There should be two simple yet basic principles—
  - First, the same rules of the game apply to all countries; and
  - Second, there is a level playing field for all.
- How can such a state be achieved?

1. Maintenance of Economic Openness

- How can true economic openness be achieved and maintained? I would propose the goal of a "Four-Zeroes Strategy"—zero tariffs, zero non-tariff barriers, zero subsidies and zero export restrictions.
- All countries will be granted these privileges by one another based solely on **reciprocity**, that is, each participating country has to commit to granting any other participating country the same four privileges as long as the other country grants the same four privileges to it. This is simple to implement and simple to enforce because it is based solely on reciprocity.
- **"Infant industry" exceptions** for tariffs and subsidies will be allowed for new start-up industries, but for only a prescribed limited period. There can also be exceptions for armaments and weapons and for illegal drugs. Dumping and anti-dumping regulations will no longer be necessary for countries subscribing to the "Four-Zeroes Strategy" as they can be taken care of with re-exports of "dumped" goods back to the originally exporting country, where the domestic price is supposedly higher than that of the exports.

2. Reducing the Costs and Risks of Cross-Border Transactions

- Two trading-partner countries often invoice, clear and settle their international trade transactions with each other in a third currency, e.g., the U.S. Dollar, because neither of them trust the currency of the other.
- However, all exporters and importers can benefit by invoicing, clearing and settling their international transactions with their trading partners in another country in their own respective currencies instead of a third-country currency. This is because the use of own currency requires only one single currency conversion, and hence reduces the transactions costs. In addition, it also reduces the exchange rate risks because it eliminates the risks of fluctuations of the exchange rate of the intermediary currency.
- (Under the Bretton Woods agreement, which operated until 1971 under the administration of the International Monetary Fund (IMF), countries cleared and settled their international transactions in their own respective currencies.)

2. Reducing the Costs and Risks of Cross-Border Transactions

- Trading countries should be encouraged to use their own respective currencies to clear and settle their international transactions on a voluntary basis.
- Central banks of these countries should stand ready to buy or sell forward currencies at cost from or to bona fide exporters and importers to encourage the use of own currencies for clearing and settlement of their international trade transactions.

3. Compensating the "Losers"

- While economic globalisation has brought huge benefits to all countries in the world in the aggregate, including both China and the U.S., it has also created "winners" and "losers" in every country. The "winners" are the exporters. importers and the producers of exports, and their owners and workers, and the consumers and users of imports; and the "losers" are the owners and workers of the industries whose products are displaced by imports.
- Economic globalisation actually generates sufficient gains in each country in the aggregate so that, in principle, everyone can be made better off than before. However, the free market on its own will only reward the "winners" but cannot compensate the "losers". It is the responsibility of each government to tax the gains of the winners to compensate the "losers" in its own country. Unfortunately, very few governments have managed to do so successfully.

3. Compensating the “Losers”

- It is the failure, over a long period of time, of many governments to compensate the “losers” from economic globalisation that has led to the rise of populism, protectionism and isolationism and the demands for economic de-globalisation worldwide.
- The people who did not benefit from economic globalisation all these years want to reverse economic globalisation. But since economic globalisation is win-win, economic de-globalisation must be lose-lose. In order to promote and support continuing economic globalisation, governments must tax the gains of the “winners” and use the proceeds to compensate the “losers”.

3. Compensating the "Losers"

- How can the "winners" be taxed on their gains from economic globalisation?
- A very simple idea is to levy a tax on both exports and imports of goods, say, equal to 0.5% of the value of the exports and imports. Such a tax is also easy to collect. The proceeds will be used to retrain the displaced workers and to provide transitional subsistence support for them.
- In the case of China, total exports and imports of goods amounted to US$4.5 trillion in 2019. A 0.5% tax will generate US$22.5 billion a year. Chinese household consumption per capita in 2019 was approximately US$4,000. Assuming that each displaced worker is provided a grant of US$4,000 a year to support him (or her) and the family, 5.6 million workers displaced by imports and their families can be compensated.

Concluding Remarks

- Economic globalisation has brought great benefits to every country in the world. It should definitely be continued.
- However, it should be made win-win for everyone in every country. That is the only way to make economic globalisation sustainable in the long run.
- Economic globalisation that does not leave anyone behind will also bring peace and harmony to the entire world because it will increase economic interdependence among all countries.