

CPC Futures

*The New Era of
Socialism with
Chinese Characteristics*

Frank N. Pieke and
Bert Hofman, editors



15

Dual Circulation and Its Impact on China and the World

Sarah Y. Tong

In May 2020, while the country was battling a devastating global pandemic, the government of China proposed the “Dual Circulation Strategy” as an important policy initiative and a key pillar of a new development paradigm. This raises several intriguing questions. What does the dual circulation strategy really entail and what does the government hope to achieve? What underlying rationales prompted the new strategy? Should China’s dual circulation strategy be viewed as an economic policy initiative or a geostrategic one? And finally, what are the economic implications, in China and the world at large?

The Main Idea and Key Objectives

The term “dual circulation” first appeared in a news report on 14 May 2020 on the Communist Party of China (CPC) Central Committee’s Politburo Standing Committee meeting held four months earlier on 7 January 2014. The report noted that “it is necessary to deepen the supply-side structural reforms, give full play to China’s advantages of a huge domestic market and the potential of domestic demand, and build a new development pattern in which domestic and international dual circulation reinforce each other” (*Xinhua* 2020a). The official phrasing on dual circulation was later modified by President Xi as “it is necessary to promote the formation of a new development pattern which takes the domestic circulation as the mainstay while internal-external dual circulation reinforce each other” (*Xinhua* 2020b).

The frequent emphasis on “dual circulation,” and especially the importance given to domestic circulation, points to an evident shift in the leadership’s

strategic thinking about development. For over three decades since the late 1970s, the overriding approach has been to open up China, from coastal to inland regions and from goods to services, and to bring China out into the global market place through trade and investment. Such a strategy was termed “two ends outside, big import and big export” (*Xinjingbao xin jiemei* [Beijing News New Media] 2015). The new strategy is intended to cultivate a strong domestic-based economy that serves as an anchor for China’s economic interactions with the rest of the world. In other words, the dual circulation strategy aims to reorient economic activities towards building up and satisfying domestic demand, production and supply chains.

Such a strategic reorientation is considered essential to China from at least two viewpoints. One is the long-term perspective of domestic sustainable development. In his speech at the 7th Meeting of the Central Financial and Economic Commission on 10 April 2020, later published in *Qiushi* (Seeking Truth), Xi Jinping emphasised that “the world is undergoing profound changes unseen in a century (...) We must (...) carry out more long-term thinking, improve the strategic layout, turn crises into opportunities, and achieve high-quality development” (*Qiushi* 2021).

The other is the external environment, in which dual circulation aims to provide China with new and stronger advantages in the country’s international economic engagement. In the speech delivered at the Forum of Experts in Economic and Social Fields on 24 August 2020, President Xi highlighted that “this new [dual circulation] development paradigm (...) is a strategic choice to reshape our country’s new advantages in international cooperation and competition” (*Xinhua* 2020c). Moreover, in the speech Xi stressed that the new approach builds on China’s advantages of a super-large market, complete industrial system, and significant enhancement in independent innovation capabilities and the resulting technological advancement. To some, this indicates that the dual circulation strategy aims at “the pursuit both of economic self-reliance and of greater economic leverage over foreign countries” (Fengyang 2020).

Motivation and Prerequisites

On 25 November 2020, China’s official newspaper, the *People’s Daily*, published an article on China’s dual circulation strategy by Liu He, China’s vice-premier and a main economic advisor to President Xi (*Renmin ribao* 2020). The article highlighted three key considerations underlying China’s dual circulation strategy, namely, to meet the inherent demand for sustaining China’s economic development; to respond to the complex and changing international environment; and to take advantage of China’s super-large economy.

On the first of Liu's considerations, the government deems economic development a progressive process, one that advances in stages. A country's development strategy must be dictated by its level of development. New forces are now needed to sustain future growth. When China's annual per capita GDP approached and subsequently passed the USD 10,000 mark in 2019, new challenges and contradictions emerged. China's dual circulation strategy, which focuses on innovation-driven quality development, is viewed as a proactive solution to many of these challenges.

While the intrinsic need to upgrade the economy has long been recognised, the rapidly changing external environment is a more direct factor for the shift in development strategy. These changes include "the shrinking global market, depressed world economy, and weakening international circulation", resulting in "prevalent populism and growing protectionist tendencies [in major Western countries] and a widespread backlash against globalization". In addition, the ongoing COVID pandemic has "intensified anti-globalization tendencies, leading to major shocks to worldwide production chains and supply chains, and increased risks". Therefore, the article concludes, China has to adjust its development path: "while striving to open up international circulation, we should further unblock the domestic circulation, enhance self-reliance, sustainability, resilience, so as to maintain stability and healthy development in the economy".

Liu's third consideration concerns China's advantages due to its super-sized economy. On the demand side, the advantages come from the rapidly expanding domestic market with a population of 1.4 billion, a middle-income group of over 400 million people and the country's continued march towards a high-income economy. On the supply side, China has a relatively high savings rate, a large and complete industrial system and comprehensive material and social infrastructure. These conditions, it is believed, will enable the implementation of the dual circulation strategy that not only facilitates China's sustainable development, but also serves to drive economic recovery and growth for the world at large.

Economic Rationale vs. National Security

While the above discussion points to important economic factors for the proposed dual circulation strategy, there is clearly a significant national security element in China's overall policy thinking as well. This is shown first and foremost by the prominence given to the advancement of science and technology (S&T) and innovation, which are considered the key to boost domestic circulation and enable China's active role in international circulation. In particular, greater efforts are called for to strengthen China's self-reliance and overall capability in S&T,

especially in basic research and original innovation. Furthermore, a stronger S&T capability is considered significant to strengthen China's production and supply chains, to advance China's position in the global technological league, and to further enhance such ability through open international exchange and cooperation.

National security considerations are also reflected in the government's repeated emphasis on managing risks. Indeed, China's dual circulation strategy, with domestic circulation as the mainstay, is considered central to help reduce the vulnerability of the economy to external shocks. Due to its heavy reliance on global markets, China is vulnerable to a deceleration in global growth, rising populism, protectionism and anti-globalisation. Even graver are the risks of the economic and technological decoupling and geopolitical rivalry between China and the United States.

Perhaps somewhat counter-intuitively, China's focus on national security in the dual circulation strategy corresponds with the country's insistence on continued opening and international cooperation. Having recognised the danger of escalating geopolitical tensions with countries like the United States and Australia, China considers it significant to improve and cultivate relations with other countries, especially its main economic partners. By insisting that domestic and international circulations will interact and reinforce each other, China hopes to minimise the risk of rising geopolitical tensions and possible international isolation.

Economic Implications for China and Its Major Trading Partners

As a long-term policy of innovation-driven and domestic demand-based economic development, the dual circulation strategy will have important implications for China and the world, especially those with close economic ties with the country.

Regarding China's domestic economy, the dual circulation strategy promises to enhance capacity and accelerate progress in science, technology and innovation, as well as to better coordinate domestic supply and demand. Moreover, the government's drive for common prosperity (see the chapter by Bert Hofman in this volume), important for building up domestic consumption,¹ forms another important pillar of the so-called new development paradigm. These could considerably improve the allocation of domestic resources and overall efficiency, thus helping to sustain China's long-term development.

China's drive for stronger self-reliance and sustainability will have an important but varying impact on its trading partners. Countries that are less

industrialised, and thus less in direct competition with China, could benefit from the reconfiguration of supply chains in East Asia as a result of China's efforts to move up the technology ladder towards high-value-added activities. Relatively more resource-based economies could also gain from China's greater demand for raw materials. Meanwhile, China's drive to enhance its technological progress and improve domestic production chains will apply more competitive pressure on countries that currently still possess a technology lead over China.

Internationally, China's dual circulation strategy could also have important economic implications. China continues to be committed to economic opening and international cooperation, largely due to its own national security considerations. China's sustained development could therefore continue to generate regional and global growth. Moreover, to minimise the risks from a possible deterioration in Sino-U.S. relations, China would likely seek to enhance cooperation with regional economic partners like the ASEAN member states.

It is useful to note that China's dual circulation strategy is more like an aspiration for long-term development than a concrete plan of action. Thus, the strategy faces numerous challenges and uncertainties. Domestically, the supply-side structural reforms and policies to reduce income disparity and strengthen consumption, having been in place for nearly a decade, have yet to produce significant results. More importantly, it remains to be seen to what extent China's state-driven and domestic-oriented efforts will in fact materially accelerate technological improvement.

Greater uncertainties lie in China's external environment, including how China's dual circulation strategy is perceived and how China's trading partners react. Despite serious tensions between China and some other countries, there are areas where common interests and mutual gains from cooperation continue to exist. In addition to combating climate change and developing green technologies, there are many other challenges that require a concerted response, such as global pandemics, regional conflicts and other humanitarian tragedies.

China's Dual Circulation Strategy is considered a long-term initiative directing the country's future development, although specific policy designs and implementation will be affected by evolving domestic and external circumstances. In particular, the upcoming Party Congress may introduce changes in policy priorities, notwithstanding that the Dual Circulation Policy as a guiding strategy will likely be retained. In the meantime, given weakening growth performance and rising external risks, the government will likely place stronger emphasis on stimulating the domestic economy and reinforcing domestic circulation, such as providing more policy support to the private economy and emerging sectors.

Note

¹ Many believe that wide income inequality is an important cause of sluggish consumption in China (e.g. Chi Hung Kwan, “Dual Circulation’ as China’s New Development Strategy: Toward a Virtuous Cycle between Domestic and International Circulations”, available at <https://www.rieti.go.jp/en/china/20101301.html> [accessed 18 May 2022]). However, some believe that the common prosperity policy may not be sufficient; see Michael Pettis, “Will China’s Common Prosperity Upgrade Dual Circulation?”; available at <https://carnegieendowment.org/chinafinancialmarkets/85571> (accessed 18 May 2022).

References

- Fengyang. 2020. “China’s ‘Dual-Circulation’ Strategy Means Relying Less on Foreigners”, *The Economist*, 5 Nov. Available at <https://www.economist.com/china/2020/11/05/chinas-dual-circulation-strategy-means-relying-less-on-foreigners> (accessed 7 August 2022).
- Qiushi 求是. 2021. “Lici zhongyang caijing weiyuanhui huiyi, zongshuji qiangdiao le shenme?” 历次中央财经委员会会议，总书记强调了什么？ [What did the general secretary emphasize at the meetings of the central finance and economics committee?], 21 Aug. Available at http://xinhuanet.com/politics/2021-08/21/c_1127783368.htm (accessed 7 August 2022).
- Renmin ribao* 人民日报 [People’s Daily]. 2020. “Jiakuai goujian yi guonei da xunhuan wei zhu, guonei guowai shuang xunhuan xianghu cujin de xin fazhan geju” 加快构建以国内大循环为主体、国内国际双循环相互促进的新发展格局 [Accelerate the construction of a new development pattern with the domestic cycle as the main body and the reinforcement of the domestic and international cycles], 25 Nov. Available at http://www.gov.cn/guowuyuan/2020-11/25/content_5563986.htm (accessed 7 August 2022).
- Xinhua* 新华. 2020a. “Zhonggong zhongyang zhengshijie changwu weiyuanhui zhaokai huiyi Xi Jinping zhuchi” 中共中央政治局常务委员会召开会议 习近平主持 [The Standing Committee of the Politburo of the CPC Central Committee held a meeting chaired by Xi Jinping], 14 May. Available at http://www.xinhuanet.com/politics/leaders/2021-01/07/c_1126957353.htm (accessed 29 July 2022).
- _____. 2020b. “Zai jingji shehui lingyu zhuanjia zuotanhui de jianghua” 在经济社会领域专家座谈会上的讲话 [Speech at a forum of experts in economic and social fields], 24 Aug. Available at http://www.xinhuanet.com/politics/leaders/2020-08/24/c_1126407772.htm (accessed 29 July 2022).
- _____. 2020c. “Kan Xi Jinping jici zhongyao jianghua, nongdong ‘da xunhuan’ ‘shuang xunhuan’” 看习近平这几次重要讲话，看懂‘大循环’‘双循环’ [Reading Xi Jinping’s important speeches and understanding the “big circulation” and “double

circulation”], 5 Sept. Available at http://www.xinhuanet.com/politics/xxjxs/2020-09/05/c_1126455277.htm (accessed 29 July 2022).

Xinjingbao xin jiemei 新京报新媒体 [Beijing News New Media]. 2015. “Li Keqiang: Zhongguo waimao yao cong ‘dajin daschu’ zhuanxiang ‘youjin youchu’” 李克强：中国外贸要从‘大进大出’转向‘优进优出’ [Li Keqiang: China’s foreign trade should shift from “big import and big export” to “excellent import and excellent export”], April 2015. Available at http://www.gov.cn/xinwen/2015-04/04/content_2842997.htm (accessed 29 July 2022).