

China's 'Dual Circulation' Strategy: Urgent Needs for Greater Economic Self-reliance

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Abstract

China's rapid development, huge economic output, national strength, and improvement of people's living standards are the remarkable results of the transformation from being an isolated economy to a highly globalized one since 1978. In recent years, China's economy has undergone profound challenges from the international environment such as rising protectionism, economic stagnation, and the COVID-19 pandemic. In such a context, the dual circulation strategy (DCS) has been introduced by the Chinese Communist Party (CCP) as a new economic model for the next five years and beyond, aimed at boosting China's domestic demand and simultaneously creating favourable conditions for domestic and overseas markets to complement each other. This study emphasizes the necessities of transforming to DCS because of both prominent contradictions in the internal economy as well as complex changes in the international economic environment. It also affirms that China's new economic model is towards a more sustainable economy to hedge against external risks.

Keywords: dual circulation strategy, prominent contradiction, sustainable economy

1. Introduction

Since the reform and opening up of more than 40 years, the super-high-speed development of China's economy depends not only on China's choice of the correct development path, but also on the favourable external environment provided by the last round of economic globalization. On the one hand, China has undertaken industrial transfer from developed countries and achieved a substantial increase in product supply capacity; on the other hand, in a prosperous and stable market environment, China is facing strong worldwide demand. China has transformed from a "small country" at the beginning of reform and opening up to a giant open economy with super-large market advantages and strong domestic demand potential.

However, since the financial crisis in 2008, the international market has continued to slump. Moreover, under the influence of counter-globalization from the West and the COVID-19 crisis, the world economy has experienced a deep recession with considerable reduction in international trade and investment. Conversely, after more than 40 years of reform and opening-up, China's domestic market continues to expand. So far, China has the world's most complete and largest manufacturing capacity and huge domestic demand market. The country is in the rapid development stage of new industrialization, informatization, urbanization, and agricultural modernization with huge investment demand potential.

In such context, the Xi Jinping's administration introduced a novel economic model called the "dual circulation" strategy (DCS) which was mentioned for the first time at a meeting of the Politburo in May 2020 (祝嫣然, 2020). In general, the two-pronged strategy is aimed at boosting China's domestic demand and simultaneously creating favourable conditions for domestic and overseas markets to complement each other. The paradigm became a key priority in the Outline of the 14th Five-Year Plan for National Economic and Social Development and Long-Range Objectives through the Year 2035 in China which is adopted in March 2021 (Tsang and Poon, 2021). According to Chinese leaders, a new economic paradigm allows the country to take advantages of super-large market scale, and to deal with global economic volatility and increased geopolitical encirclement.

This study argues that there are external and internal factors which promote the transformation of China's economic model, including the solid foundation provided by the domestic development of China, prominent contradictions in domestic economic operation, complex changes in the international economic environment and China's reliance on other countries for critical goods. The article is organized as follows: firstly, it explains the 'the dual circulation strategy' concept based on Chinese leaders' statements and other economic theories and the four reasons why China introduced the DCS will be analyzed. Then, it demonstrates how the DCS is implemented and the impact of this new strategy on the world in general and on ASEAN in particular.

2. Scientific Connotation of DCS

The economy of a country consists of domestic and foreign production and consumption activities. In the context of economics, 'domestic circulation' or 'internal circulation' is considered to be national economic activities.

According to Dr. Alex Payette (2020), the policy of 'domestic circulation' (内环, *neihuan*) or 'great domestic circulation' (国内循环, *guonei daxunhuan*) points out that the state serves as the primary engine of

economic activities and the economy is to be stimulated domestically, particularly through domestic consumption, as opposed to the export-oriented industrial model. Domestic demand from domestic consumption, new-infrastructure and traditional infrastructure investment are the elements that promote internal circulation (Pang, 2020). According to the diagram by Yu Yongding (2021) from the Chinese Academy of Social Sciences, domestic circulation involves the procurement, processing, and sale of raw materials and intermediary goods.

In contrast to domestic circulation, 'external circulation' refers to the economic activities of exports, imports and investment. It refers to the country's economic ties to the global market with free trade zones serving as platforms for this strategy to take shape. International circulation also means 'keeping China open to the world' to make foreign businesses dependent on the Chinese.

The term 'dual circulation' (双循环) has been around for several years but now features prominently in policy statements; however, there is no official and clear interpretation of the policy. Liu He (刘鹤), who is the Chinese Vice Premier and Head of the Financial Stability and Development Committee, is believed to have masterminded the strategy (Oya, 2020).

The concept of 'dual circulation' was first mentioned by General Secretary and President of China Xi Jinping at the Standing Meeting of the Politburo of the Communist Party of China on May 14, 2020. According to Xi's statement, it is necessary to deepen supply-side structural reform, fully exploit the country's super-large market and domestic demand potential and building a new development pattern named 'dual circulation' in which domestic and international circulations complement each other with the former as the primary element (新华网, 2020).

In August 2020, President Xi's speech to a group of social scientists provided more explanation of the DCS (新华网, 2020). The first element affecting China's economic pattern is the structural decline in the current account surplus and the increasing share of domestic demand. In addition, the DCS could contribute more to domestic demand because of increased value-added manufacturing. At the 5th plenum of the CCP, DCS was affirmed as a long-term economic development strategy. In March 2021, the Chinese National People's Congress passed China's 14th Five-Year Plan (2021–2025) for National Economic and Social Development and Long-Range Objectives for 2035. In the documentary, article XIII named "Article XIII. Promoting domestic–international dual circulation" affirms that China will coordinate and promote the development of a strong domestic market based on domestic large circulation in order to attract global resources and production factors as well as the coordinated development of domestic and foreign demands (中国政府, 2021).

Several pessimistic views consider the emphasis on local demand as a process of “turning inward” and put an end to China’s opening-up policies. However, on many occasions, the leaders of China underlined that the DCS do not mean a closed domestic loop and reaffirmed that liberalization was a fundamental national policy. At a meeting of public and private business leaders in July 2020, President Xi Jinping stressed that “China’s open door will not be closed, but will only get wider and wider” (新华网, 2020). Vice Premier Liu He also reiterated when he wrote in an article published in the *People’s Daily* that “by no means trying to close itself up or to achieve total self-sufficiency” and “it’s impossible to do everything by yourself and to give up the international division of labour” (刘鹤, 2020).

Some political and economic experts in the world also explained the DCS in many different ways. According to the report “Turning Inwards: What Asia’s Self-Sufficient Drive Means for Business and Investors” conducted by The Economist Intelligence Unit (2020), the DCS “aims to foster resilience by emphasizing the “internal” circulation of the domestic economy over the “external” circulation of the global economy”. On the other hand, Saad Ahmed Javed and others (2021) see the strategy as a process of realigning the weightings or priorities of the economic resources toward sustainable economic development through domestic consumption. Zoey Zhang (2020b) underlined that the DCS enables China to transition from an “export and investment-led” economy to a “demand and innovation-driven” economy, strengthening the economy’s resilience to external shocks and pushing for China’s dominance in the global supply chain.

3. The Necessities of Transformation to the DCS

3.1. Solid Foundation Provided by Domestic Development

China’s reform and opening-up have provided a solid material foundation for the domestic and international cycles. In the early stage of reform and opening up, China implemented an export-oriented economic strategy, actively participating in the international division of labour and international trade by taking advantage of labour resources. The country also developed international markets for domestic economic development and improve the utilization rate of domestic labour, land and other production factors. Therefore, it gained comparative benefits and opening up. The spillover effect in the economy has promoted the leap-forward development of China’s economy, and China has gradually changed from “stand up” to “get rich” and achieved the leap to “get strong”.

In 1978, China’s total GDP was 218.50 billion USD and the per capita GDP was 229 USD while the figures for 2021 were 17,728.01 billion USD and 12,552 USD respectively. More than 40 years of reform and opening-up have made China’s GDP increase about 80 times, and the per capita GDP

has increased by more than 54 times. In 2010, it surpassed Japan and ranked second in the world. From 2010 to 2020, China is the second largest in the world after the United States. China's share of the world's total economy has increased from 1.28% in 1990 to over 17% in 2020. The cumulative use of foreign direct investment and foreign investment has exceeded 2 trillion USD, becoming the world's largest country in goods trade and the largest country in foreign exchange reserves. According to a 2020 estimate by China's Development Research Center, the nation's per capita gross domestic product would reach 14,000 USD by 2024 and China's GDP will surpass that of the United States by 2032.

From the perspective of the supply system, China has "strong production capacity and perfect supporting capacity". The agricultural production capacity has continued to improve and the output of major agricultural products has jumped to the forefront of the world. Agricultural output has expanded at an average yearly pace of 5.4% in real terms during the last four decades.

In term of industry, China is the only country in the world to have all the industrial categories listed in the United Nations' International Standard Industrial Classification, covering all 39 major industrial categories, 191 medium categories and 525 subcategories under the industrial system, becoming "the most complete and largest industrial system in the world". The added value of the manufacturing industry ranks first in the world, accounting for more than 26% of the global proportion for a long time, which is two times that of the United States, four times that of Japan, and five times that of Germany. China has 135 companies in the *Global Fortune 500* list of the world's largest corporations in 2021.

Besides, the digital economy has increasingly become an important driving force for the upgrading of China's supply and industrial chains. From 2012 to 2019, the scale of China's digital economy increased from 11.2 to 35.8 trillion RMB, accounting for 20.8% of GDP. The deep integration of the digital economy and various fields of the real economy has driven the improvement of domestic production efficiency and the change of production mode.

From the perspective of the demand system, China has a super-large domestic demand market. China has a hyper-sized consumer market with 1.4 billion people. The middle class, which numbers 400 million people, is continuously rising and represents an enormous business opportunity. In 2021, retail sales of social consumer products in China were 44,082.3 billion RMB, with huge domestic consumption potential (National Bureau of Statistics of China, 2022).

In general, China's economy has the basic characteristics of sufficient potential, strong resilience, large room for manoeuvre, and many policy tools and the capacity of the industrial chain, thus providing the emergence of the DCS with a solid foundation for social existence.

3.2. Prominent Contradictions in Domestic Economic Operation

China is at a critical stage of transforming its development mode, optimizing its economic structure, and transforming its growth drivers. The problem of unbalanced and insufficient development is still prominent. China's white paper on development in 2016 underlined: "Imbalanced, uncoordinated and unequal development reflects unsustainable development, as does an extensive development model. China is pursuing a sustainable approach to production, utilization and consumption of natural resources".

The first manifestation is the uncoordinated regional development. Due to the incomplete play of the decisive role of the market, the unreasonable flow of resource elements has led to a gap in development potential and development momentum between the eastern and central and western regions of the country. There are shortcomings in balancing the development methods and development momentum of the southern region and the northern region. In 1960, the gross regional product of provinces and municipalities south of the 'Qinling-Huaihe line' was identical to that of the north, however, in 2017 and 2019, the figures for the south grew by 57% and 83% respectively. Particularly, the Chinese northern regions' total economic production was only 34.9 RMB in 2019 while the figure for the southern region was 63.8 RMB (Harada, 2020).

Secondly, the implementation of eco-friendly development has remained limited. Economic expansion at a rapid pace over the last few decades has exacerbated domestic resource scarcity, air pollution, and environmental degradation. China attained oil self-sufficiency in the mid-1960s, but by 2000, it had become a significant oil importer, with net imports exceeding 69.6 million tons. Air pollution also carries economic costs. Air pollution also led to economic costs as high as 6.6% of China's GDP (Carthy, 2020). Water scarcity is becoming worse, particularly in the northern area. Although having nearly 21% of the world's population, China has just 7% of the world's freshwater supply (Shemie and Vigerstol, 2016). Additionally, 60% of China's subsurface water is contaminated. One factor contributing to the water scarcity is China's rapid economic expansion, which is fueled by heavy industry's reliance on water for manufacturing processes (Patton, 2015).

Therefore, it is crucial to transform the export-oriented economic strategy, change the strategy of relying on investment and external demand to drive economic development and accelerate the transformation of the industrial structure to achieve high-quality development.

3.3. Complex Changes in International Economic Environment

China has been through three economic crises, including the Southeast Asian financial crisis in 1997, the global financial crisis of 2008, and the early 2020 effect of the new crown plague. Due to China's extensive integration

into the global value chain system, the three shocks have had a significant impact on the security of China's supply chain in the form of international circulation, resulting in definitely serious harm to Chinese consumers and producers. Additionally, China's fears stem from a growing realization that deeper integration into the global economy is not a sure-fire way to thrive. When China initially began opening up to the global economy in the 1980s, the world outside of China was growing at a rate of around 4% per year. However, the world's economy, excluding China, grew at a rate of approximately 1.6% each year during the prior decade (China Power Team, 2021).

In recent years, the prevalence of anti-globalization, the rise of unilateralism, and the unreasonable international division of labour have brought challenges to the prosperity and development of the Chinese economy and the world economy. The three major crises mentioned below have proven that the world environment can cause unsustainability for the Chinese economy.

Firstly, since early 2018, the US rising trade imbalance with China caused a trade wedge between the two sides. US-China economic ties have been on a downward spiral and the two sides are facing economic decoupling as a result. Additionally, President Donald Trump's administration added hundreds of Chinese enterprises on the US Commerce Department's blacklist of entities, thereby prohibiting American companies from exporting to these firms. The Biden administration retained a number of the Trump administration's anti-China policies and increased engagement with key allies and partners, confirming China's perception that the US and its allies are hostile to China's economic interests. Owing to this widening gulf between the two great powers, globalization as well as China-centred global value chains which created items that reach the US market are encountering hurdles. China's relations with the US have become more and more deteriorating, causing the external environment less predictable for China. Moreover, because of US-China strategic competition, China's economic and technical progress in the future will be constrained by a more hostile foreign environment. For example, China's ties with Canada have worsened since China was accused of kidnapping two Canadians in retribution for Huawei's financial officer's detention. Additionally, relations with the United Kingdom are at an all-time low following the Western country's overturned decision on Huawei's participation in its 5G network. Therefore, it is urgent for China to reduce its reliance on Western trade.

Secondly, COVID-19's impact and the subsequent shutdown measures have sent the world economy into the greatest recession since World War II, resulting in a declining export market for China. Global demand is slow as a result of the pandemic, posing significant hurdles for China, given the historically low consumer demand created by its local market, which is unable

to counteract the global trend. Additionally, the COVID-19 epidemic has heightened global worries about supply chain dependency, as several nations have been forced to reconsider their reliance on other countries, possibly accelerating supply chain movements away from China. Particularly, in terms of bilateral trade, supply chains can be interrupted by present and post-pandemic economic conditions in China's key trade partners. Lack of demand in these nations as a result of the lockdown can put pressure on China's supply chains, as foreign firms reduce their purchases of Chinese goods. In the context of the COVID-19 pandemic, China has faced pressures on both the supply and demand sides, thus underlining the importance of economic resilience and self-reliance.

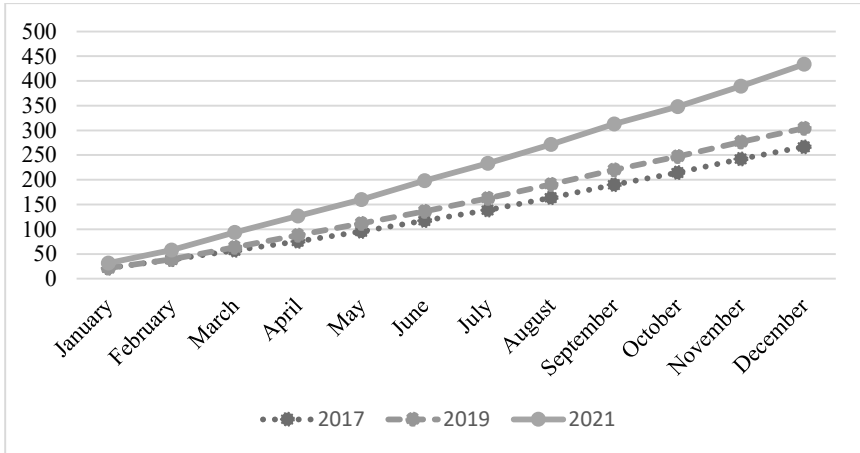
Thirdly, the ongoing Russia-Ukraine crisis has had a significant influence on the global economy; similarly, it also has caused risks for China's economy. The first consequence is the disruption in the trade of goods. China's trade with Russia and Ukraine is worth 147 billion USD and 19 billion USD respectively (Kennedy, 2022). Moreover, the conflict might result in a larger global economic slump, particularly in Europe. Meanwhile, economic growth in the EU is statistically highly correlated with China's overall export growth. China's overall export growth will decline by 0.3 percentage points for every percentage point decline in the EU's GDP growth (Tan, 2022). International technology sanctions will create compliance challenges for Chinese enterprises, which have a substantial presence in the Russian consumer market. High-tech companies such as Xiaomi and Lenovo will incur a loss if they opt to comply with the United States' export bans on Russia. In addition, some Chinese companies such as Beinken Energy, Weldatlantic Group and Xinjiang Communications Construction Group have business operations in Ukraine. Also, Ukraine is an important hub within the Belt and Road Initiative (BRI) while the Russian territory is the place where there are three separate routes of the BRI pass through. Therefore, the continuous development of the BRI could be delayed due to the Russia-Ukraine crisis. Moreover, despite Western sanctions imposed on Russia for its aggression, China has stated that normal trade contacts with Russia will continue. As the US and Europe punish Russia, there are fears that China could be next, making the dual circulation strategy even more important.

3.4. China's Reliance on Other Countries for Critical Goods

China has been more and more reliant on other nations for crucial products, especially high-tech items such as microchips (including semiconductors and integrated circuits) and more fundamental resources such as food and energy.

Although China has made many efforts to establish an internationally competitive semiconductor manufacturing industry, the country continues to

Figure 1 China's Monthly Imports of Integrated Circuits in 2017, 2019 and 2021 (billion USD)



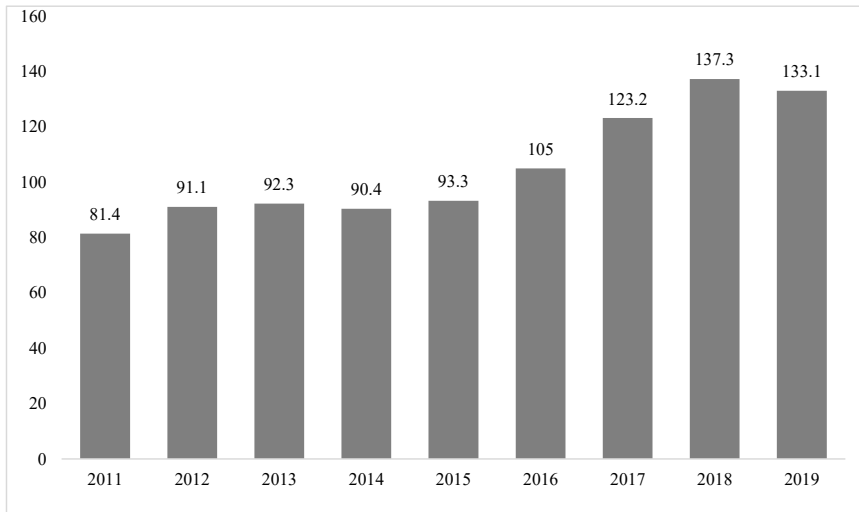
Source: CSIS China Power Project and General Administration of Customs of China.

rely significantly on chips created and manufactured by industry heavyweights from the US, Taiwan, South Korea, Japan, Germany and the Netherlands. China relies on 300 billion USD worth of imported semiconductors to meet over 85% of its domestic market demand (Horwitz and Goh, 2022).

According to the figures above, China imported nearly 434 billion USD of integrated circuits in 2021. This was a 24% increase over 2020 and a 43% rise over 2019. Global demand for semiconductors has accelerated in many months since the middle of 2021 and chipmakers have struggled to keep up, resulting in price inflation. It causes more concerns because semiconductors are increasingly viewed as critical to national security and a show of technical competence by many governments.

In terms of food, historically, China has aimed at self-sufficiency in food production. In 1996, the government published a white paper setting an aim of 95% self-sufficiency for crops like rice, wheat and corn (State Council of the People's Republic of China, 1996). However, China's reliance on imports has increased as a result of shifting consumer trends. Between 2003 and 2017, China's food imports increased from 14 to 104.6 billion dollars (Jardine, 2022). As a result, imported food is critical to China's food security. Figure 2 illustrates that from 2011 to 2019, China's total food imports experienced a significant increase from 81.4 billion USD to over 130 billion USD. Additionally, the Chinese Academy of Social Science forecasts a 25-million-ton shortage in wheat, corn and rice output in China by 2025 (Chaudhury, 2022).

Figure 2 China's Total Food Imports from 2012 to 2021 (billion USD)



Source: Observatory of Economic Complexity.

China's increased demand for meat has resulted in an increase in maize and soybean imports, which are increasingly utilized as animal feed in the country. Between 2000 and 2020, Chinese soybean imports more than doubled, from 10.4 million to 100.3 million metric tons, establishing China as the world's top importer by a considerable margin (Yao et al., 2020). Due to trade concerns, China's imports of US soybeans have halved, from 32.9 billion metric tons in 2017 to just 16.6 million metric tons in 2018. China went to Brazil to help cover the gap, but China's need for soybeans surpasses Brazil's and the rest of the world's combined production capacity, leaving China reliant on the US.

While decades of economic expansion allowed China to make significant progress toward universal food availability, the country's economic boom has resulted in a new set of population demands and environmental stresses. The Chinese reliance on food imported from other countries threatens its food security.

On the energy security front, China's oil self-sufficiency ended in 1993, when it became a net importer. It remains the world's top importer of oil and natural gas today importing more than 10 million barrels per day (Clemente, 2019).

From Table 1, the gap between China's domestic oil demand and production continues to increase. China's increasing crude oil imports have increased its reliance on other countries, leaving it vulnerable to supply chain bottlenecks and price changes. In terms of natural gas, China has

Table 1 China's Reliance on Foreign Oil
(Unit: millions of barrels per day)

Year	Consumption	Domestic Production	Imports
2001	4.81	3.31	1.79
2002	5.20	3.35	1.99
2003	5.78	3.41	2.64
2004	6.74	3.49	3.45
2005	6.88	3.64	3.43
2006	7.40	3.71	3.88
2007	7.78	3.74	4.17
2008	7.90	3.81	4.49
2009	8.24	3.81	5.10
2010	9.39	4.08	5.89
2011	9.74	4.07	6.29
2012	10.17	4.16	6.67
2013	10.67	4.22	6.98
2014	11.12	4.25	7.40
2015	12.07	4.31	8.33
2016	12.50	4.00	9.21
2017	13.14	3.85	10.24
2018	13.58	3.80	11.03
2019	14.01	3.84	11.83
2020	14.22	3.90	12.86

Source: CSIS China Power Project and BP Statistical Review of World Energy.

also evolved into one of the world's top importers of natural gas, relying on imports to cover more than 40% of its domestic demand. China has attempted to diversify its foreign oil and gas supplies, but it remains highly reliant on nations in the Middle East and Africa (Aluf, 2021). Instability in the region jeopardizes China's energy security. Specifically, over 84% of China's oil imports and 61% of its natural gas imports pass through the South China Sea and Strait of Malacca (Macaraig and Fenton, 2021). These are the regions that potentially develop into key chokepoints in case of a military war.

Due to China's reliance on imported energy, its economic viability is becoming increasingly precarious, especially under the conditions of the Russia-Ukraine conflict and COVID-19 pandemic.

4. Implementation of China's 'Dual Circulation' Strategy

4.1. Internal Circulation

4.1.1. Boosting Domestic Demand and Focusing on High-end Manufacturing and Services

In terms of domestic demand expansion, in reaction to the global financial crisis in 2008, China undertook a 4 trillion RMB economic stimulus plan focused on infrastructure development, including trains, roads, airports, ports, and water management facilities. However, given the present Chinese government policy of promoting domestic circulation, consumption will be the primary driver of domestic demand expansion. The COVID-19 outbreak has exposed the domestic retail sector's fragility in China. Even before the global pandemic, China's efforts to transform domestic consumption into the primary engine of GDP had stalled. Official data showed that final consumption contributed nearly 70% of GDP growth during January-March, 2022 (State Council of the People's Republic of China, 2022a). The Communist Party of China Central Committee's Political Bureau reaffirmed the significance of raising domestic demand at a meeting in late April, calling for effective investment to be given full play, infrastructure construction to be bolstered, and consumption to facilitate economic circulation (Xinhua, 2022).

On one hand, in the long run, China focuses on the crucial importance of investment in expanding demand by especially government-led infrastructure investments because they will create business orders, increase hiring and raise wages. Particularly, in the 14th Five-Year Plan, the construction of 102 great projects has been expedited (Tang, 2022). A large portion of the funds allocated for local governments were used to build infrastructure, including industrial parks, transportation, water conservation facilities and cold-chain logistics. At the same time, the Chinese Ministry of Industry and Information Technology said that 600,000 5G base stations across China was built in 2022, bringing the total number to over two million (China Global Television Network, 2022a).

Moreover, the 14th Five-Year Plan proposes to abolish limits on urban registration for rural migrants living in third-tier cities and to ease the process of acquiring registration in big cities for this category of residents. According to China's National Bureau of Statistics, around 244.5 million persons out of 848 million urban residents were unregistered in 2017. They lack access to social insurance, good health care, and basic education, which explains their higher proclivity for savings, hence decreasing their consumer potential. Therefore, the aim of the Chinese government is to improve migrant workers' earnings which will result in an increase in spending.

However, tight COVID limits in the Omicron model have resulted in regular local lockdowns, weighing on China's economic activities in

2022. In such a context, a series of activities have been introduced to boost domestic consumption. For example, the NDRC has issued a notice aimed at increasing holiday spending during the Spring Festival by securing the supply of daily essentials, boosting contactless services and sales, and promoting leisure and recreational consumption (Yang, 2022). At the same time, the NDRC will provide guidance to e-commerce businesses on how to conduct online sales promotions over the Christmas season while still preserving market orders. Moreover, in the middle of 2021, the food fair in Yangzhou city, the consumer goods expo in the Hainan province, the well-known fair in Guangzhou city and the month-long campaign in Shanghai with a car show were some remarkable efforts by China's authorities to boost domestic demand. Additionally, e-commerce sites will sell culinary, travel, cultural and sports goods from 'high-quality businesses'. According to instructions on maximizing the nation's consumption potential and fostering consumption recovery issued in April 2022, China intends to construct a number of warehouses in the suburbs of large and medium-sized cities to ensure the supply of daily essentials in case of calamities (China Global Television Network, 2022b). The guideline also affirms that efforts will also be made to produce products and services that meet the needs of the elderly and newborns, to boost the sale of autos and household appliances in rural regions, and to construct multiple duty-free shops within cities. China's state planner stated in September 2022 that China would accelerate capital injections to expedite project construction and stimulate domestic demand (Jun, 2022). Following the break of a two-month Covid lockdown in June, the Shanghai government would provide 'consumption vouchers' worth roughly 100 million yuan (14.3 million USD) to citizens for use in a major retail centre. The southern island province of Hainan also announced the distribution of 100 million yuan in vouchers in order to make consumption the primary driver of the recovery (Reuters, 2022a). However, creating a comprehensive domestic demand system requires more than just improving the shopping experience and establishing more consumption channels. Improving the market surveillance system is also critical. The 14th Five-Year Plan of China specifies a number of relevant measures, with food and drug supervision receiving top priority.

4.1.2. Enhancing Innovation

It is critical to limit reliance on foreign technologies to enhance internal circulation. Some important key areas are artificial intelligence, 5G connections and use, novel materials, new energy sources, electric automobiles, e-commerce and e-currency. In addition, the 14th Five-Year Plan of China devotes the majority of its chapters to promoting innovation and industrial

modernization (14%), as well as strengthening domestic socioeconomic foundations (14%). These concerns have trumped traditional concerns such as infrastructure and urbanization. In addition, the ‘Medium- and Long-Term Plan for Science and Technology 2021-2035’, in contrast to the previous plan for 2005-2020, focuses on foundational technologies. The NDRC reiterates its support for priority sectors such as next-generation IT, biotech, high-end manufacturing, new materials, new energy, electric vehicles, environmental protection, and digital creativity in a related document.

In the related document, the significant sectors above are among the key industries that the NDRC supports. In fact, China provided corporate income tax breaks to manufacturers of integrated circuits and software (Zhang, 2020a). Additionally, MOFCOM, in partnership with the Ministry of Industry and Information Technology and the Chinese Cyberspace Administration, has produced a guideline to support China’s digital economy in globalizing through the construction of abroad research and development centers (Ministry of Industry and Information Technology and the Cyberspace Administration of China, 2021). Six ministries and government organizations together issued guiding opinions targeted at boosting the growth of small and medium-sized enterprises (SMEs) that utilize technology recognized in the Industrial Four Bases Development Catalogue. The strategy aims to transform SMEs into “little giants” capable of competing in highly specialized markets. Besides, in the context of COVID-19, according to the Ministry of Industry and Information Technology, China has created a “white list” of key industries and supply chains to this end, as well as streamlining logistics for companies working in key sectors such as automobiles and integrated circuits (State Council of the People’s Republic of China, 2022b).

In terms of digital infrastructure, numerous long-term strategies for resource mobilization have been established, notably the five-year technology investment which is worth 1.4 trillion USD. China also introduced the ‘China Standards 2035’ plan to upgrade its domestic technological standards, and at the same time, to establish the impact of these standards on other countries around the world. This plan would aid in the development of Chinese innovations and enable Chinese high-tech enterprises to vie for leadership positions in global markets. The National Standardization Development Outline, which was promulgated in 2021, is the first official document in this sector and provides a clear vision for Chinese firms to strengthen their technical capabilities and promote standardization in the future decade (State Council of the People’s Republic of China, 2022c). On July 8, 2022, the National Standardization Development Action Plan was issued to provide a glimpse into the Chinese state’s strategic approach toward technical standards (Reuters, 2022b).

In terms of R&D, China's 14th Five-Year Plan established a target of enhancing R&D investment by 7% a year between 2021 and 2025. It particularly calls for increased funding on fundamental research and prioritizes fields such as artificial intelligence, biotechnology, blockchain, neurology, quantum computing and robotics. In fact, between 1991 and 2020, China's R&D expenditure increased 42 times, from 13 billion USD to approximately 563 billion USD. China will spend much more on research and development in 2020 than South Korea, France, the United Kingdom, Japan and Germany.

Additionally, China strives to improve the implementation of its Military-Civil Fusion strategy, which encourages the pooling of technology and expertise between the military and civilian sectors, therefore driving both economic growth and military modernization (Kania and Laskai, 2021). President Xi Jinping founded and chairs the national Military-Civil Fusion Commission. Since 2015, there have been about thirty-five investment funds totalling 68.5 billion USD have been formed to invest in firms involved in Military-Civil Fusion.

4.2. External Circulation

In terms of deeper trade integration, China has achieved significant progress in this area, with a geographically diverse foreign commerce. According to Chinese official figures, China inked 200 agreements covering a wide variety of fields with 138 nations and 30 international organizations. Although in the context of trade war, China has also lowered duties on non-US trading partners as well as increased imports of soybeans from Brazil and Argentina. Additionally, China reiterated its support for the Belt and Road Initiative (BRI). Consequently, China's trade with the US has decreased, but the figure for other nations has climbed, raising China's overall international trade and expanding its trade surplus. With a two-way trade volume of 4.06 trillion RMB in 2020, the US was behind the Association of South East Asian Nations (ASEAN) and the EU as China's third largest trading partner. Moreover, China signed the key agreement named the Regional Comprehensive Economic Partnership (RCEP). Particularly, RCEP is a perfect illustration of how China would be able to strengthen its influence in regional and global issues. It was signed by its 15 members, including China, Japan, South Korea, Australia, New Zealand as well as the ten nations of ASEAN, accounting for 30% of world GDP. It has also revised its FTAs with New Zealand to extend coverage to new industries and remove tariffs on most imports; and trying to resume the trilateral FTA discussions with Japan and South Korea. Additionally, MOFCOM has developed a guideline for diversifying imports in such a way that it decreases reliance on Western economies by giving

emerging economies a higher weight. As a result, China's trade with the US has decreased, but trade with other nations has climbed, raising China's overall international trade and expanding its trade surplus.

Regarding capital account opening, China's capital account reforms will continue as it seeks to attract international investment and grow its capital markets. One of China's primary objectives in the 14th Five-Year Plan's launch, is to boost capital account convertibility. This is also a priority for the next phase of China's financial liberalization.

In terms of RMB internationalization, for the time being, it is still in its infancy and is geared on addressing China's home market's import payment demands. By the end of 2020, the RMB internationalization index would have increased to 5.02, a significant 54.2% year-on-year gain (International Monetary Institute, 2021). The Chinese yuan's share of the Special Drawing Rights basket has increased from 10.92% in 2016 to 12.28% in May 2022, reflecting a growing global recognition of the RMB's improved freedom of use (State Council of the People's Republic of China, 2022d). Meanwhile, green finance, such as green bond issuance and the mid-2021 opening of China's carbon trading market, creates fresh chances for RMB internationalization. In the process of renminbi internationalization, China adheres to the market-driven principle of mutual benefits and win-win cooperation. According to the People's Bank of China, using RMB in neighbouring countries and Belt and Road countries has boosted local economic development.

In conclusion, under the dual circulation pattern, because the financial industry is sensitive and potentially risky, the capital account liberalization and RMB internationalization must be guided by the government's objectives of optimizing market-based factor allocation and enhancing the socialist market economy system in the new age.

4.3. Mutual Promotion of Internal and External Circulations

To accelerate mutual promotion between the domestic and international circulation, China has also enhanced the quality of its overseas commerce by increasing the percentage of domestic value added in its exports, or rising up the export value chain.

To begin, according to the 14th Five-Year Plan, in order to promote coordinated development of imports and exports, the Chinese government reduced import taxes and government-imposed transaction fees, allowing for more imports of high-quality consumer products, innovative technology, critical equipment, and energy and resources. China has also tried to take many measures to diversify the sources of imports. Moreover, the country has also prepared carefully for hosting the China International Import Expo,

the China Import and Export Fair, the China International Fair for Trade in Services, and other exhibitions.

In terms of improving international two-way investment, the 14th Five-Year Plan points out that China would promote more foreign investment in medium and high-end manufacturing, new and advanced technology, conventional manufacturing transformation and upgrading, and contemporary services, as well as in the central and western areas. The government also assists businesses in integrating into global industrial and supply networks in order to boost their transnational management capabilities. Chinese businesses will also receive advice on improving compliance management and avoiding and mitigating foreign risks in areas such as politics, economy and security.

The 'Made in China 2025' strategy, introduced in 2015, targeted ten essential industries with the goal of increasing the percentage of locally made crucial components from 40% in 2020 to 75% by 2025. In general, China appears to have made significant headway in increasing domestic content, having lowered the share of foreign value added in its exports by 3.5 percentage points between 2014 and 2018, to roughly 15%, comparable to the US and below the world average. 'Made in China' does not only seek to construct protectionist barriers to protect inferior manufacturers in the home environment. Its objective is to boost the value chain by capturing high-end value added for the domestic economy. In this perspective, China's future model appears to be as a producer and exporter of high-quality capital and consumer products, rather than simply as a factory for mass consumer items.

5. Conclusion

From optimistic views, the DCS would bring benefits for the rest of world. Particularly, the strategy enables the rest of the world to profit from China's tremendous market prospects while also allowing China to contribute unique innovation to the advantage of global consumers. China's consumer market, with its enormous potential, resilience, and vibrancy, offers enough opportunity for all firms to prosper. China's domestic demand will exert a significant influence on the global economy and may result in the establishment of a new export destination for the world, thereby supporting and boosting the global economy, particularly in light of the US and other developed countries exerting a weaker influence on demand in the future.

From pessimistic views, China's adoption of this new strategy has increased the US and Western nations' suspicion of China, prompting them to adopt a harder stance toward China. While the countries recognize that sanctioning or embargoing China has a significant impact on its companies and economies, an even stronger economic position for China would cost these countries more. Moreover, China's emphasis on domestic consumer

expansion and technical self-sufficiency is expected to alter global trade and investment patterns. In this approach, China will focus its investments on the production of higher-value goods and the country may seek to build on the US or German manufacturing model in the long term. If China succeeds, it will be a huge challenge for advanced economies. As China focuses on domestic production and consumption, the US, Japan and Germany in the medium-term bear only low risk because China's contribution to value added in aggregate demand for final goods usually have a small scale. However, losses to the economies of Taiwan, Malaysia, Singapore, Thailand and Chile could amount to 10.3%, 6.5%, 5.6%, 5.1% and 5.0% of GDP respectively. For the Eurozone, the medium-term loss could be 0.9% of GDP and the sectors related to construction machinery, electronics and agricultural products will experience the worst effects.

ASEAN would continue to play an important role as China's strategic business partner. Although China promotes the DCS, China will still focus on promoting regional cooperation to ensure supply chains. At the same time, experts also believe that ASEAN member countries will still benefit from China's strategy in the immediate time. ASEAN is a great part of the RCEP and clearly an important market for China. ASEAN countries will likely benefit from China's continued investment in the region and efforts to build a China-centric supply chain in Southeast Asia. In addition, ASEAN can cooperate in areas such as digital, artificial intelligence, health and green economy. In addition to government initiatives, private companies are also actively brokering partnerships between China and ASEAN. Cainiao, which is the logistics arm of Alibaba Group, is working with BEST Inc. of China to launch an integrated cross-border e-commerce logistics service from China to Thailand, Vietnam and Cambodia .

However, in the context of US-China competition, smaller countries run the risk of being stuck in China's orbit, so countries need to assess the risks of cooperating with China. ASEAN countries need to pay special attention to their trade policies towards the US. In addition, some countries in ASEAN are likely to be among the biggest losers in the medium term as China promotes industrial autonomy. Goods from ASEAN tend to be less high-tech than Chinese goods imported from the US, Japan, and Germany, and are therefore more difficult to substitute. In the semiconductor sector, for example, Malaysia, the Philippines, Singapore and Thailand have lost their market share over the past few years.

In conclusion, the DCS is an important policy that expresses China's perspective of the world and its role within it. China is working to create a fully integrated market that does not need outside assistance, while still profiting from export markets. There are three stages in the evolution of China's economic model from 1950 to the present. This process shows a

change in the linkage between the two circulations in China's economy, thereby confirming that China is now entering a stage of having a solid foundation of domestic production and consumption, on the other hand, it has some significant contradictions in the economy. Besides, the worldwide environment's unpredictability, such as the negative impacts of COVID-19 epidemic, US-China tensions, and the Russia-Ukraine conflict, as well as China's rising reliance on oil, food, and semiconductors, make the implementation of DCS become important and urgent.

Notes

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