

“Dual Circulation” - China's Future Economic Development Model

On 10 March 2022, the "Two Sessions (两会)" of China's two main political bodies - the Chinese People's Political Consultative Conference (CPPCC) and the National People's Congress (NPC) - ended. The two tandem congresses are of key interest to foreign investors. For example, they indicate Beijing's priorities for the coming year and thus the general political direction the country will take.

Officially, it is already clear that China wants to increase its gross domestic product by 5.5% this year and also push ahead with the recovery of consumption.¹ The basis of economic development is based on the strategic process of "Domestic-International Dual Circulation (国内国际双循环)", or "Dual Circulation" for short.

a. What does "Dual Circulation" mean?

"Dual Circulation" is a new strategic model that "focuses on the domestic market as the foothold of economic growth, whilst letting the domestic and international markets boost each other".²

The model thus comprises two circuits, one of which circulates in the Chinese domestic market. This one is what China wants to strengthen in the future. Taking into account the external and geopolitical environment, priority efforts will therefore focus on stimulating domestic demand and domestic growth factors. In this first step, economic resilience as well as the potential for self-sufficiency will be strengthened. In addition, supply-side reforms will be deepened by creating a single and open domestic market. All capabilities and resources will be better aligned with its needs.

The second circuit circulates between China and abroad through trade and investment. This external circuit is to be optimised.

b. What is the background of "Dual Circulation"?

With "dual circulation", China aims to position itself for the long term to withstand global uncertainty and an increasingly hostile external environment characterised by a global economic downturn, rising protectionism, heightened geopolitical tensions and a shrinking international market. China's priorities are therefore to make better use of resources and to strengthen its domestic economy. It wants to achieve these

goals by stimulating domestic demand in the form of increased consumption and investment in technological progress.³

Despite this, the Middle Kingdom remains a strong proponent of globalisation, according to the model. It wants to continuously deepen its cooperation with foreign markets while further opening its own markets.

c. What are the focus areas of "Dual Circulation"?

There is still no official document that describes "dual circulation" in detail, specifies the exact content or the time frame. Initially, Chinese President Xi, government officials and Chinese experts have only proposed directions and recommendations.⁴

However, a number of priority areas can already be identified for the domestic market:⁵

- Cementing China's position as an industrial power
- Strengthening the level of technology and accelerating innovation and breakthroughs in core technologies
- Increasing investment in infrastructure (such as 5G)
- Improve own capabilities and reduce dependence on the global economy in key strategic areas such as energy, technology and food.

Focal points are also crystallising for the international market, for example⁶

- Promoting the liberalisation and facilitation of trade and investment
- Innovative and experimental liberalisation measures (new free trade zones and ports)
- Strengthen economic and trade cooperation with countries and regions along the Belt and Road Initiative.

d. What does "Dual Circulation" mean for European/foreign companies?

According to the current state of knowledge on "Dual Circulation", China will not close itself off. In non-sensitive industrial sectors such as the automotive and chemical industries, investments are still welcome, desired and necessary. The situation is similar in sectors where China is not yet ready, such as the aircraft industry.

There will therefore still be opportunities and market access for foreign companies. However, it has already become very clear in recent years that it will be crucial for these companies to adapt even more and more independently to the Chinese market.

(This post was written by Wolfgang Kohl.)

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Sources:

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² The State Council: Xi stresses deeper-level reform, higher-level opening-up, Xinhua, September 2, 2020 (http://english.www.gov.cn/news/topnews/202009/02/content_WS5f4efa48c6d0f7257693b6e7.html)

³ China Daily: 'Dual circulation' a new mode for development, August 14, 2020 (<https://www.chinadaily.com.cn/a/202008/14/WS5f35eff9a310834817260521.html>)

⁴ The State Council: Dual circulation at heart of economic strategy, China Daily, March 5, 2021 (http://english.www.gov.cn/news/topnews/202103/05/content_WS60418456c6d0719374af9ff8.html)

⁵ 中共中央 国务院关于构建更加完善的要素市场化配置体制机制的意见, March 30, 2020

⁶ 中共中央 国务院关于新时代加快完善社会主义市场经济体制的意见, May 11, 2020; 外商投资准入特别管理措施（负面清单）（2020年版） & 自由贸易试验区外商投资准入特别管理措施（负面清单）（2020年版）, June 23, 2020