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双循环战略 shuang xunhuan zhanlüe

Dual Circulation – China's new development paradigm

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DEFINITION

双循环战略 shuang xunhuan zhanlüe: The Dual Circulation Strategy (DCS) is a new development paradigm that puts a greater focus on domestic consumption-led growth (domestic circulation) without abandoning China's export-driven growth model (international circulation). By balancing greater self-reliance with continued opening up, the paradigm aims to create synergies between the domestic and the international market.

Relevance

As a new development pattern, the DCS was first addressed by President Xi Jinping in May 2020 amid the outbreak of the COVID-19 pandemic. China has long sought to tap its huge domestic market and leverage indigenous innovation to spur economic growth. This goal has been accelerated as the Covid-19 pandemic has exposed the risks and vulnerabilities of deeply integrated global supply chains.

In the past two years, DCS has been incorporated into China's national development strategy as well as the development guidelines of different sectors of its economy, including agriculture.

For example, the DCS was included in the *14th National Five Year Plan (FYP)*, covering the years

2021 to 2025; and the *2035 Long Term Development Strategy* approved by the National Peoples' Congress. These documents emphasize that during the 14th FYP period, China will strive to further domestic consumption-led growth by expanding domestic market demand, enlarging and improving domestic production, and smoothing supply chains.

While the DCS intends to place a greater focus on domestic consumption, it will not abandon export-oriented growth altogether. Instead, the strategy seeks to create synergies between the domestic and the international market. To this end, major policy instruments will focus on balancing domestic and external demand, equally promoting imports and exports, enlarging China's foreign financial investments, attracting foreign investment, and enhancing China's relative competitiveness in the global market. (State Council, 2021).

The DCS will also play an important role in agriculture and rural development. In response to the national DCS, in 2020 and 2021, the Ministry of Agriculture and Rural Affairs (MARA) formulated its sectoral guideline for integrating the DCS into China's *14th FYP for Agricultural and Rural Modernization* (MARA, 2020; State Council, 2021). As an important sector for producing food for a nation of 1.4 billion people, domestic food

production has absolute priority to ensure China's national food security. Since 2020, a series of key national agricultural programs and projects have been released by MARA, such as the *National Seeds and Breeds Development Program*, the *Agricultural Mechanization Program*, the *High Productivity Farmland Development Program*, the *Rural E-Commerce Development Program*, the *Smart Agriculture and Digital Agriculture Development Program*, the *Agriculture Product Process and Storage Program*, etc. These programs all aim to strengthen domestic production capacity and the country's domestic food market. At the same time, the document also highlighted the importance of further opening-up to the global market and of international cooperation in the agricultural sector. Major areas of global cooperation and trade include the import of agricultural products and inputs, such as fertilizers, seeds, equipments, and machinery. Agricultural policy documents also call for strengthening scientific and technological cooperation with developed and developing countries.

In addition to the documents mentioned above, on 16 December 2022, the State Council released the *Strategic Planning Outline for Expanding Domestic Demand (2022-2035)*. The document aims to accelerate the cultivation of a complete

domestic demand system, strengthen demand side management, promote the formation of a strong domestic market, strive to smooth domestic supply chains, and promote the positive interaction between the domestic and international market (The National Development and Reform Commission, 2021; The State Council of China, 2022).

History

Reform and Opening Up policy (gaige kaifang zhengce): The Chinese DCS paradigm has its historical context. The famous terminology of China's Reform and Opening Up policy was invented and persistently implemented since the beginning of 1980s. Internal institutional reforms and external opening-up enabled China to develop the domestic economy while integrating into the international trade and governance systems at the same time. The opening up policy attracted large numbers of developed economies to set-up joint-ventures with China, relying on the abundance of cheap Chinese labor and the country's strong business ecosystem with weak environmental and social regulations, as well as low taxes and duties. China quickly became the "world's factory" – the center of the world's supply chain for many industries. Fast-paced domestic industrialization and increasing exports to the global market enabled China to

accumulate foreign currencies as capital for further domestic investment.

Expand domestic demand (kuoda neixu) is a terminology related to enhancing domestic consumption-led growth. In 1998, in response to the Asia Financial Crisis, the Chinese government started to drive the demand of the domestic market while continuously pursuing and stabilizing the export market. This policy instrument helped China counteract the challenge of a shrinking global market. At the same time, the policy also helped spur reforms in the domestic market system.

Stimulate domestic demand (ladong neixu) is another similar terminology related to domestic consumption-led growth. In 2009, to cope with the challenge of the global financial crisis, China set up a strategy to stimulate domestic market demand and highlighted the policy in the 12th FYP. The policy intention was to counteract the slowdown of GDP growth caused by the global financial crisis.

Industrial upgrading and global market strategy (chanye shengji & quanqiu shichang zhanlue): This is a terminology encapsulating both domestic consumption-led growth and export-driven growth. In 2001, after more than 13 years of bilateral negotiations with trade partners, China entered the World Trade

Organization (WTO), giving the nation a great opportunity to fastly expand its export market based on its domestic production and manufacturing capacity. According to official statistics, from 1978 to 2004, China's degree of dependence on foreign trade increased from about 18% to 70%. The fast increase of the export volume provided an opportunity for China to build up its domestic industry and integrate deeply into international markets. Entering the WTO, like a powerful engine, greatly facilitated the globalization of the Chinese economy, with average annual GDP growth reaching about 9 to 10% in the period from 1980 to 2019.

The development context of the DCS: Since the 18th CCP National Congress in 2012, China has gradually shifted its development pattern from extensive growth to high-quality growth. On the one hand, China committed to pursue green, environmentally friendly and low-carbon industrial development, and, as consequence, Chinese GDP growth declined from 9-10% to 6-7%. On the other hand, China accelerated its industrial transformation and upgrading process. Sectors such as digital and smart manufacturing, IT equipment manufacturing, clean energy equipment, etc., developed rapidly, enhancing China's competitiveness in the high-tech market. As per capita income increased, domestic consumption expanded rapidly, contributing an

ever greater share to national GDP growth. China's degree of dependence on foreign trade declined from 70% in 2004 to 32% in 2019.

While domestic consumption was growing rapidly, the risks inherent in China's reliance on export-driven growth became increasingly evident. Two factors stand out. First, trade conflicts with the USA and other partners began to curtail export markets. Second, the Covid-19 pandemic led to a sudden contraction of global consumer demand. In this context, the DCS seeks to rebalance China's development pattern towards a greater focus on domestic consumption-led growth, but without closing China off from the outside world.

Analysis

Implications for the domestic market: Since 2020, the Chinese central government has formulated and implemented a number of policies to promote domestic consumption. These include:

- Promoting cooperation between developed and less developed regions in China
- Implementing preferential policies to strengthen indigenous innovation and enhance China's competitiveness in cutting-edge technologies

- Granting tax exemptions and deferring loan payments to facilitate the development and survival of small and medium-sized enterprises (SMEs) affected by Covid-19
- Increasing the size of the middle class via China's "common prosperity", "rural revitalization", and poverty elimination drives
- Loosening the household registration system (hukou) and further liberalizing the land market, thereby facilitating the integration of farmers into the urban middle class

Agriculture and rural areas can be expected to play a key part in strengthening domestic demand. On average, China's rural population is still significantly poorer than the country's urban middle class, but the nation's poverty alleviation and rural revitalization campaigns are hoped to increase the income of rural residents and narrow the gap between rural and urban areas.

The agriculture and food sector is also at the forefront of China's drive towards greater technological self-reliance in areas that policymakers fear could be strangled by deteriorating trade relations with the U.S. and other countries. For example, the need to eliminate bottlenecks in core industries such as

seed development, breeding, and bio-technology has been repeatedly stressed by China's top leaders.

Implications for the international market: At the same time, policymakers have insisted that the DCS does not mean that China will close itself off from the outside world. With 1.4 billion people, China remains the largest consumer market for both industrial and agricultural products, making international trade and foreign investment integral parts of the country's development strategy. For example, Chinese policymakers are eager to continue working through and expanding on existing multilateral trade institutions and agreements, including the WTO, the Regional Comprehensive Economic Partnership (RCEP), the Asia and Pacific Economic Cooperation (APEC), the China-ASEAN Free Trade Area (CAFTA), the Shanghai Cooperation Organization, the BRICS, as well as bilateral trade agreements with major developed economies.

The DCS will also increase the importance of the Belt and Road Initiative (BRI) to tap the demand from emerging economies. For example, by improving transportation connections with partner countries, Chinese experts expect the trade volumes between China and BRI countries to increase further (Yang Zongguang, 2022; Li Meng, et al, 2021; Qu Feng, 2022).

These trade connections also make themselves felt in the development of China's agricultural sector. For example, while RCEP, in effect since January 2022, has significantly lowered trade barriers for agricultural products, the Hainan Free Trade Port project is expected to significantly increase opportunities for foreign seed companies to invest in China's seed sector.

Future challenges: Despite these efforts, it is far from clear that a re-balancing of China's growth model towards more domestic consumption can be achieved in the near future. So far, policymakers have shied away from the painful structural reforms required to address deep-seated wealth inequalities, shrinking household incomes, and mounting debt.

Meanwhile, three years of strict zero-Covid measures have further strangled households and the private sector. A sharp decrease in individual incomes, particularly in sectors such as tourism, restaurants, and retail, has further curtailed the purchasing power of Chinese consumers. In the agriculture and food sector, repeated lockdowns negatively impacted the transportation and marketing of agricultural products.

While the jury is still out on whether China can achieve the economic transformation inherent in the DCS, it is likely to have a major impact on China's trade partners and the global economy.

International stakeholders should pay close attention.

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