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## СЕКЦИЯ 8

### КИТАЙ В СОВРЕМЕННОМ МИРЕ

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#### CHINA'S «DUAL CIRCULATION» POLICY

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After the start of pandemic of COVID-19, China proposed an open-ended model of «domestic circulation as the mainstay and mutual promotion of internal and external circulation» in 2020, in the face of a further global economic downturn, geopolitical conflicts, and a re-alignment of the global supply chain. The «dual circulation» economic policy is the research subject of this paper. This paper examines the domestic cycle, as well as the international and domestic dual cycle, and examines China's «dual cycle policy» in terms of international competition and cooperation. It primarily defines the strategy's purpose, background reasons, influencing factors, and two-level characteristics. According to the research findings, China's long-term economic strategy will be «dual circulation».

**Key words:** dual circulation; inner circulation; outer circulation; supply side reform; internal demand; China's foreign trade policy.

#### ПОЛИТИКА «ДВОЙНОЙ ЦИРКУЛЯЦИИ» КНР

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После начала пандемии COVID-19 в 2020 году Китай предложил бессрочную модель внутреннего экономического обращения в качестве основы и взаимного продвижения «внутренней» и «внешней циркуляции» перед перспективой дальнейшего глобального экономического спада, геополитических конфликтов и перераспределения глобальных цепочек поставок. Экономическая политика «двойной циркуляции» является предметом исследования данной статьи. В работе дается определение внутренней циркуляции, международного и внутреннего двойного цикла, а также исследуется китайская политика «двойной циркуляции» с точки зрения международной конкуренции и сотрудничества. В первую очередь исследуются цель стратегии, основные причины

её формулировки, базовые внешние факторы и даётся её двухуровневая характеристика. Согласно исследованию, долгосрочная экономическая стратегия Китая будет представлять собой «двойную циркуляцию».

*Ключевые слова:* двойная циркуляция; внутренняя циркуляция; наружная циркуляция; реформы по стимулированию предложения; внутренний спрос; внешнеторговая политика Китая.

The Chinese government proposed the «dual circulation» policy in 2020, with the goal of shifting China's foreign trade policy from an export-oriented strategy to an inward-oriented strategy with an open economy that promotes each other. Scholars disagree on how to transform China's «dual circulation» development model, which has quickly become a hot topic. Some people believe that the «dual circulation» is the main body of the internal circulation, implying that China will closed to other countries, whereas others believe that «dual circulation» is a passive contraction strategy. From the perspective of international competition and cooperation, this paper explores the reasons and significance of China's proposed «dual circulation» development model.

In May 2020, the Central Committee of the Communist Party of China and the State Council issued «Opinions on Accelerating the Improvement of the Socialist Market Economic System in the New Era», which specifically stated: «Fully connect with the international high-standard market rule system, and implement a wider areas and deeper levels of comprehensive opening up» [1][2]. In June, the «Overall Plan for the Construction of Hainan Free Trade Port» was officially issued. The negative list for access to foreign investments was further reduced, and restrictions on foreign shareholding ratios in futures, funds, and securities companies were also cancelled. Against this background, the meeting of the Standing Committee of the Political Bureau of the CPC Central Committee held on May 14, 2020 first proposed the concept of «dual circulation» from the standpoint of supply and demand that "Make full use of China's market scale advantages and domestic demand potential, and create a new development pattern in which domestic and international dual cycles that promote each other"[3]. The meeting on July 30, 2020, clarified the «dual circulation» development pattern, which is a long-term strategy.

Faced with the international economic environment, the construction of «dual circulation» reflects China's long-term competitive game strategy in foreign trade. China proposes «dual circulation» primarily for the following reasons.

First, for a long time, China's foreign trade policy has been guided by the development model of shifting from domestic to international circulation. From 1978 to 2012, China implemented an export-oriented free trade policy and actively participated in the international division of labor, resulting in a large inflow of FDI, foreign advanced technology and equipment to realize that the import of domestic processing, the product export development model, and promote the rapid development of China's foreign trade. Therefore, external demand has become an important driving force for China's economic growth. Between 1992 and 2012,

China's real use of foreign currency surpassed one trillion US dollars, making it the most important investment and export destination [4]. However, the consequences of this process have gradually emerged: the economy's over-reliance on investment and exports has not only caused China to face serious balance of payments imbalances and external pressures, but also an increasing regional wealth gap, and industrial upgrading is facing bottlenecks. Although China's foreign trade policy from 2013 to 2020 emphasizes exports, it is more likely to address issues of unbalanced trade structure and technological innovation, while also focusing on strengthening the industrial chain, supply chain, and value chain. Due to their high-quality development and soft power promotion, such as modern governance, the legal system, and international standards, China's total trade volume has gradually increased while processing trade has decreased.

Secondly, in terms of external competitive advantages, on the one hand, China is undergoing rapid industrialization, informatization, urbanization, and agricultural modernization, and the potential for investment demand is huge. China, on the other hand, has the most extensive and vast industrial system in the world and is thoroughly integrated into the global value chain division of labor. Furthermore, China is a major global supplier of electronics, machinery, and other manufactured goods. According to OECD data, China's value chain participation rate is about 35%, much higher than the average level of OECD countries (about 26%), especially in the fields of highly globalized division of labor such as computer electronics and electrical machinery [5]. Additionally, China is the world's largest trading partner for more than 120 economies. The strategic policy of «dual circulation» will assist China in resolving the power mechanism problem of opening to the outside world through the internal cycle, gradually realizing «dual circulation» mutual promotion of East Asian, Central Asian, and South Asian economies, increasing import demand and improving the global economy, as well as economic cooperation and reliance on Chinese trade and investment.

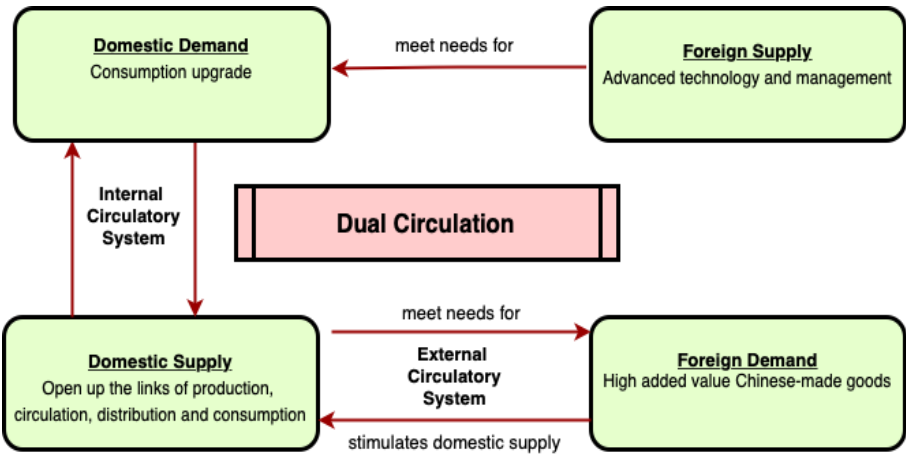
The implementation of China's «dual circulation» policy, however, may face the following challenges.

The first source is the global environment's uncertainty. The COVID-19 quarantine measures, deglobalization, escalation of national sentiment and trade protectionism, particularly geopolitical issues arising from the Russia-Ukraine conflict, and realignment of global supply chains are all significant impediments to global economic development in the current complex and highly uncertain environment. Furthermore, while some rescue plans have alleviated the economic contraction, the massive debt problems, which caused by the use of quantitative easing monetary policies and large economic stimulus programs by native governments, as well as the long-term backlog of income inequality, have exposed the contradictions in current society [6]. It is obvious that all economies cannot solve and bear in the short term. The global economic downturn and a sharp drop in international demand have had an impact on China's foreign trade. This implies

that China's foreign trade enterprises will have the opportunity to transition from the international to domestic markets in the future.

The second is the dramatic shift in Sino-US relations. The growing political and economic confrontations among major nations, which are raising external threats, are stifling China's global commerce development. Since the US defined China as a strategic competitor in 2015, the U.S. government has increased tariffs on China and imposed sanctions on some Chinese companies. Tensions between China and the US increased in 2019 and spread to areas such as finance, technology, and cultural exchanges, heightening global economic uncertainty. In April 2020, the U.S. Department of Commerce announced new Export Control Regulations against China and increased sanctions against Huawei, prohibiting Huawei from using software and technology to design and manufacture semiconductors outside the US. The U.S. Bureau of Industry and Security expanded the «entity list» for China's export control, restricting other companies' exports on the list. Furthermore, the U.S. Treasury Department has stated unequivocally that listed companies that fail to comply with the U.S. audit requirements will be delisted in the US by the end of 2021. According to the U.S. Public Company Audit and Oversight Board's list of jurisdiction denials, Chinese companies account for more than 66%, and Hong Kong companies account for a quarter [7]. Therefore, Chinese enterprises need to turn to the domestic capital market for financing support.

As a result, in terms of international competition and cooperation, the time has come for China to implement the «dual circulation» policy. The «dual circulation» policy, which reflects the dynamic process of China's country power balance, will be a long-term national strategy based on the shifting and changing environment of international power. [Figure 1] shows the structure of China's «dual circulation» policy.



The structure of China's «dual circulation» policy  
*Source:* Compiled by the author

As shown in Figure 1, the dual-cycle policy has two levels.

The first level, with domestic economic and social development as its main body, China prioritizes domestic economic and social development in order to provide new growth impetus for its domestic economy. On the one hand, supply-side structural reform is prioritized in China, with a focus on the thorough development of the supply chain, industrial chain, and technology, as well as import substitution for key technologies, equipment, components, and the new materials, particularly in the high-end CNC machine tools, chips, lithography machines, and the high-end sensors [8]. China, on the other hand, emphasizes the relationship between consumer demand and purchasing power, directing additional resources to associated businesses through consumption improvements. Over the years, while expanding domestic demand, China has not only stepped up efforts to introduce foreign capital, but also strengthened cooperation to export capital, which actually reflects that «internal circulation as the main body» has actually become a trend [9].

Foreign trade dependence reflects a country's economy's which reliance on its foreign trade, expressed as the ratio of total import and export trade to GDP. China's reliance on foreign trade fell from 65.17% in 2006 to 31.8% in 2019 [10]. It suggests that in the early years, China's economic policy strategy has gradually shifted from foreign economic development to domestic trade development.

On a secondary level, China values two characteristics more. China will consider introducing high-quality foreign capital and advanced technologies, as well as exporting foreign direct investment through channels, such as the Belt and Road Initiative and establishing the extensive foreign economic and trade ties with economies around the world. Historically, Chinese firms have acquired advanced technologies from foreign firms through M&A to support technological and management upgrading, and they continue to use the outside double loop mode to develop new overseas markets. Geely Automobile Group is one of the most successful examples [11]. Through a series of M&A, Geely has mastered global industrial chain's research and development technology, maximized the sharing of technology resources, and taken the lead in taking the lead. This model, which combines international new technologies with domestic resources, has successfully realized the development of internal and external «dual circulation» linkages.

To summarize, the «dual circulation» policy proposal demonstrates that China places greater emphasis on domestic internal demand as the main body, focusing on economic transformation and upgrading, and forming its own appealing economic circles. This is done to boost its domestic consumption, investment, and import demand. Furthermore, by optimizing and stabilizing the

high-tech industrial chain, it will raise the value attributes of China's industry and manufacturing industry, provide a new impetus for global trade orders.

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