

# How Can Companies Align Their Businesses with China's 'Dual Circulation' Strategy?

Is it time to bid farewell to globalisation? The simple answer is, “No”. Quite the contrary, the rise of digital trading platforms, financial transaction platforms and payment methods will only make the world ever more interconnected. Globalisation in its next stage will develop to become a more balanced and co-operative system generating more win-win results. In this context, China has introduced a new development paradigm – one “with domestic circulation as the mainstay” – both as a response to global prospects and as a path for the country’s long-term development.

Compared with most countries and regions in the world, China boasts a vast domestic market and one of the most well-rounded industrial systems in the world – both of which are conducive to the ‘domestic circulation’ of the country’s economy. But instead of focusing solely on its domestic economy, China aims for a development pattern “with domestic circulation as the mainstay” and “domestic and international circulations reinforcing each other.”

In fact, ‘domestic circulation’ in an absolute sense is both impossible and unne-

cessary. Given the greater efficiency and immense value that can be generated by the global integration of industrial chains, China, as a major trader in the global market, is obligated to facilitate this process and leverage it to benefit its own development. It is noteworthy that the more unstable the international landscape is, the more necessary it is for China to maintain exchanges with the international community in terms of technology and creativity – for that is the only way to become a more creative nation. Hence, the statement of “domestic circulation as the mainstay” should be interpreted as a



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long-term direction for China’s economic restructuring, instead of a barrier to our way of seeing the world.

To promote domestic circulation, it is essential to match domestic demand and supply more effectively. From the supply side, despite the growing supply chain capability of major industries in China, the country still has a long way to go before it can become self-sufficient in cutting-edge sectors such as semi-conductor chips. More importantly, Chinese companies are overshadowed by international peers in brand power. They are in dire need of a boost to their brand power so as to satisfy the demand of domestic customers. Aware of this, Chinese companies have made conscious efforts over recent years, giving birth to a wealth of homegrown brands. Many supply chain enterprises have launched their own brands and conceived of innovative business models such as C2M (Customer-to-Manufacturer). All of these initiatives are in line with the strategic adjustment required by domestic circulation.

As for entrepreneurs, while learning about brand operations and working with specialised service providers, they should also align their investment strategies with the latest developments in globalisation and take a discreet approach to expanding capacity, especially in industries such as electronics and textiles that depend heavily on foreign trade. In addition, more emphasis should be placed on R&D and innovation, and more investment should be put into intangible assets such as technology, talent, design, brand power and creativity. The service industry, in particular the industrial service sector, also merits close attention. Although China’s service industry has made remarkable progress in recent years, it still pales in comparison to those in developed countries.

As the service industry takes up a growing proportion of global trade, China can leverage its strengths in digital technology to build presence in the digital service sector. As for national policies, since domestic circulation is driven by robust consumption demand, the best way to expand

domestic demand is not to incentivise consumption directly, but to unlock consumption potential by increasing people’s income and optimising the income distribution structure. The most effective way to increase income is to facilitate the growth of enterprises and industries that increase labour’s share of value added. SMEs, which account for more than 80% of urban jobs, are a leading force in the service industry and a vital source of creativity. Their sound development is of paramount importance for the smooth domestic circulation of China’s economy. Governments at all levels, therefore, are faced with the crucial task of improving the business environment and creating a fair playing ground for SMEs through diversified approaches.

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