

Dual Circulation, Consumption Stimulation or Regional Economic Integration... Which is the Way Forward for China's Economy in 2021?

The COVID-19 outbreak created a barrier for the external circulation of China's economy and posed a new challenge for development thinking. In May 2020, Chinese President Xi Jinping proposed for the first time a new 'dual circulation' strategy in which domestic and foreign markets would reinforce each other, with the domestic market serving as the mainstay. This strategy can be summed up as: dual circulation centering on the domestic market.

Consumption, investment and exports are often referred to as the troika stimulating China's aggregate demand (i.e. the sum of its internal and external demand). Internal demand refers to domestic demand for domestic products and can be subdivided into consumption demand and investment demand. External demand refers to foreign demand for domestic products, which is not as important to us as it used to be. In the next five to ten (or more) years, we hope that domestic consumption will drive the internal economy and produce internal dividends. Nevertheless, there is still an urgent problem to be solved in that we must currently rely on domestic investment.

The first step for China to embark on a path of internal circulation in the next five years is to lower the share of national savings in the GDP. National savings can be split into household savings, corporate savings and government savings. Although China's savings rate has dropped in recent years, it remains at a high level of 45%. Why is it so high? Culture is undoubtedly one of the reasons, but more importantly, Chinese people face great pressure from retirement, healthcare, education and home ownership. To activate internal circulation, savings rate will need to be reduced to below 35%. Policymakers should consider and study the issue of achieving this goal, while academicians should provide advice regarding related policies.

The next step is to continue to reduce income inequality in China.

In terms of the Gini index, China reached around 0.468 in 2018, one of the highest amongst the world's largest economies (Note: The Gini index ranges from zero to one and is used to measure inequality in income distribution amongst the population of a country or region. The closer the value is to zero,

the more equal the income distribution). Generally speaking, a Gini index of 0.4 or above indicates that a country has a serious problem in inequality of income distribution. This index needs to come down if China wants to take a domestic consumption-driven path.

The successful start of the internal circulation development path is also closely related to national disposable income. According to data released by the National Bureau of Statistics, the per capita disposable income of Chinese residents in 2019 was 30,733 RMB, while the per capita GDP was about 70,889 RMB. In other words, China's per capita disposable income as a share of its per capita GDP is 43% (it is generally above 60% in developed countries and around 50% in most developing countries). Thus, it can be seen that China's per capita disposable income needs to increase if China wants to drive internal circulation through personal consumption.

So, what is the key to the future success of internal circulation? In my view, it is to improve people's sense of security such that they are willing to spend money. At the same time, it is necessary

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to reduce income inequality so that middle- and lower-income groups have more money to spend. Moreover, the Chinese government needs to streamline administration, delegate more power and offer more benefits to people.

In addition to exploring a path of economic development through the internal circulation, China has also sought breakthroughs in external circulation. Last November, President Xi attended the 27th Asia-Pacific Economic Co-operation Economic Leaders' Meeting and delivered a keynote speech entitled, Working Together for an Asia-Pacific Community with a Shared Future. It was expressly mentioned in his speech that China would favorably consider joining the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). Before that, China officially signed the Regional Comprehensive Economic Partnership (RCEP) with 14 countries and reached a free trade agreement

with Japan for the first time (a major milestone in China-Japan bilateral trade).

China plays an indispensable role in global/regional integration, but has a long way to go. To be more engaged, China must make appropriate concessions and compete with other major powers. It seems that, in the next five to ten years, China will still bear some remarkable fruits of external circulation despite the priority of internal circulation.

Ultimately, neither US-China relations nor the COVID-19 epidemic will determine the direction and progress of China's economic development. We have already passed through the stage driven by external circulation and the epidemic has not been that bad. Moreover, it has allowed us to get off the beaten track, accelerate the pace of transformation and advance a development strategy of dual circulation centering on the domestic market.

I believe that China still has many difficulties to overcome in promoting internal circulation. In terms of promoting external circulation, China will spare no effort in taking its economic co-operation with other Asia-Pacific countries to a higher level, creating a self-contained Asia-Pacific supply chain and working together with other countries in the region for an Asia-Pacific community with a shared future. So, let's look forward to this together.

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