

The Dual Circulations of the Chinese Economy 中国经济的双循环

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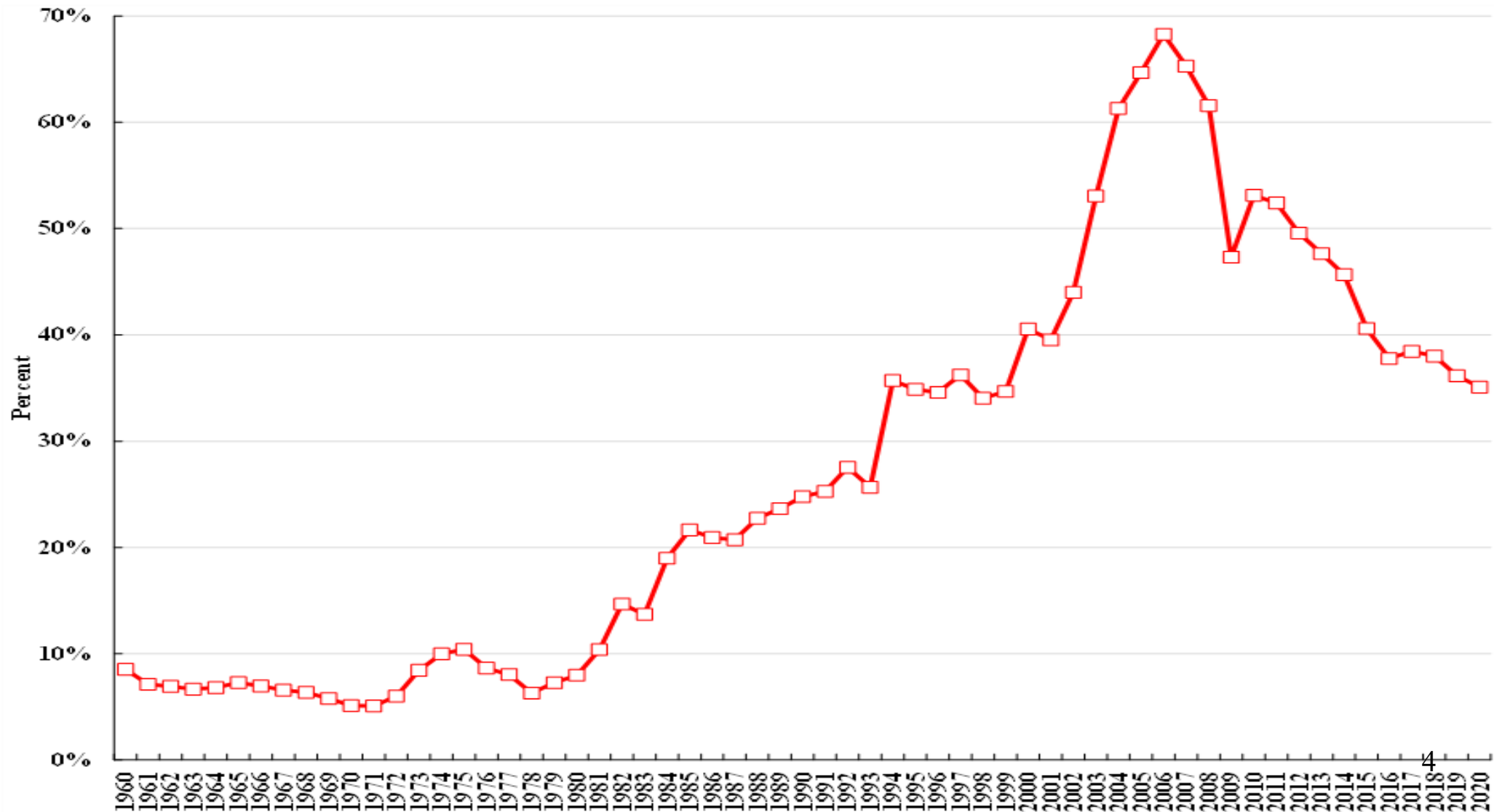
China's Dual Circulation Strategy

- ◆ China's dual circulation strategy of economic development has as its principal focus the domestic circulation, but with both the domestic and international circulations mutually reinforcing each other.
- ◆ The domestic circulation has become the principal focus of the Chinese economy, just as it is in the U.S. economy, because of the maturation of China's own domestic consumer market, which is now larger than the U.S. consumer market.

The Ratio of International to Domestic Circulation

- ◆ The relative size of the dual circulations and its changes over time can be measured by the ratio of the total international trade in goods and services to the sum of the components of domestic aggregate demand—household consumption, investment and government expenditure. Its evolution over time is presented in Figure 1.
- ◆ The ratio began climbing upwards from less than 10% in 1979 as a result of the economic reform and opening, and reached a peak of almost 70% in 2006. Since then, it has declined by half to just over 35% in 2020.

Figure 1: International Circulation as a Ratio of Domestic Circulation (percent)



China Has No Intention to Retreat from Economic Globalisation

- ◆ The dual circulation strategy is a clear indication that China has no intention to retreat from economic globalisation. China has been a major beneficiary of economic globalisation. So have been its trading-partner countries.
- ◆ But while economic globalisation makes every country better off, it also creates both winners and losers in every country. Economic globalisation actually generates sufficient net gains in each country so that everyone can in principle be made better off, but the market will only reward the winners but cannot compensate the losers. It is the responsibility of each government to compensate the “losers” in its own country.
- ◆ The problem is that most countries have not compensated its “losers” adequately. China has made sure that everyone wins, even though to different extents, through its social safety net and poverty alleviation and eradication programmes. In order that economic globalisation can be sustained in the long run, each country must compensate its losers. Otherwise, the “losers” will become advocates of de-globalization, isolationism, and protectionism.

How to Raise Revenue to Compensate the “Losers”?

- ◆ The question may arise as to how the necessary revenues can be raised to compensate the “losers”? A simple but feasible and easily implementable idea is to impose a tax, say of 0.5%, on the values of both exports and imports of goods. (It is harder, but not impossible, to tax exports and imports of services.)
- ◆ The export and import industries and their owners, employees, service providers and suppliers are precisely the principal beneficiaries of economic globalisation.

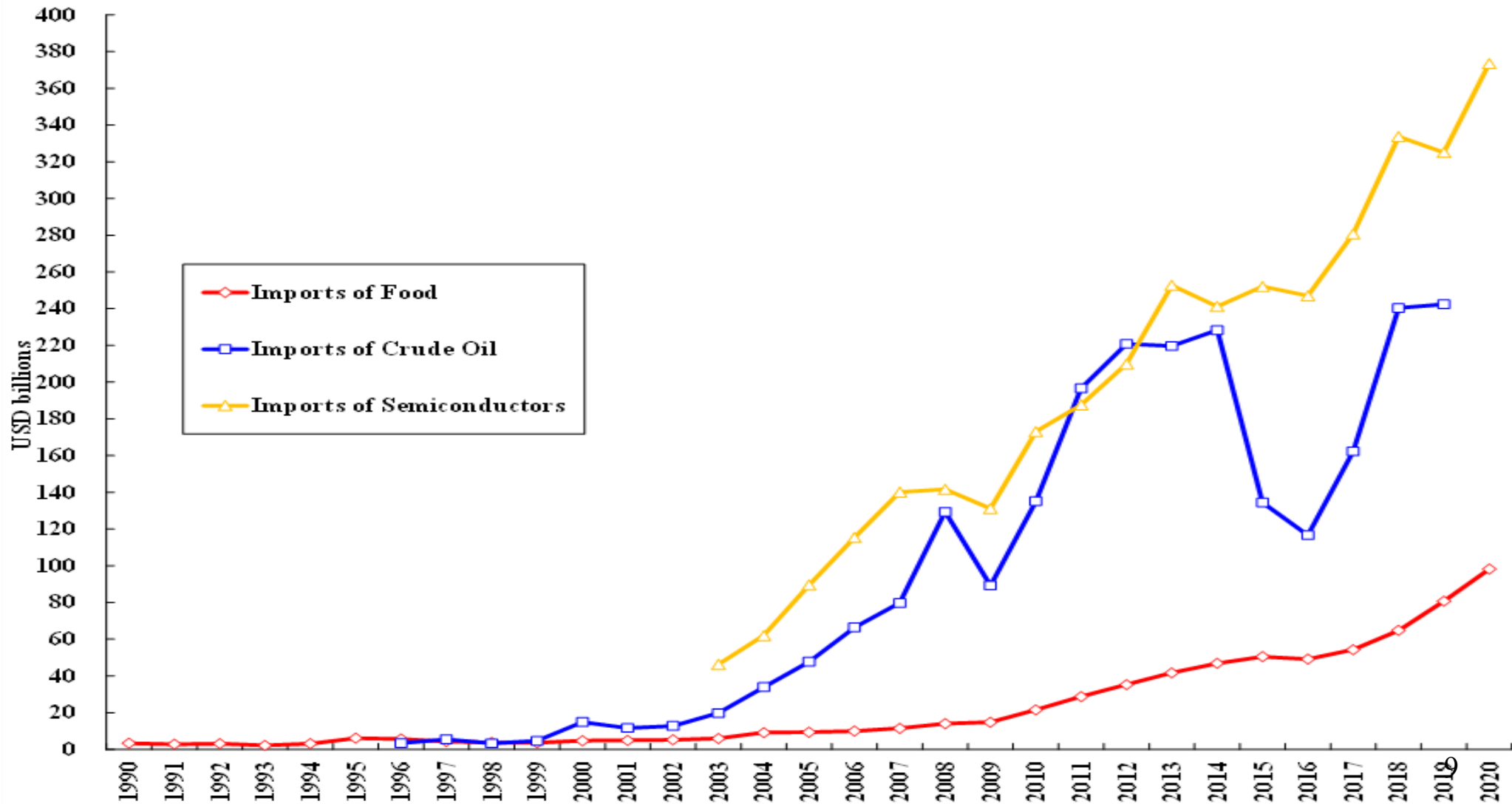
The Concepts of a “Community of Common Destiny” and “Common prosperity”

- ◆ Moreover, China has gone beyond simple economic globalisation to promote the concept of a “Community of Common Destiny (人类命运共同体)”. All countries must get together to tackle the common challenges, such as global warming, that affect everyone.
- ◆ Within China itself, the Government has been promoting the concept of “Common Prosperity”, which means that everyone should be able to get rich. Restraining monopolies and monopolistic practices and strengthening market competition through anti-trust laws are all actions designed to create and expand opportunities for those not yet rich to also become rich.

The Continuation of Economic Reform and Opening

- ◆ China will continue to maintain an open economy to the rest of the world, not only because imports can supplement what China cannot produce or produce enough by itself (see Figure 2), but also because it allows the Chinese economy to specialise in accordance with its comparative advantages. It will also promote competition in its markets and help China to remain informed of the latest developments in the rest of the world.
- ◆ Isolation is not a viable economic strategy. China tried it, mostly involuntarily, from 1949 to 1979. Complete economic isolation and total economic self-sufficiency for China today are likely to result in a significant reduction in the real standard of living of the Chinese people.

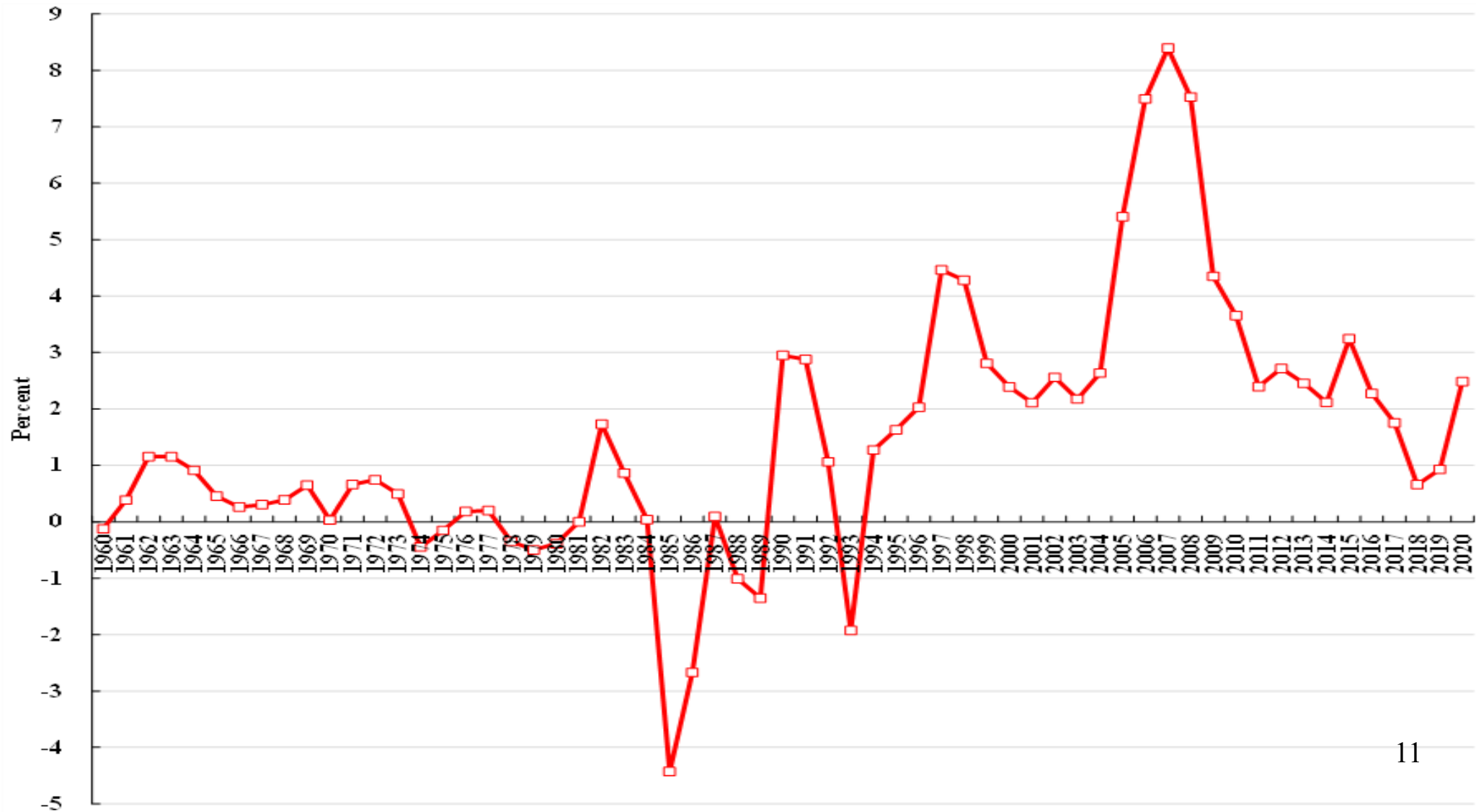
Figure 2: Values of Imports of Food, Crude Oil and Semiconductors, US\$ billions



The Long-Term Objective of Balanced International Trade in Goods and Services

- ◆ China has a long-term objective of maintaining a balanced international trade in goods and services combined. Its current account surplus as a percent of its GDP declined from a peak of 8.4% in 2007 to 0.66% in 2018. It rebounded to 2.5% in 2020, in part because the COVID-19 epidemic greatly reduced Chinese outbound tourism, which is a major item in the Chinese imports of services. (See Figure 3 below.) China does not wish to run either a large trade surplus or a large trade deficit.
- ◆ With the continued growth of the Chinese economy, balanced international trade means that the Chinese economy will continue to provide a huge market for exports from the rest of the world.

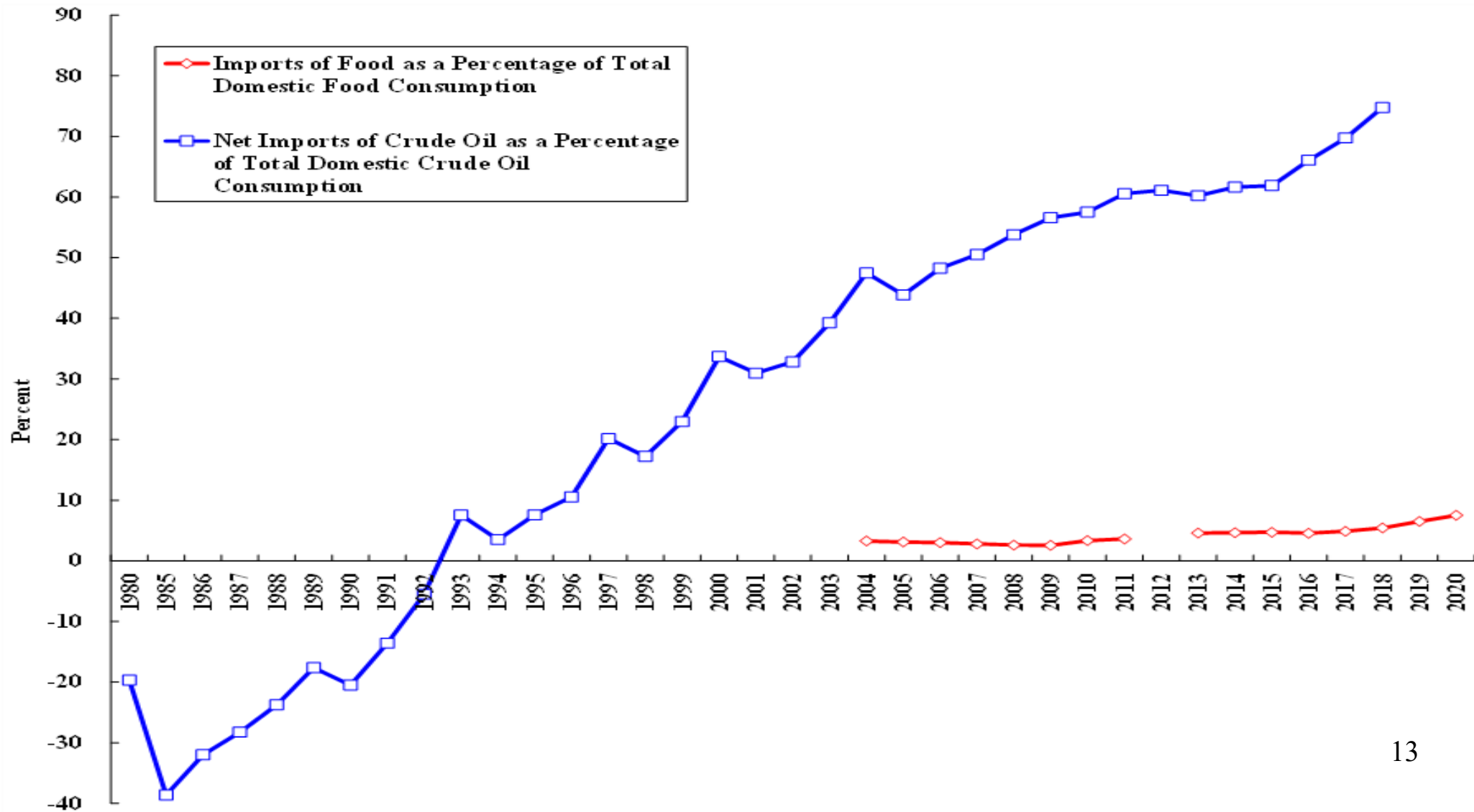
Figure 3: Chinese Trade Balance in Goods and Services as a Percent of GDP



De-Coupling, Second-Sourcing, and a Possible Sputnik Moment

- ◆ Containment or isolation of China by one country or a group of countries makes little economic sense because it is basically the reverse of economic globalisation, or de-globalisation, under which every country loses.
- ◆ However, everything has benefits and costs. While “economic de-coupling” sounds ominous, “second-sourcing” sounds great, and if successful can reduce monopoly profits significantly and lower costs all around. In any case, even in the absence of the China-U.S. economic competition and rivalry, second-sourcing should be practiced so as to protect against supply interruptions from epidemics, natural disasters and other unexpected events. (Of course, multiple-sourcing, or diversification, is even better.)
- ◆ China may be facing a Sputnik moment as certain critical inputs such as advanced semiconductors and semi-conductor manufacturing equipment are placed on the U.S. embargo list. It must and will eventually find effective substitutes.

Figure 4: Chinese Imports of Food and Oil as Percentages of Total Domestic Consumption



The Prevention of Further Climate Change

- ◆ China has committed to peak its carbon emissions before 2030 and to become “carbon-neutral” by 2060. The U.S. and the European Union have committed to be “carbon-neutral” by 2050. India has committed to be “carbon-neutral” by 2070.
- ◆ The most effective way to reduce carbon emissions is for all (or at least most) countries to agree to adopt a universal “carbon tax” (and perhaps a methane tax in addition).
- ◆ China can contribute significantly by increasing the proportion of its electricity generated from renewable sources such as hydro, solar and wind. Ultra-high-voltage long-distance electricity transmission and advanced battery technologies can be a great help in expanding the use of renewables. Nuclear fusion, if successfully harnessed, can help to eliminate the need for fossil fuels eventually.