CHINA'S "DUAL CIRCULATION" STRATEGY AND REGIONAL DEVELOPMENT

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Executive Summary

1. The shifting global geo-strategic environment and COVID-19 pandemic have pushed China to rely more on the domestic market and resources for generating economic growth by leveraging the new development paradigm of "dual (domestic and international) circulation" strategy.

2. China's new "dual circulation" strategy is to strengthen the resilience of its domestic economy. Its relative success in containing the COVID-19 pandemic has encouraged the Chinese leadership to focus more on the domestic market and indigenous technological innovation to sustain economic growth.

3. The "dual circulation" strategy was first raised by China's President Xi Jinping in May 2020 and endorsed by the Decisions of the Fifth Plenum of the 19th Chinese Communist Party's Central Committee. This is the first time that domestic demand has been so explicitly enshrined in state policy as the dominant driver for the Chinese economy since the reform and opening-up period in the late 1970s.

4. The other side of this dual circulation strategy is to open up more to the outside world. China will continue to expand its global trading and economic ties to enhance its economic resilience. The Regional Comprehensive Economic Partnership agreement and the in principle conclusion of the bilateral investment agreement with the European Union reflect this effort.

5. The success of the dual circulation strategy is dependent on stimulating regional coordinated development particularly in vibrant city-clusters. China's long-existing differentiated regional policy and geographical factors have led to unbalanced development across regions, posing a major threat to the sustainability of the Chinese domestic economy.

6. The Chinese authorities have launched a raft of regional development initiatives to promote coordinated industrial development among major cities. It will require

new investment in infrastructure and promotion of public services provision to stimulate domestic consumption.

7. City-cluster formation involves both strong central state planning and local government's autonomy. Despite the efforts at economic decentralisation since the era of Deng Xiaoping, the Chinese central state still predominates over local governments in China. The Xi administration has recentralised power over these regions using plan-making as a tool since assuming office in 2013.

8. The central government has been directly involved in the development initiatives of major city-clusters through the Central Commission for Comprehensively Deepening Reform, the Small Leading Groups for the respective clusters and the joint working mechanism between central ministries and provincial governments.

9. The Greater Bay Area (GBA) and Yangtze River Delta (YRD) region are two key city-clusters in the plan for further development. Leveraging their well-developed infrastructure network, Chinese policymakers expect to transform the GBA and YRD into an economically integrated region with efficient flow of factors of production (land, capital and labour) among cities.

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China's New Development Paradigm

1.1 The unprecedented COVID-19 pandemic has plunged the global economy into its deepest recession since the Great Depression of the 1930s. More than a year into the pandemic and the novel coronavirus has not subsided. Many countries are still fighting a day-by-day battle with the coronavirus to keep infection rates from spiralling out of control.

1.2 The International Monetary Fund in October 2020[1] projected global economic growth to contract by 4.4% in 2020. The prospects for a vigorous recovery of the global economy remain grim until vaccines with high efficacy become widely available. Global demand would remain tepid due to disruptions in supply chains, stringent border controls and imposition of worldwide travel bans.

1.3 Adding to this is the bilateral tensions between China and some of its major trading partners, the United States in particular, which could potentially trigger a further decline in China's exports.[2] In 2019, trade between China and the United States saw a sharp contraction of 12.9%.

1.4 China-US relations during the Trump administration deteriorated from competition and rivalry to outright hostility. The international trading system which had dominated the global economy and benefitted the world has been severely

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1 International Monetary Fund, "World Economic Outlook: A Long and Difficult Ascent", October 2020, pp. 1-182, available at https://www.imf.org/en/Publications/WEO/Issues/2020/09/30/world-economic-outlook-october-2020, accessed 4 December 2020.

2 Several countries, including the United States, have tightened their process of screening foreign investment from China and banned Chinese firms from investing or acquiring certain industrial sectors in the past few years.

damaged by the power rivalry between the world's two largest economies. Nevertheless, China's exports grew by 3.6% in 2020, making it the only major economy to achieve positive commodity trade growth in 2020.

1.5 To reinforce national resilience or strategic autonomy, a rising number of countries have started to focus on shifting their supply chains back home.[3] Many multinational firms have implemented the "China+1" strategy[4] in light of the China-US trade war and the restructuring of global supply chains, jeopardising China's status as the "world's factory". China's economy has faced severe internal and external challenges over the past decade. Its three decades of double-digit economic growth have come to an end, registering its lowest since 1991 at 6.11% in 2019.[5]

1.6 The shifting global geo-strategic environment and COVID-19 pandemic have pushed China to chart a course that relies more on the domestic market and resources for generating economic growth. China's relative success in containing the COVID-19 pandemic[6] has encouraged the Chinese leadership to focus more on the domestic market and indigenous technological innovation by leveraging the new development paradigm of "dual (domestic and international) circulation" strategy.

1.7 The "dual circulation" strategy was endorsed by the Decisions of the Fifth Plenum of the 19th Chinese Communist Party's Central Committee. This new development strategy, proposed by the Chinese government and first raised by China's President Xi Jinping in May 2020, intends to boost the strength and resilience of the domestic economy. It is the first time that domestic demand has been explicitly enshrined in state policy as the dominant driver for boosting the

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3 "Goodbye Globalization", *The Economist*, 16-22 May 2020, vol. 435, no. 9194, p. 7.

4 The "China+1" strategy for the multinational corporations is to use Chinese suppliers not only to serve the Chinese domestic market, but also in other countries to strengthen supply chain stability and thereby avoid disruption in case of unforeseen circumstances.

5 Source: World Bank Database on China.

6 Despite the occasional local flare-ups of virus transmission and infection, China has deployed a relatively successful strategy centred on wide-scale testing, effective contact tracing and quarantine, and targeted local lockdowns, if deemed necessary, to contain the virus spread and bring the pandemic largely under control.

Chinese economy since the start of the reform and opening-up period in the late 1970s.

1.8 Details of the dual circulation strategy are slowly unfolding based on remarks and documentations from Xi Jinping and other senior policymakers. The domestic economy is the dominant factor under the dual circulation strategy, with the international economy and external demands taking secondary place. The Chinese authorities seek to comprehensively promote domestic consumption (a self-reliant economy) and domestic investment, supplemented by international trade. In an article published in *Qiushi Journal*,[7] the flagship magazine of the Chinese Communist Party, China's President Xi Jinping said:

> *China should build a self-developed, controllable, safe and reliable domestic production and supply system in fields concerning national security to ensure self-circulation at critical moments and ensure normal economic operation under extreme conditions.*

1.9 The intention is to build an economy that is less dependent on foreign trade, and to reduce the supply of goods and materials from abroad so as to strengthen the resilience of the Chinese economy in the face of future global geostrategic shocks. While the emphasis is on the domestic market, the other side of this dual circulation strategy is to open up more to the outside world. China will continue to expand its global trading and economic ties with the world to enhance its economic resilience. The signing of the Regional Comprehensive Economic Partnership (RCEP) agreement and the recent in principle conclusion of the bilateral investment agreement with the European Union reflect its continuous efforts in expanding its regional and global economic linkage.

Regional Development in China under the Dual Circulation Strategy

2.1 China's shift to a new development paradigm has important implications for regional development in China. The success of the dual circulation strategy is dependent on stimulating regional development particularly in vibrant city-clusters.

[7] Xi Jinping, "Guojia zhongchangqi jingji shehui fazhan zhanlve ruogan zhongda wenti" (Several Major Issues in the National Medium and Long-term Economic and Social Development Strategy), *Qiushi Journal*, 31 October 2020, available at http://www.qstheory.cn/dukan/qs/2020-10/31/c_1126680390.htm, accessed 4 December 2020.

2.2 China is set to source new engines to boost its economic growth by taking further "opening up" measures and establishing new opening areas as economic development platforms, as well as adopting an economic development model driven more by domestic investment and consumption.

2.3 Promoting regionally coordinated development forms an important part of the dual-circulation development paradigm. China's long-existing differentiated regional policy and geographical factors have led to unbalanced development in various regions, posing a major threat to the sustainability of the Chinese domestic economy.

2.4 China understands the importance of city-clusters in providing major impetus for boosting national development. Promoting integrated development among Chinese cities to create city-clusters will require new investment in infrastructure and promotion of public services provision to stimulate domestic consumption.

2.5 Developing city-clusters has become an important strategy for the regions in recent years, supported by the series of regional development initiatives launched to promote coordinated industrial development among major cities.

2.6 Rebalancing economic development across its regions is essential for China in its pursuit of high-quality development and to cross the threshold of becoming a high-income country. Liu He, China's Vice Premier and one of China's most senior economic policymakers, in an essay written for the *People's Daily* in November 2020,[8] shed further light on the goals of the dual circulation strategy and the significance of regional dynamics to the success of this new development paradigm. Liu said:

> *"China is currently in the middle of a rapid urbanization development phase ... this process will both generate huge demand and increase effective supply. We must employ the linked roles of central cities and urban clusters, implement regional strategies, establish modernized capital city conurbations, and form a raft of new growth points".*

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[8] Liu He, "Jiakuai goujianyi guonei daxunhuan weizhuti guoneiguoji xunhuan xianghucujin de xinfazhan geju" (Accelerating the Establishment of New Development Conditions under which Domestic Primary Circulation is the Main Actor and Domestic and International Circulation Reciprocally Expedite Each Other), *People's Daily*, 25 November 2020, available at http://paper.people.com.cn/rmrb/html/2020-11/25/nw.D110000renmrb_20201125_1-06.htm, accessed 4 December 2020.

2.7 Uncoordinated regional development and implementation of locally initiated plans have encouraged "cut-throat" style regional competition. Inter-regional competition over industrial development has intensified due to widespread duplication of development in manufacturing sectors particularly in the Guangdong-Hong Kong-Macau Greater Bay Area (GBA), Yangtze River Delta (YRD) Region and the Western Region.

The Role of State in Regional Development

3.1 City-cluster formation in China is a dual process of policy implementation involving both strong central state planning and local government's autonomy. Despite the efforts at economic decentralisation since the era of Deng Xiaoping, the Chinese central state still predominates over local governments in China. The Xi administration has attempted to recentralise power over these regions using plan-making as a tool since assuming office in 2013.

3.2 The central government has been directly involved in the development initiatives of major city-clusters through the Central Commission for Comprehensively Deepening Reform, the Small Leading Groups for the respective clusters and the joint working mechanism between central ministries and provincial governments.

3.3 Promoting regional coordinated development is at the core of the new development paradigm. There has been slight narrowing of the regional economic gap in the past few years due to massive inflow of state investment to the struggling central and western regions in China. Nevertheless, a World Bank report points out that the investment-driven support to these regions and the regional convergence model on which it is based have become increasingly unsustainable due to the rapid accumulation of government debt and diminishing returns to investment.[9]

3.4 The Chinese government has formulated active policies to promote regional development in China over the last two decades. Under Xi Jinping, China has

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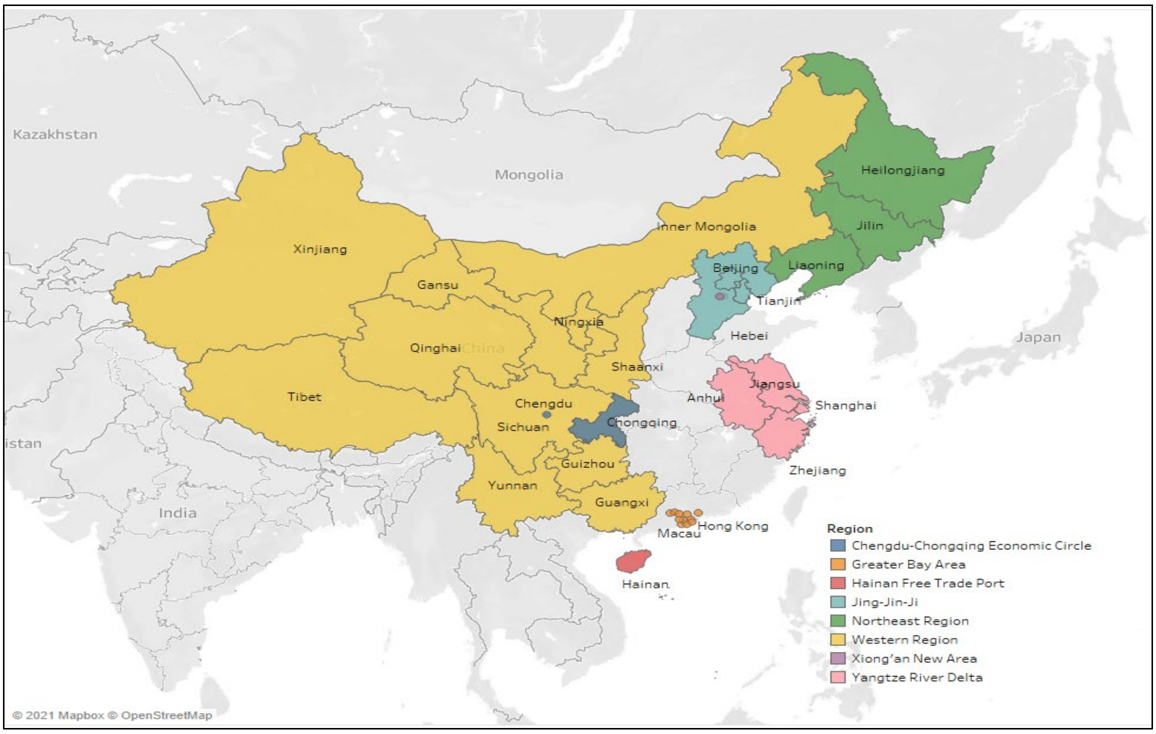
[9] World Bank, "From Recovery to Rebalancing: China's Economy in 2021", China Economic Update, December 2020, pp. 1-56.

since 2013 planned several major city-clusters or integrated mega clusters nationwide to boost domestic demand and drive domestic economic growth. These clusters include the GBA region, YRD region, Jing-Jin-Ji (Beijing-Tianjin-Hebei) region, Xiong'an New Area (XNA), Chengdu-Chongqing Economic Circle (CCEC) and the Hainan Free Trade Port (HFTP) (see Map for their geographical location in China). The Chinese central government has set up high-level committees to lead and coordinate regional development and appointed experienced personnel to key positions.

MAP LOCATION OF MAJOR INTEGRATED CLUSTERS IN CHINA



Source: Author's own compilation.

3.5 Regional dynamics are crucial to sustaining the domestic economy in the face of a hostile international environment. Rapid urbanisation is also important for developing regional dynamics in China. The government has set the ambitious target of maintaining an urbanisation rate of 70% by 2030. Despite the various policy measures rolled out by the government to stimulate domestic consumption, the consumption demand in China remains weak. The recovery of private consumption has been impeded by the loss in household income and the lingering behavioural effects brought about by the pandemic.[10]

[10] World Bank, "From Recovery to Rebalancing: China's Economy in 2021".

Assessment of Regional Development in China

4.1 The GBA and YRD are two key city-clusters in the plan for further development. Leveraging the well-developed infrastructure network, the Chinese policymakers expect to transform the GBA and YRD into an economically integrated region with efficient flow of factors of production (land, capital and labour) among cities. China also aims to enhance the competitiveness of major cities within these two city-clusters, including Shanghai, Hangzhou, Nanjing, Suzhou, Guangzhou, Shenzhen, Hong Kong and Macau.

4.2 Each cluster/region has its own strengths and weakness, and faces different development opportunities and threats (see Table 1). Based on a SWOT analysis, the GBA and YRD are the two most competitive integrated clusters in China on account of their outstanding economic development (contribution of the region to national gross domestic product [GDP]), level of inflow of foreign direct investment, and strong research and innovation capability (measured by R&D expenditure in regional GDP).

TABLE 1 A SWOT ANALYSIS OF EIGHT MAJOR CLUSTERS/REGIONS IN CHINA

City-Cluster	Strengths	Weaknesses	Opportunities	Threats
The Guangdong-Hong Kong-Macau Greater Bay Area (粤港澳大湾区)	➢ Cultural affiliation among different cities ➢ The most economically developed region in China ➢ Comprehensive infrastructure readiness ➢ Highest-level of international openness ➢ Best investment and business environment in the country ➢ Shenzhen is a national innovation hub ➢ Hong Kong is a major international financial centre	➢ Most complex governance structure ➢ Different regulatory regimes among Guangdong, Hong Kong and Macau ➢ Different legal and taxation collection systems ➢ Inter-city competition for regional dominance	➢ Big internal market ➢ Business opportunities brought about by industrial upgrading and economic restructuring	➢ Economic disparity among the cities ➢ Resistance among Hongkongers to economic integration with mainland China ➢ Rising labour cost ➢ Land supply shortage ➢ Competition from other mega-regions in the country and beyond

Xiong'an New Area (雄安新区)	➢ Strong central government support ➢ Infrastructure readiness	➢ Weak economic foundation ➢ Industrial underdevelopment ➢ Weak local education system ➢ Lack of economic linkage with the rest of the country	➢ Business opportunities brought about by the state's preferential policies to develop high technologies and environmental protection industry	➢ Water shortage ➢ Lack of self-development capacity without central policy support
Jing-Jin-Ji Region (京津冀地区)	➢ Strong central government support ➢ Infrastructure readiness ➢ Strong industrial development capacity ➢ Strong local education system ➢ Abundance of talents	➢ Weak inter-regional industrial collaboration ➢ Inter-regional competition for industrial development	➢ Business opportunities brought about by industrial upgrading and economic restructuring ➢ Industrial development opportunities brought about by intra-regional industrial relocation ➢ Business opportunities brought about by promoting balanced regional development and transfer of non-capital functions to the surrounding cities in Hebei	➢ Water shortage ➢ Competition from other mega-regions in the country and beyond
Hainan Free Trade Zone/Hainan Free Trade Port (海南自由贸易港)	➢ Geographical location as an island ➢ Strong central government support ➢ Largest free trade port by size	➢ Weak economic foundation ➢ Small internal market and weak linkage with the national economy ➢ Backwardness of infrastructure ➢ Industrial underdevelopment ➢ Poor track record on implementing reforms ➢ Talent and skilled workers shortage	➢ The only free trade port in the country ➢ Preferential policies granted to boost opening up and development of specific sectors (e.g. health care and tourism)	➢ Lack of local autonomy for policy implementation ➢ Competition from established free trade ports such as Hong Kong
Yangtze River Delta Region (长江三角洲)	➢ One of the most economically developed regions in China ➢ Comprehensive infrastructure readiness ➢ Highest-level of international openness	➢ Inter-city competition ➢ Low productivity growth ➢ Weak interaction among firms, local universities and research institutes ➢ Lack of collaboration	➢ Big internal market ➢ Business opportunities brought about by industrial upgrading and economic restructuring ➢ Strong innovation potential based on	➢ Economic disparity among different cities ➢ Rising labour cost ➢ Land supply shortage ➢ Competition from other mega-regions in the country and beyond

	➢ Best investment and business environment in the country	among provinces in the region	increasing R&D expenditure	
Western Regional Development (西部地区)	➢ Big domestic market ➢ Abundance of labour and land supply	➢ Low level of exposure to internationalisation ➢ Industrial underdevelopment ➢ Infrastructure underdevelopment ➢ Poorly coordinated inter-provincial development ➢ Weak inter-city industrial collaboration	➢ Low land and labour costs ➢ Industrial take-off opportunity due to industrial transfer from the coastal provinces	➢ Water shortage ➢ Lack of strong government backing ➢ Lack of foreign investment
Chengdu-Chongqing Economic Circle (成渝经济圈)	➢ Economic growth pole of Western China ➢ Huge internal consumption market ➢ Abundance of land supply ➢ Low production costs	➢ Low level of internationalisation ➢ Backwardness of infrastructure ➢ Slow opening up to the outside world ➢ Inter-city competition in industrial development and attracting foreign investment ➢ Shortage of talents	➢ Preferential policies granted to boost opening up ➢ Preferential treatment for the development of specific sectors	➢ Strong competition from other city-clusters in the western region and beyond
Northeastern Region (东北地区)	➢ Infrastructure readiness ➢ Strong industrial foundation ➢ Abundance of mineral resources	➢ Low level of internationalisation ➢ Slow opening up to the outside world ➢ Lack of appeal to talents ➢ Talent and skilled workers shortage ➢ Local bureaucracy and red tape	➢ Preferential policies granted to boost opening up ➢ China's gateway to opening up under the Belt and Road Initiative	➢ Lack of foreign investment ➢ Population decline ➢ Rampant local corruption and rent-seeking behaviour among local officials

Source: Author's own compilation.

4.3 The GBA, with Hong Kong, Shenzhen and Guangzhou as the major engines, and the YRD, with Shanghai as the hub, are the most developed regions with a high degree of openness and international exposure in southern China. These two city-clusters not only are among the most dynamic economic regions in China and Asia, but also enjoy global economic significance. The GBA and YRD combined accounted for over 34% of China's GDP in 2020 (Table 2). Local consumption demand for high value-added services, high-tech industrial products and niche luxury goods has therefore increased significantly.

TABLE 2 RANKING OF MAJOR CITY-CLUSTERS/REGIONS IN CHINA'S GDP

City-Cluster	Land Area (,000 square metre)	Population (million persons)	2020 Gross Regional Product (RMB trillion)	Percentage of National's GDP (%)
Yangtze River Delta Region	360.0	230	24.46	23.4
Guangdong-Hong Kong-Macau Greater Bay Area	55.9	67	11.49	11.0
Jing-Jin-Ji Region	216.0	100	8.64	8.5
Xiong'an New Area	1.77	1.05	0.022	0
Western Region	6850.0	367	23.08	22.7
Chengdu-Chongqing Economic Circle	185.0	100	4.27	4.2
Hainan Free Trade Port	35.0	9.26	0.55	0.5
Northeastern Region	787.0	108	5.11	4.9

Source: Author's own compilation.

4.4 The Chinese government has established high-level committees within the major integrated clusters/city-clusters for formulating policies and coordinating policy implementation on the ground. A case in point is the Guangdong-Hong Kong-Macau Greater Bay Area Construction Leading Group founded in 2018 and under the State Council of China; it is chaired by Vice Premier Han Zheng, with experienced technocrats holding key regional positions to ensure effective policy implementation.[11]

4.5 The GBA, YRD and Jing-Jin-Ji region have been enjoying strong central government support and robust economic linkages with the rest of the country. Inter-city cooperation platforms for these three city-clusters have subsequently been established and institutionalised. Existing regional cooperation platforms provide these three integrated clusters with further impetus to achieve regional economic integration.

4.6 Developing major city-clusters took top spot in the regional development section of the 14th Five-Year Plan (2021-2025)[12] due to their important roles in the dual

[11] For example, Shen Xiaoming, the newly appointed provincial party secretary of Hainan, has previous experience of administrating a free trade zone in China. He served as vice minister for education and director of Shanghai Pilot Free Trade Zone.

[12] "The 14th Five-Year Plan for the National Economic and Social Development of the People's Republic of China and the Outline of the Long-Term Goals for 2035 (Draft)", *Xinhua*, 5 March 2021, available at http://www.xinhuanet.com/politics/2021lh/2021-03/05/c_1127172897.htm, accessed 7 March 2021.

circulation strategy. Policy direction and implementation concerning these city-clusters will have far-reaching implications for China's development trajectory.

4.7 Provincial economies with thriving high-tech service industries concentrated mostly in eastern China are generally expected to experience larger gains in productivity than resource-driven economies inland. This shift in China's economic geography will shape the contours of growth at the national level, with eastern China's pacesetters playing a bigger role in driving productivity and overall economic growth.

4.8 In addition to the long-standing issue of unbalanced regional development between coastal eastern provinces and landlocked western provinces, the north-south economic gap is a new trend affecting regional development in China. Northern China's share in the country's GDP dropped from 43.2% in 2012 to 38.1% in 2020, whilst southern China's share increased from 56.8% to around 61.9.% over the same period.[13]

4.9 The North-South economic divide is a relatively new element in the imbalance that has long characterised China's regional development. According to the latest ranking of Chinese cities based on economic size (Table 3), Beijing is the only city in northern China[14] to be included in the top 10, whereas in 1980, there were five northern cities: Beijing, Tianjin, Shenyang, Qingdao and Dalian in the list.[15]

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[13] Source: Institute for China Sustainable Urbanisation, Tsinghua University.

[14] The Qin Mountains-Huai River line is used by geographers to separate the northern and southern parts of China, which differ in climate and cuisine, among other aspects. The line runs from the Qin Mountains in the west to Huai River in the east.

[15] Shanghai and Beijing have remained as China's two most economically powerful cities over the years and Guangzhou's status as a major national economic centre has also remained unchanged. Meanwhile, Shenzhen has enjoyed spectacular growth over the past two decades, recording the third highest GDP among cities in 2019. There has been an evident economic decline in both Qingdao and Tianjin, two coastal cities in the northern region. Among cities in Western China, Chongqing and Chengdu are the only two cities listed in the ranking, indicating their economic importance to the western region.

TABLE 3 RANKING OF TOP 10 CITIES IN CHINA BASED ON ECONOMIC POWER

Ranking	1978	1980	1990	2000	2009	2019	2020	2020 Gross Regional Product of the Respective Cities
1	Shanghai	Shanghai	Shanghai	Shanghai	Shanghai	Shanghai	Shanghai	3.87
2	Beijing	Beijing	Beijing	Beijing	Beijing	Beijing	Beijing	3.61
3	Tianjin	Tianjin	Chongqing	Guangzhou	Guangzhou	Shenzhen	Shenzhen	2.76
4	Chongqing	Chongqing	Guangzhou	Shenzhen	Shenzhen	Guangzhou	Guangzhou	2.50
5	Shenyang	Guangzhou	Tianjin	Chongqing	Tianjin	Chongqing	Chongqing	2.50
6	Guangzhou	Shenyang	Shenyang	Tianjin	Suzhou	Suzhou	Suzhou	2.01
7	Dalian	Wuhan	Suzhou	Suzhou	Chongqing	Chengdu	Chengdu	1.77
8	Wuhan	Qingdao	Chengdu	Hangzhou	Hangzhou	Wuhan	Hangzhou	1.61
9	Harbin	Dalian	Hangzhou	Wuhan	Wuxi	Hangzhou	Wuhan	1.56
10	Qingdao	Chengdu	Harbin	Qingdao	Qingdao	Tianjin	Nanjing	1.48

Source: Author's own compilation.

4.10 For the GBA, its rapid manufacturing-driven economic growth supported by the construction of large-scale inter-city infrastructure is a factor for its development into one of the most developed mega-regions in China where income per capita among local residents are now on par with those in developed countries. The state-led plan for the GBA is a long-term strategy to sustain national economic development. By leveraging its cities' various competitive advantages, the plan is to transform the GBA into a world-class city-cluster by 2030. Nurturing indigenous innovation capacity and developing the financial sector have been identified as the new drivers of economic growth for the GBA.

4.11 The city of Shenzhen is poised to play a lead role in the development of technology and innovation in the GBA. Once a small fishing village, it is now a leading national centre for innovation and scientific research with growing global influence. Its diversified market economy, open commercial environment, innovative companies and strong manufacturing sector underscore Shenzhen's attractiveness and competitiveness.

4.12 The GBA is one of China's most important financial hubs. While Hong Kong is an established international financial centre, Shenzhen, as the home of the Shenzhen

Stock Exchange and many leading high tech and fin-tech firms, is an emerging national financial centre.

4.13 Nevertheless, compared to other renowned Bay Areas in the world, the GBA has the most complex governance structure. Guangdong, Hong Kong and Macau have separate political systems and custom zones with hard borders, different institutional, legal and taxation collection systems, and distinct governance cultures. The three different currencies used are another barrier to greater integration. This complexity in governance structure, legal systems and currencies in the GBA emphasises the very challenging task faced by the Chinese central and local authorities in their push for cross-border economic integration across GBA cities.

4.14 As the western region covers a vast land area and boasts a huge market of 350 million, western provinces could become the main driver of China's latest round of opening to the world and the biggest potential force to back the new strategy of "dual circulation". Chengdu, Chongqing and Xi'an are the three leading (Tier-1) cities in Western China based on their economic strength, population size, concentration of resources, attractiveness of human talents and indigenous innovation and research capacity.

4.15 Production costs are relatively lower in the western region than in the coastal eastern provinces and the region has huge industrial land supply. Investors who are looking at setting up shop in the western provinces could look at Sichuan province and Chongqing, the two most important manufacturing bases in the region. Meanwhile, the cities of Kunming, Nanning, Guiyang and Lanzhou have been designated as Tier-2 cities.

4.16 The CCEC is a newly created city cluster that has become the most prominent hub in the western region. The combined GDP reached RMB4.27 trillion in 2020, or 4.2% of China's GDP. The state plans to transform it into an important engine with national influence. Chengdu and Chongqing have since March 2020 held a few joint conferences for facilitating administrative cooperation and drawing up a detailed outline for the CCEC.

4.17 Under the Belt and Road Initiative (BRI), Western China provides important junctions for land and sea connectivity with Eurasia, Southeast Asia and South Asia via new transport corridors. The strong economic performance of Western China, with CCEC as a major hub, has been mainly led by infrastructure investment, capital spending by manufacturers, growth in retail sales, and resilient exports and imports.