

**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.