

Research on the Scientific Connotation of New Development Pattern

Changhong Pei, Hongkui Liu*

General Secretary Xi Jinping's important exposition on building the new development pattern is an important theoretical viewpoint of socialist political economy with Chinese characteristics. The theory is to understand and reveal the objective law of the development of things, which requires us to use the theoretical method of economics to demonstrate the understanding and grasp of the objective law of the economy. The ideological source of the important exposition on new development pattern can only be explored in Marxist theory. Marx's surplus value theory is based on an analysis of the economic cycle of capitalist domestic production, distribution, circulation and consumption, and reveals the general law of socialized mass production. The important exposition on the new development pattern is precisely the application, innovation and development of this scientific principle under the condition of socialist economy. Scholars should not examine, understand or explain the objective requirement of "taking the domestic market as the mainstay" from the perspective of "dependence on foreign trade". An empirical study on the contribution of China's three major demands to economic growth shows that the important judgment on the new development pattern not only reveals the basic characteristics of China's economic development, but also points out its future trend. That "domestic and overseas markets reinforce each other" is not only a summary of China's historical practice in its economic interaction with the rest of the world, but also denies the one-sided theoretical viewpoint in Western mainstream international economics, and reveals the objective law of the dynamic balance between China and the open world economy on the basis of pluralistic balance. The important exposition on the new development pattern also contains the main contents of how to implement the new development philosophy and deepen the reform inevitable in building a modern socialist country in the new development stage. It is the theoretical cornerstone of the guiding ideology of deepening reform.

Keywords: dual circulation, new development pattern, Marxism, political economics, world economic balance

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1. The Important Exposition on the New Development Pattern Is the Application and Development of Marxist Political Economics

Facing “great changes unseen in a century”, General Secretary Xi Jinping put forward the requirement of “accelerating the establishment of a dual circulation development pattern in which domestic and overseas markets reinforce each other, with the domestic market as the mainstay”. The conception of new development pattern design is a major strategic decision made by the CPC Central Committee with Comrade Xi Jinping at its core according to China’s new development stage, new historical tasks and new environmental conditions (Liu, 2020). Studying and interpreting this great theoretical achievement is an important research topic for developing socialist political economics with Chinese characteristics and China’s open economics.

Returning to the theoretical logic of Marxist classics, especially *Das Kapital* is the basic way to understand and explain the theoretical sources of important exposition on the new development pattern. In the book, Marx’s research on the socialized reproduction, distribution, circulation and consumption in the capitalist society is based on the domestic circulation of capitalist economy. Capitalist production is essentially the production of surplus value. “The production of absolute surplus value constitutes the foundation of the capitalist system and is the starting point of relative surplus value production.”¹ Absolute surplus value depends not only on increasing working hours and labor intensity, but also on exploiting more labor. Therefore, it needs to constantly force the rural self-sufficient mode of production to go bankrupt, so that farmers become proletarians, thus delivering more labor for urban industrial production. More and more people gather in cities, which in turn expands the foundation of domestic circulation of capitalist production.

Huge newly added urban labor force lays the foundation for the production of absolute surplus value and the expansion of domestic market. However, the production of absolute surplus value by increasing working hours is not only resisted by the working class, but also limited by an insufficient increase in the working population who are able to migrate from rural to urban areas, which means that the increase in absolute surplus value is limited and unsustainable. However, the production of relative surplus value is based on technological progress and productivity improvement, through which more surplus labor time and thus more surplus value can be obtained without extending labor time. It can not only ensure the expanded reproduction of labor force, but also ensure the continuous accumulation of capital, which is the ultimate goal pursued by capitalists. With the continuous improvement of labor productivity, the

¹ Marx, K. (2018). *Das Kapital* (Volume I). Beijing: People’s Publishing House, 583. (in Chinese)

relative surplus value is increasing, which constitutes a necessary condition for capital accumulation and expanded reproduction.

With social and economic development, the value of labor force increases, and the voice of the working class for increasing wages gets stronger. In order to maintain the long-term stability of the capitalist society, as long as the increase in real wages does not exceed the increase in relative surplus value brought about by the increase in labor productivity, capitalists will have to compromise with the working class. However, the increase in wage is strictly limited. “The increase in labor prices is limited within such an extent that not only keeps the foundation of the capitalist system remain undamaged but also guarantees the expansion of capitalist reproduction continues without interruption.”¹ The increase in workers’ wages improves the purchasing power of society and expands the domestic market, thus further expanding the capacity of domestic circulation of the capitalist economy. Therefore, as long as the increase in real wages does not exceed the increase in labor productivity, the capitalist domestic economic circulation can proceed smoothly and expand continuously, thus forming an economy dominated by domestic circulation.

It should be noted that in the primitive accumulation stage of capitalism, overseas colonization also played a very important role, but the dominant position of capitalist mode of production in an economy must be based on the domestic market of the nation-state, and then extended to overseas markets. Up to the present day, taking the domestic market as the mainstay is still an obvious feature of some large developed capitalist economies. This has enlightening significance for studying the laws of economic development of large countries, and can be verified by relevant historical data. Let’s look at the contribution rates of various domestic demands to economic growth in the United States and Germany, for example. According to the National Bureau of Economic Research of the United State, throughout the period from 1929 to 2011, the biggest contributor to American economic growth were always domestic private consumption, followed by government consumption, government investment, domestic private investment, and finally net export. Even in the “golden age” (1946–1970) when the foreign trade surplus of the United States was relatively large, the contribution rate of its net export to economic growth was still very low, reaching a peak of only 4.4% in 1947. Although Germany has always been known as a trade power and maintained a large trade surplus, the same rule can also be found in the historical data of its economic growth. As shown by the World Development Indicators, the three biggest contributors to German economic growth from 1970 to 2019 were final consumption, formation of fixed capital and net export. From 1970s to early 1990s, the contribution rate of German net export to economic growth was

¹ Marx, K. (2018). *Das Kapital* (Volume I). Beijing: People’s Publishing House, 716. (in Chinese)

negative, and did not turn positive until 2000. In the world today, China, the United States and Germany are among the top four countries in terms of total economic scale and trade volume and they have strong comparability. This shows that domestic demand is bound to be the primary driving force of economic growth in large developed countries.

The economic analysis paradigm and deductive logic of Marx's socialized mass production theory of "domestic market as the mainstay" based on capitalist economy are also applicable to the analysis of the operation and circulation of China's socialist market economy. According to Marxist materialist dialectics, all natural phenomena and social things are a unity of opposites and have duality. Capitalist surplus value production has both the particularity of exploitation inherent in capitalist economy and the general attribute of modern market economy, and can be used by socialist economy. When examining the general attribute, the concepts such as capital and surplus value have another meaning of publicity and sociality. Therefore, using these concepts and logics to analyze the laws of modern market economy, including the circulation of socialist market economy, is completely in line with Marxist standpoint and viewpoint.

Seen from China's reality, the rural surplus labor is constantly shifting to the city, which provides a steady stream of power for industrial production. From 1978 to 2019, the urbanization rate of China's resident population increased from 17.9% to 60.6%, an increase of 42.7 percentage points; and permanent urban residents increased from 170 million to 850 million, an increase of 680 million.¹ In addition, technological improvement and the application of new technologies and new processes have improved the labor productivity in industrial production. Before 2000, labor productivity had been rising faster than real wages (see Figure 1). Since 2000, however, through the establishment and improvement of the minimum wage system and labor security system, the per capita real wage and per capita disposable income of urban residents in China have been increasing (see Figure 1), and the income of rural farmers has also improved. All these have greatly increased domestic demand and expanded the domestic market, forming the foundation of domestic circulation. With the upgrading of industrial structure, the focus of China's economy gradually shifts to the service industry where the working population has obviously increased. Furthermore, the service industry has seen the fastest wage increase in the urbanization process, and has become the industry with the highest average wage, helping to create the largest middle-income group in the world and laying a solid foundation for taking the domestic market as the mainstay.

¹ The data of 1978 comes from *China New Urbanization Plan for 2014–2020*; the data of 2019 comes from *Statistical Communiqué of the People's Republic of China on the 2019 National Economic and Social Development*.

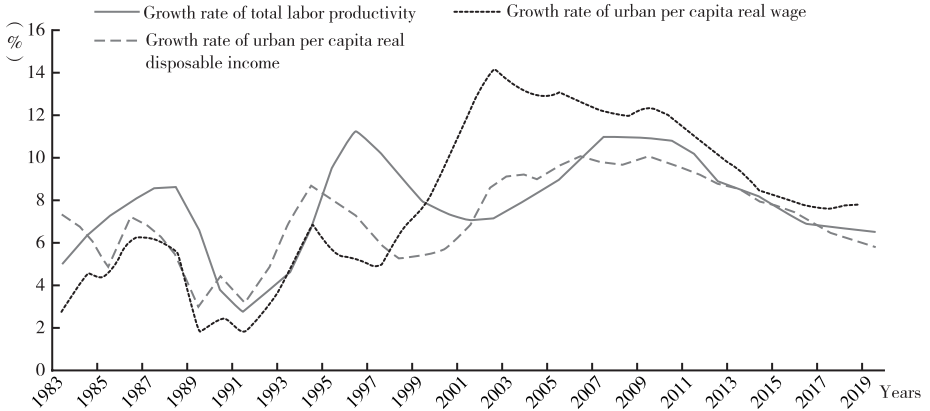


Figure 1. Growth Rates of China's Labor Productivity, Urban Per Capita Real Wage and Real Disposable Income

Note: Total labor productivity is the ratio of real GDP (constant price in 2010) to the total working population, and the growth rates here have undergone 5-year moving average processing.

Source: Wind macroeconomic database.

However, taking the domestic market as the mainstay in China does not mean that it is closed to the outside world; instead it is always open externally. With the development of economy and the improvement of productivity, a higher organic composition of capital will enable fewer workers to use more means of production. In capitalist production, “the unpaid part of living labor, which is objectified into surplus value, will inevitably decrease compared with the value of the total capital used. The ratio of surplus value to the total capital value used is the profit rate, so the profit rate will inevitably decline.”¹ The decline of domestic average profit rate is the most basic reason for capital to pursue overseas markets and expand economic territory. The development of the world market is the inevitable outcome of the capitalist mode of production, which develops domestic value into international value, so that the surplus value can be realized across the world, thus increasing the profit rate. This is because: “Foreign trade not only makes the elements of constant capital cheaper, but also makes the necessary means of subsistence transformed from variable capital cheaper. In this sense, foreign trade improves profit margin by increasing surplus value rate while reducing the value of constant capital.”²

In the economic system of the capitalist world, more and more countries have integrated into the world market. They include not only capitalist suzerains and their vassal states, but also other independent countries participating in the world

¹ Marx, K. (2018). *Das Kapital* (Volume III). Beijing: People's Publishing House, 237. (in Chinese)

² Marx, K. (2018). *Das Kapital* (Volume III). Beijing: People's Publishing House, 264. (in Chinese)

market. Their economic operation has to follow the law of “domestic-overseas dual circulation”. Marx pointed out: “The world market is not only the domestic market connected with all foreign markets existing outside the domestic market, but also the domestic market of all foreign markets as an integral part of the domestic market.”¹ Although Marx’s basic principles and general laws of economic circulation take capitalism as the research object, they are also applicable to the socialist market economy. In China, for example, foreign trade and the world market have always played an important role in economic development. On the one hand, China has an advantage in labor factor endowment. Developing foreign trade can realize the value of labor in a wider world market, thus improving national welfare. Moreover, foreign trade can also make capital factors and necessary means of subsistence cheaper, thus improving the profit rate of enterprises. On the other hand, the development of foreign trade can help China to introduce advanced technology and equipment, obtain technology spillover to a greater extent, promote the emergence of new products and new industries, expand new demand through new supply, and create a larger domestic market and domestic circulation. With the accumulation of domestic capital elements and the gradual formation of capital advantages, using the world market, China will turn from a commodity market to an investment market. Chinese enterprises’ “going global” is becoming a new way to participate in and even lead the trend of “domestic and overseas markets reinforcing each other”. This is the practical basis and development prospect of Xi Jinping’s important exposition on the new development pattern as an application, innovation and development of Marxist political economics.

2. The Important Exposition on the New Development Pattern Reveals the Objective Law of China’s Economic Development

After the founding of PRC, China adhered to the basic principle of independence and self-reliance in economic construction, while actively developing foreign economic and trade relations. In the years before reform and opening up, China’s participation in the world’s economic circulation was seriously restricted by the international environment at that time, so taking the domestic market as the mainstay was a natural feature of the national economy. After the start of reform and opening up, China actively participated in international economic circulation, through which a great deal of foreign capital and industrial capacity was brought into the country. Foreign trade volume went up substantially, supply of and demand for foreign

¹ Compilation Bureau of Marx, Engels, Lenin and Stalin’s Works of the CPC Central Committee. (1995). *Complete Works of Marx and Engels* (Volume 30). Beijing: People’s Publishing House, 239. (in Chinese)

products increased, and the ability of “domestic and overseas markets reinforcing each other” was significantly enhanced. However, taking the domestic market as the mainstay, the basic logic of China’s economic development, has not changed. An open economy should take domestic supply and demand as its starting point and foothold. Therefore, the idea of new development pattern is not only a summary of new China’s in economic construction, but also reveals the objective laws of its economic development.

2.1. Taking the Domestic Market as the Mainstay Is Reflected in the Fact That China’s Economic Growth Momentum Is Still Dominated by Domestic Demand in the Era of Reform and Opening Up

In the era of economic globalization, the role of international division of labor and international demand in a country’s economic growth has been greatly enhanced, which easily leads to a misunderstanding that international circulation plays a decisive role in a country’s economic growth, but this is not the case. As is demonstrated by materialist dialectics, internal causes are always in the first place, which determines the development trend of things; external causes are in the second place, which only plays a role in accelerating or delaying the development of things; external causes must work based on internal causes. This rule is especially applicable to a super-large economy like China. China’s rapid economic growth is not only achieved by relying on some regions and enterprises participating in the international circulation, but by activating the endogenous power of the whole economic system through reform and opening up, because the latter promotes the unimpeded circulation of domestic economic. In this process, external demand or international circulation can only stimulate the vitality of domestic demand. This rule can be seen more clearly from the historical data of China’s economic development. If we calculate the gross domestic product (GDP) according to the expenditure method, we can find that domestic consumption expenditure and capital formation, which represent domestic demand, are always the main contributors to China’s economic growth. Figure 2 shows the changes in the contribution of the three major demands to China’s economic growth from 1982 to 2019. Domestic final consumption expenditure is the biggest contributor to economic growth in most years, followed by capital formation, while the net export of goods and services has a very limited pulling effect on economic growth, with the highest not exceeding 35%.

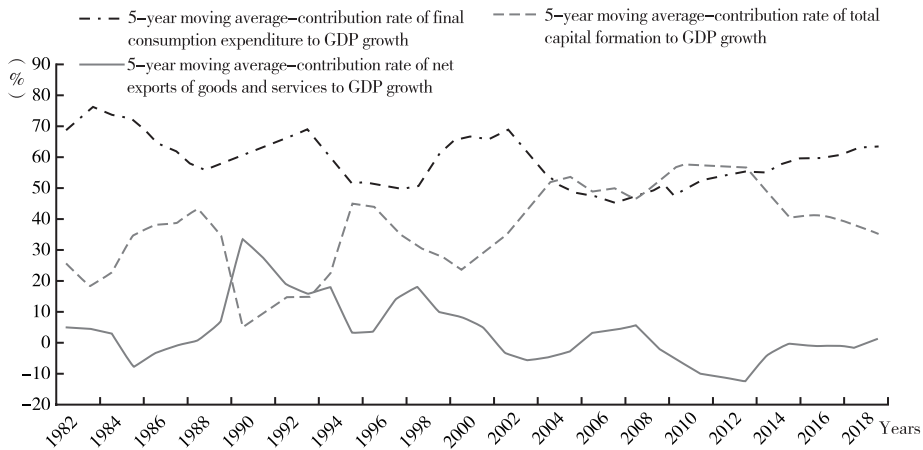


Figure 2. Contribution Rates of Three Major Demands to China's Economic Growth (1982 – 2019)

Note: The contribution rate here refers to the ratio of three major demand increments to GDP increment calculated using the expenditure method, and has undergone 5-year moving average processing.

Source: Data from the National Bureau of Statistics.

2.2. Taking the Domestic Market as the Mainstay Is Also Reflected in the Fact That Domestic Trade Volume Is Always Greater Than International Trade Volume

Economic circulation should be examined from the perspectives of both production and circulation, but scholars tend to pay too much more attention to international circulation (i.e. international trade) than to domestic circulation (i.e. domestic trade). This makes many researchers study the Chinese economy only from the perspective of dependence on foreign trade (import and export) and therefore, draw the wrong conclusion that China's economy basically depends on international circulation. In fact, it is inaccurate and unscientific to simply measure China's economic dependence on foreign trade (that is, the proportion of total imports and exports in GDP). The reason is that the volume of total imports or the volume of total exports is statistics made in the dimension of stock ($C+V+M$), while GDP is statistics made in the dimension of added value ($V+M$). Obviously, they come from different statistical dimensions. Foreign trade volume can be used to measure the external dependence of an economy, but cannot measure the proportion of internal circulation to external circulation in an economy. On the surface, some countries' dependence on foreign trade is quite high, but the domestic added value included in their annual imports and exports is very low, so improper use of dependence on foreign trade may make this indicator misleading. As for the deviation, we can compare the difference between the proportion of exports in GDP and the proportion of domestic added value of exports in GDP. It can be seen from Table 1 that there is a big gap between the proportion of China's exports in GDP

and the proportion of domestic added value of exports in GDP, and the gap is even as big as 10% in some years. The domestic added value of exports accounted for only 26.46% of GDP when it was the highest, and it fell to 16.46% in 2016. Seen from the perspective of dependence on foreign trade, there is a considerable proportion of foreign added value, the highest even reaching 18.5%. If adjusted for added value, the proportion of domestic added value in imports and exports in GDP will drop sharply, and it dropped to 30.7% in 2016. Seen from the perspective of circulation, China's domestic trade is far larger than international trade in scale, and its role in promoting economic development is also more remarkable. With the rising proportion of China's service industry in the national economy, the scale of domestic trade will continue to increase, thus enhancing the role of domestic circulation in new development pattern.

Table 1. China's Dependence on Foreign Trade (Export) and Its Deviation (%)

(1) Year	(2) Proportion of exports in GDP	(3) Proportion of imports and exports in GDP	(4) Proportion of domestic added value of exports	(5) Proportion of domestic added value of exports in GDP	(6) Foreign added value of imports and exports as a proportion of GDP	(7) Proportion of domestic added value of imports and exports in GDP
2005	33.57	61.95	73.73	24.75	17.64	44.31
2006	35.71	64.16	74.10	26.46	18.50	45.66
2007	35.16	61.89	75.23	26.45	17.42	44.47
2008	32.21	57.17	77.05	24.82	14.79	42.38
2009	24.34	44.52	80.51	19.59	9.49	35.03
2010	27.21	50.76	78.92	21.48	11.47	39.29
2011	26.60	50.79	78.26	20.82	11.57	39.23
2012	25.49	48.27	79.16	20.18	10.63	37.64
2013	24.61	46.77	79.65	19.60	10.02	36.75
2014	23.59	45.07	80.47	18.99	9.22	35.85
2015	21.44	39.61	82.68	17.72	7.43	32.19
2016	19.74	37.28	83.35	16.46	6.57	30.70

Source: The data in columns (2) and (3) are calculated according to the statistics of the United Nations Conference on Trade and Development (UNCTAD). The data in column (4) comes from OECD TiVA database. The data in column (5) are obtained by multiplying the second-column data by the fourth-column data. The data in column (6) is obtained by subtracting the data in column (5) from the data in column (2) and multiplying the arithmetic difference by 2, which is because the foreign added value of exports is also included in imports and this part of foreign added value is calculated twice in imports and exports. The data in column (7) are obtained by subtracting the data in column (6) from the data in column (3).

2.3. The Evolution of China's Economic Development Stage and Dynamic Mechanism Interprets the Domestic Market as the Mainstay

China began to reform the agricultural sector as early as in the initial stage of reform

and opening up. While improving agricultural production efficiency and promoting domestic economic development, the agricultural reform also released a large amount of rural surplus labor, which laid the foundation for the industrial sector to participate in the international circulation. Then, China started the process of open industrialization in the 1980s, and the proportion of manufacturing output value to GDP increased rapidly. In the process of industrialization, a large amount of rural labor and other factors of production were transferred to the industrial sector. Because the labor productivity of the non-agricultural sector was much higher than that of the agricultural sector, and the gap was getting bigger and bigger with the advancement of industrialization, this resource allocation effect greatly improved the labor productivity (Brandt *et al.*, 2008), and the supply capacity of the whole economic system was greatly improved. Industrialization not only promoted the growth of investment in fixed assets, but also needed the support of infrastructure, which made investment play a greater role in economic growth. Obviously, most of these investments were due to greater domestic demand.

After 2000, China's industrialization entered the middle and late stage, and urbanization began to exert its strength. The desire of a large part of agricultural population to settle in cities was stronger. The increase in housing demand in the process of urbanization drove real estate development and investment, and promoted the development of related industries. However, local governments rely on large-scale financing by means of land finance to support large-scale public infrastructure construction and promote the continued growth of investment (China Economic Growth Frontier Research Group, 2011). Moreover, on the one hand, urbanization has greatly increased and accumulated the income of urban residents, thus promoting the development of consumption and service industries; on the other hand, it has also promoted the growth of public service expenditure and become a new driving force for economic growth. In this process, China's regional integration has been continuously enhanced, which has accelerated the domestic circulation of labor, resources, energy and other production factors and efficiently allocated them in a larger scope, causing the domestic circulation to expand continuously. The above changes in China's economic development stage and dynamic mechanism have undoubtedly explained the realization logic of "taking the domestic market as the mainstay" theoretically.

2.4. China's Participation in International Circulation Is Mainly to Serve Domestic Circulation

China attaches great importance to developing an open economy and actively participates in international circulation, but the main aim is to serve domestic circulation. China's import and export have always been aimed at serving domestic consumption and production demand, based on domestic production and supply capacity. By comparing the development trends of China's GDP in the world's proportion and China's goods export (import) in the world's proportion, we can find two obvious characteristics. First,

the reasonable logic of China's export and domestic economic growth is that the rise of GDP reflects the enhancement of domestic supply capacity, which in turn improves its ability to serve the international market and causes export to increase. It is not difficult to find from Figure 3 that, except for a few years, the proportion of China's GDP in the world's total GDP was always higher than the proportion of its exports in the world's total exports during 1978–2019, which not only shows that economic growth leads export growth, but also shows that compared with the case of GDP, the proportion of China's exports in the world's total exports is not particularly high. In recent years, China's GDP has maintained medium and high-speed growth, but the export growth rate has declined, widening the gap between the proportion of China's GDP in the world's total and the proportion of China's exports in the world's total, reflecting the gradual decline of the importance of exports. China attaches equal importance to import and export, letting them complement each other, and the purpose of import is mainly to meet domestic consumption and production demands. Figure 3 shows that before 2004, China's imports and exports accounted for almost the same proportion in the world's total, and maintained a trend of synchronous growth. In the period of 1985–1989 and some other years, the proportion of imports in the world's total was even higher than that of exports. This shows that in the early stage of reform and opening up, China had more demand for foreign consumer goods and production factors, and its supply capacity was relatively insufficient. During 2004–2010, the proportion of exports in the world's total increased faster than that of imports. This result was based on the improvement of supply capacity in the previous stage, and it met the market demand for the improvement of domestic supply capacity. After 2011, the gap between the global share of China's exports and that of imports began to narrow, and the two shares were almost the same in 2018, indicating that with the improvement of China's consumption capacity, its demand for foreign products was increasing.

Whether importing, attaching foreign investment or investing abroad, the purpose is always to promote the sound and rapid development of domestic circulation. As a developing country, China most urgently needs technology, high-end components and productive services; as a country with a large population and production, China still lacks resources and energy products, and imports just meet these needs. Figure 4 shows that after 2000, the growth rates of China's imports of energy, high-tech electronic products and components were higher than the growth rate of total imports in most years. Technology absorption, technology spillovers and imports of high-end components have improved China's production capacity and provided the possibility of surpassing developed countries, which is confirmed by the development of China's high-speed railways.¹

¹ See Huang and Lu (2016) for a detailed study on the process of high-speed railway technology introduction, technology absorption and catch-up.

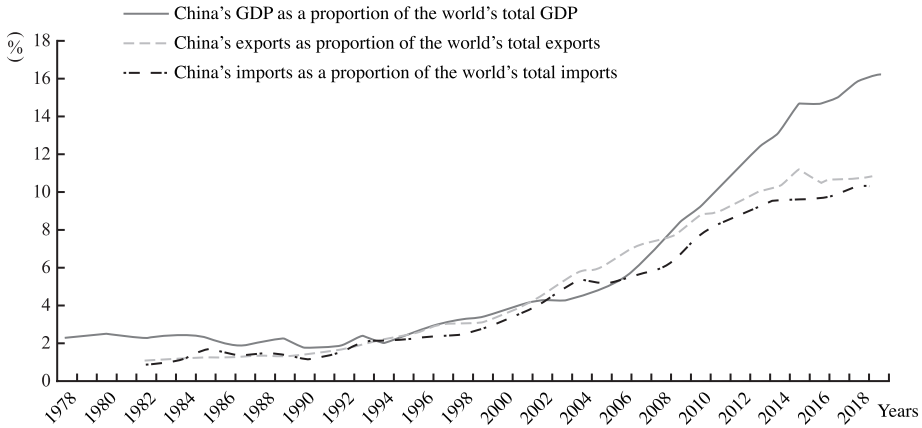


Figure 3. Proportions of China's GDP, Exports and Imports in the World's Total (1978–2019)

Source: Curves drawn based on data from the United Nations Conference on Trade and Development (UNCTAD).

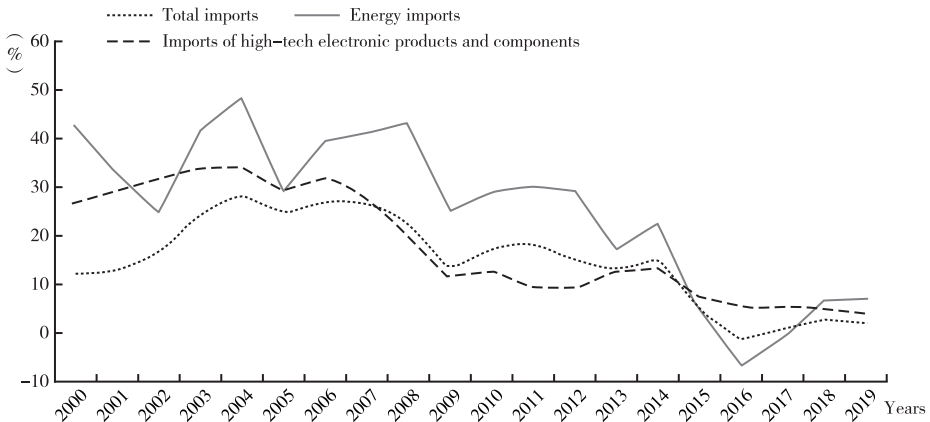


Figure 4. Growth Rate of China's Total Imports, Energy Imports and Imports of High-Tech Electronic Products and Components

Note: The growth rates have undergone 5-year moving average processing.

Source: Curves drawn based on data from the United Nations Conference on Trade and Development (UNCTAD).

2.5. The New Development Pattern Calls for a High-Level “Domestic Circulation” and “Domestic-International Dual Circulation”

The new development pattern emphasizes the unimpeded economic circulation, the realization of high-level self-reliance, and the transition from the old “dual circulation” featuring medium/low-level and medium/low-quality development to a

new “dual circulation” featuring high-level and high-quality development in the new development stage. Since the beginning of reform and opening up, the basic logic of taking the domestic market as the mainstay in China’s economy has not changed, but its quality is constantly improving, and its manifestation and focus are advancing with the times. For a long time in the past, taking the domestic market as the mainstay was mainly reflected in the change in the ratio of domestic demand to external demand, and the quality and smoothness of domestic circulation was relatively low. After entering the new stage of development, taking the domestic market as the mainstay will still be reflected in the ratio of domestic demand to external demand, but there will be higher requirements for quality, so it calls for a higher level of domestic circulation. It refers not only to the unimpeded flow of domestic logistics, but also to the effective combination of various production factors in economic activities and the efficient matching between the supply and demand of goods and services in the whole society. It requires not only the unimpeded flow of domestic logistics, but also the effective combination of various production factors in economic activities and the efficient matching between the supply and demand of goods and services in the whole society.

At the same time, “domestic and overseas markets reinforcing each other” will also change from the lower level in the past to the high level in the new development stage, forming the high-level open economy in China. It should be emphasized here that taking the domestic market as the mainstay does not mean a self-sufficient closed economy, but emphasizes self-sufficiency in key technologies and products. On this basis, China should still actively participate in international division of labor and international circulation. In the past, we stimulated the vitality of domestic circulation through international circulation in which we passively got involved. Nowadays, the new development pattern requires us to actively participate, at a high level, in international circulation on the basis of “taking the domestic market as the mainstay”, and even lead the international circulation in certain industries and regions, which not only adds new content to the domestic circulation, but also provides new power and new modes for international circulation. This means that “domestic and overseas markets reinforcing each other” has worldwide significance.

3. “Domestic and Overseas Markets Reinforcing Each Other” Puts Forward a New View of Dynamic Balance of World Economy

The world economic balance theory put forward by western mainstream international economics mechanically extends the domestic general equilibrium theory of neoclassical economics to the world economic analysis, and unilaterally emphasizes the role of equilibrium exchange rate in the world economic balance, and its theoretical logic and practical logic are both wrong (Pei and Liu, 2020). China’s open economy theory puts forward the concept of “multivariate equilibrium” (Pei, 2016), and “domestic

and overseas markets reinforcing each other” is a concept of dynamic balance formed on this basis. It shows that the macro balance between China’s economy and the world economy not only should be based on “multivariate equilibrium”, but also should promote the dynamic balance in different stages of development, thus further developing the theory of world economic balance. Since the early days of reform and opening up, China and the world economy have been in a new interactive circulation and mutual promotion in trade, investment, economic cooperation and other fields. The main manifestations are as follows.

First, the primary manifestation of the dynamic balance between China and the world economy is that China’s trade pattern has gradually changed from “buying raw materials, machinery and spare parts from abroad and selling manufactured goods overseas (two ends out)” to “attaching equal importance to both domestic and overseas markets”. This has had a fundamental impact on the global division of labor and consumption pattern, and promoted the rapid development of the world economy in recent 30 years. The “two ends out” trade pattern featuring “big in and big out” had been a dominant phenomenon for a long time since the early days of reform and opening up. However, with the advancement of industrialization in China, the supply chain gradually developed and improved the production capacity of intermediate products, and the old pattern of “two ends out” began to change into a new one where domestic and overseas markets reinforce each other. Moreover, from the perspective of China’s policy practice, the Eleventh and Twelfth Five-Year Plans clearly required that the trade pattern of “two ends out” should be adjusted, and proposed to “promote development by expanding domestic demand, especially consumption demand”.

Second, China’s focus is shifting from exporting commodities and introducing foreign capital to expanding imports and investing abroad. After the outbreak of the international financial crisis in 2008, China has increasingly emphasized the improvement of export quality and structure in foreign trade, rather than deliberately pursuing the expansion of export scale. In the meantime, we actively expand imports, especially the imports of high-quality capital goods, consumer goods, resources and energy products. This makes China’s import and export tend to be in a state of balanced development, and the trade surplus gradually decreases. Table 2 shows that since 2008, the ratio of China’s import to export has steadily increased, from 0.76 in 2007 to 0.92 in 2019 and even to 0.95 in 2018. In the future, with the continuous improvement of China’s import promotion mechanism, the ratio of import to export will be more reasonable.

From the perspective of investment, both foreign direct investment in China (FDI) and outward foreign direct investment (OFDI) are important means of “domestic and overseas markets reinforcing each other”. Absorbing FDI is important experience of China in promoting domestic economic growth in the age of reform and opening up, through which advanced foreign technologies are introduced. On the other hand,

OFDI is China's efforts to actively promote "domestic-international dual circulation" in recent years, through which new sources of funds and technologies are provided for other developing countries to enable more countries to participate in international division of labor and share the fruits of China's economic development. Table 2 shows that since 2007, China's OFDI has developed much faster than FDI, and the ratio of the former to the latter has steadily increased from 0.35 in 2007 to 1.56 in 2016. Although it has declined since then, it is still as high as 0.99 in 2019. This shows that China's FDI and OFDI tend to develop in a balanced way, and the focus has gradually shifted from the only stressing the former to paying equal attention to both.

Table 2. China's Foreign Trade and Investment (2007–2019)

Year	Export (USD 100 million)	Import (USD 100 million)	Import-to- export ratio (%)	FDI (USD 100 million)	OFDI (USD 100 million)	OFDI-to-FDI ratio (%)	China's investment in BRI participating countries (USD 100 million)
2007	12482	9490	0.76	747.7	265.1	0.35	—
2008	14799	11465	0.77	923.9	559.1	0.61	—
2009	12417	10296	0.83	900.3	565.3	0.63	—
2010	16564	14334	0.87	1057.4	688.1	0.65	—
2011	20089	18269	0.91	1160.1	746.5	0.64	—
2012	21751	19432	0.89	1117.2	878.0	0.79	—
2013	23556	21202	0.90	1175.9	1078.4	0.92	126.3
2014	24629	22416	0.91	1195.6	1231.2	1.03	136.6
2015	23614	20021	0.85	1262.7	1456.7	1.15	189.3
2016	21990	19527	0.89	1260.0	1961.5	1.56	153.4
2017	24443	22079	0.90	1310.4	1582.9	1.21	201.7
2018	26889	25474	0.95	1349.7	1430.4	1.06	178.9
2019	26822	24744	0.92	1381.4	1369.1	0.99	186.9

Source: Import and export data come from the UNCTAD statistical database; data of OFDI and investment in BRI participating countries come from *Statistical Bulletin of China's Outward Foreign Direct Investment 2019*; FDI data come from the National Bureau of Statistics.

Third, the main function of China's foreign exchange reserves has changed from strengthening RMB credit to supporting the reform of international financial governance. China has accumulated huge foreign exchange reserves by participating in international circulation. For a long time, its basic function was to enhance the domestic credit of RMB and provide the anchor of currency issuance of the People's Bank of China. After the international financial crisis, the huge foreign exchange reserves provided strong national credit for the expansion of RMB trade settlement,

bilateral local currency swap, RMB “going global” and the financing for the Belt and Road Initiative (BRI), and laid a foundation for the reform of international financial governance system, which enabled other developing countries to have more international credit tools to choose. China does not oppose or attempt to subvert the present international monetary system dominated by the US dollar, but calls for reforming it and alleviating the “Triffin Dilemma”. The Chinese plan for global financial governance is to establish a pluralistic, fair and efficient global financial governance system.

Fourth, the changes in the interaction and mutual promotion between China and the world economy is not only the logic of China’s own economic development, but also in line with the objective law of world economic development, which has been proved by the increasing contribution of China’s economy to the world economy. In recent years, the Belt and Road Initiative proposed by China has broken through the geographical limitations of the original international division of labor and created opportunities for more countries to share the dividends of economic globalization. After 1990s, economic globalization accelerated, and an increasing part of the international industrial chain shifted to developing countries. New products represented by transportation equipment (mainly automobiles) and electronic and communication devices (mainly computers and mobile phones) have become the main products in the global industrial chain of multinational corporations. In this process, a vertical international division of labor, characterized by the United States, Japan and the European Union controlling core technologies and the production of major components of the three major products, and the emerging economies producing or assembling general components, has basically formed, which is also called the global value chain in academia. With increased technical separability of these three kinds of products, the division of labor tends to be refined, forming an industrial chain, value chain and supply chain covering many economies in North America, East Asia and Europe. China has been deeply “embedded” these chains.

One important reason for the stagnation of the world economy after the international financial crisis is that the traditional three major products and three major networks of international division of labor have basically ended, international investment has basically been completed, and the trade growth of intermediate products and final products tends to decline (Pei and Liu, 2020). From the perspective of world economic development, people need to find a broader geographical space for economic development, break through the spatial limitations on the three networks of international division of labor, and shape new industrial chains, value chains and supply chains for various industries which once flourished. This is just the important purpose of BRI. China’s direct investment in BRI participating countries has been growing, from US\$ 12.63 billion in 2013 to US\$ 18.69 billion in 2019, and its share in China’s total OFDI has increased from 11.71% to 13.65% (see Table 2). BRI has

greatly promoted the economic and trade cooperation between China's inland cities and overseas, which not only makes the world economy geographically more balanced, but also creates a brand-new mode of production and division of labor.

BRI has also promoted the development of trade between China and other developing countries. Although China's trade with the United States, Europe and Japan continues to grow, its trade with other countries, especially ASEAN countries, Russia, Africa and Latin American countries, has also grown rapidly, thus changing the geographical structure of China's foreign trade and bringing trade welfare to more countries. It can be found from Table 3 that in China's six major export markets, the proportion of Asia and North America shows a downward trend, while that of Europe, Latin America, the Caribbean, Oceania and Africa shows an upward trend. In particular, the proportion of Latin America, the Caribbean and Africa has more than doubled. On the whole, the geographical structure of China's export market has been continuously rationalized, with the proportion of exports to other developing countries and BRI participating countries being on the rise, which is, undoubtedly, conducive to a more balanced development of the world economy.

Table 3. Changes in the Geographical Structure of China's Export Market (%)

Year	2000	2004	2008	2012	2016	2017	2018	2019
Asia	53.34	49.80	46.41	49.18	49.64	48.48	47.82	49.13
East Asia	41.64	36.81	28.81	29.70	26.57	25.22	24.65	24.07
Southeast Asia	6.96	7.23	7.99	9.97	12.21	12.35	12.86	14.39
South Asia	1.81	2.32	3.67	4.00	5.35	5.56	5.29	4.97
Central and West Asia	2.93	3.44	5.94	5.51	5.50	5.34	5.01	5.69
North America	22.20	22.49	19.20	18.59	19.70	20.40	20.66	18.18
USA	20.93	21.09	17.67	17.20	18.39	19.01	19.23	16.71
Latin America and the Caribbean	2.86	3.04	4.98	6.56	5.40	5.75	5.94	6.03
Europe	18.02	20.64	24.02	19.32	18.55	18.93	19.07	19.84
Western and Northern Europe	13.16	14.57	15.12	12.46	11.83	11.96	11.76	12.18
Eastern and Southern Europe	4.85	6.07	8.90	6.86	6.72	6.96	7.31	7.66
Oceania	1.57	1.71	1.81	2.19	2.26	2.26	2.30	2.31
Africa	2.01	2.31	3.57	4.16	4.39	4.18	4.21	4.51

Source: Calculated based on data from the UNCTAD statistical database.

4. The Significance of Important Exposition on the New Development Pattern for Deepening Reform

At the beginning of the new year in 2021, General Secretary Xi Jinping emphasized that to thoroughly, accurately and comprehensively implement the new development

philosophy, it is necessary to link the deepening of reform with the implementation of the new development philosophy and the building of the new development pattern, and give full play to the key role of comprehensive deepening of reform in creating the new development pattern. Therefore, the implementation of the new development philosophy is not only an innovation of ideas and concepts, but also a practical action to comprehensively deepen reform, which requires more accurate reform plans.¹ In the building of the new development pattern, it is crucial to grasp the main contradictions and solve the blocking points and difficulties in unblocking domestic and international circulation. Among them, the key is the autonomy, controllability, security and stability of the industrial chain. If key technologies cannot be self-sufficient, China will be subject to other countries, and the domestic circulation and domestic-international dual circulation will not be smooth.

4.1. The Supply-Side Structural Reform Should Remedy Deficiencies of the Industrial Chain, Especially Deficiencies in the High-Tech Field and Energy Supply

China cannot completely rely on imports for key technologies and core components, so it is necessary to improve the system and mechanism of independent innovation. To this end, the first is to strengthen intellectual property right (IPR) pricing and protection, and improve IPR-related legislation. Second, it is necessary to build a multi-agent innovation system, clarify the roles of government, scientific research institutions, enterprises and researchers, and create a new situation of labor division, cooperation and benign interaction, so as to speed up the development of core technologies and major basic sciences, and promote the transformation of scientific research achievements into technical products. The third is to adjust the domestic education and training system and build a sound, multi-level, whole-process talent training mechanism. Universities, scientific research institutions and enterprises should play different roles in each stage of talent training and cultivate a multi-level talent team. Fourth, we should improve the incentive and evaluation mechanism for scientific and technological innovation, and give more material and spiritual encouragement to scientific researchers, guided by the country's major scientific and technological needs and long-term development. Fifth, it is still necessary to strengthen international cooperation and continue to strengthen cooperation in high-tech fields with all scientific research institutions and researchers from all over the world, including the United States. Sixth, vigorous efforts must be made to develop digital and intelligent new products and their supply chain systems. In particular, it is necessary to make breakthroughs in new energy, smart cars, industrial robots, intelligent machines and

¹ Xi Jinping's Speech at the 18th Central Committee Meeting for Deepening Overall Reform Held on February 19, 2021. *People's Daily*, February 20, 2021.

intelligent household appliances, form a relatively independent and sound domestic supply chain network, and gain competitive advantages based on a super-large domestic market. Seventh, we need to diversify the sources and types of supply on the supply side of basic energy.

4.2. A Dynamic Balance Should Be Struck between Supply and Demand by Deepening the Reform of the Logistics System

The logistics system is the connecting point between the supply side and the demand side, and it is core to unblocking the domestic circulation and domestic-international dual circulation. The logistics system covers market transaction and logistics. Therefore, first of all, we must thoroughly clean up the local rules and regulations that hinder market circulation and fair competition in various provinces and cities, and build a unified market system featuring “free entry, unitary standard, consistent supervision and data exchange”, so as to realize the free and low-cost flow of goods and production elements throughout the country. Second, it is necessary to reduce cross-regional logistics transportation costs, such as expressway tolls. Third, we should actively use digital technology to help build a unified market system. For example, we can take the lead in building a market supervision big data platform in the Guangdong-Hong Kong-Macao Greater Bay Area, the Yangtze River Delta region, the Beijing-Tianjin-Hebei region, etc., and then promote it to the whole country. Fourth, China should build a unified national social security public service platform as soon as possible, facilitate the transfer and continuation of social security fund, and speed up the construction of a nationwide medical care information system so as to realize a unified national management of social security systems such as medical care and pension.

Unblocking the domestic-international dual circulation is also an essential part of deepening the reform of China’s logistics system. To break through the institutional barrier of artificial separation between domestic trade and foreign trade, realize the integration of the two, and make international trade an extension of domestic trade, we must cultivate more enterprises that integrate domestic and foreign trade. In addition, it is necessary to speed up the change from the previous opening to commodities and production elements to the institutional opening to rules, management and standards. Following the highest international prevailing standards, China should change the situation where reform and opening up is only based on “domestic rules”, and establish a competitive neutral market environment to make the domestic business environment more friendly and transparent. According to the rule of competition neutrality, we should construct an institutional system in which state-owned, private and foreign-funded enterprises are under equal, unified treatment and regulation.

4.3. The Demand-Side Reform Should Aim At Ensuring Employment, Narrowing the Regional and Urban-Rural Income Gaps, Improving Labor Remuneration and the Marginal Propensity to Consume of the Whole Society

The improvement of industrial chain is accompanied by the transfer of more agricultural population to cities and more industries to the central and western regions, thus becoming a market-oriented mechanism to narrow the income gap between urban and rural areas and between different regions. In primary distribution, the policy of giving priority to employment should be adopted to ensure the full employment of urban and rural low-income people, and effective measures should be taken to promote the steady growth of real wages. In secondary distribution, it is necessary to rationally regulate the property income gap and control the capital income by reforming the tax system. In terms of the urban-rural income gap, we need to ensure the full employment of migrant workers, and adopt an appropriate transfer system of agricultural land and homestead, so that rural land assets can be converted into farmers' income. As for regional income gap, it is necessary to guide industries to transfer from the eastern region to the central and western regions and at the same time increase the transfer payment to the poor areas in these regions. In order to expand domestic demand, we need to strengthen the protection of consumers' rights and interests and the adoption of international standards. Furthermore, the service sector including healthcare, education, preschool education, environmental protection and other fields should be made more open to both domestic and overseas investors, with much less restrictions on market access.

4.4. Regional Economic Reform Should Highlight the Complementary Advantages of Different Economic Functional Areas and Build a Highly Coupled Industrial Chain Network with Division of Labor between Regions

In China at present, there are five economically developed regions, namely, the Guangdong-Hong Kong-Macao Greater Bay Area, the Yangtze River Delta region, the Beijing-Tianjin-Hebei region, the Central Urban Agglomeration and the Western Triangle region (mainly including Chengdu, Chongqing and Xi'an). However, the division of labor and cooperation among the five regions is still in the early stage of development, and it is necessary to build a more reasonable industrial chain between them, which is the focus of taking the domestic market as the mainstay. The Guangdong-Hong Kong-Macao Greater Bay Area should better integrate financial and technological innovations, build itself into a national and international technological innovation highland, and form a closer labor division and cooperation relationship with Hunan, Jiangxi and Guangxi. The Yangtze River Delta region should strive to become a national and international investment and financing center, an important place of

digital economy and digital trade, and a high-end manufacturing base, and establish better industrial relations with the central and western cities in the Yangtze River basin. The Beijing-Tianjin-Hebei region should focus on the development of headquarters economy and technological innovation industry, be a “leading wild goose” in labor division and cooperation between different regions in China, exert its strength in cultural industry and international exchanges, and become an important place of cultural export and international cooperation. The Central Urban Agglomeration should accelerate the absorption of the manufacturing industries transferred from the eastern region and strive to become a vast hinterland of China’s manufacturing industries.

4.5. High-Level Opening Up Should Take the Construction of a China-Led International Industrial Chain as the New Requirement and New Goal

In the future, China’s participation in international circulation and the realization of “domestic and overseas markets reinforcing each other” should not be restricted to the BRI in the sense of economic geography, but should also be based on an international circulation driven by independent technological innovation that focuses on shaping new industries and their regional value chains and supply chains. This requires new efforts in four aspects. First, we should enhance China’s position in the international division of labor in the traditional three major products and three major international production networks. In order to move up from the middle and low end in international division of labor, the whole country should exert all its strength to break through the key technologies dependent on foreign supply in the areas of high-end chips, automobile engines, artificial intelligence and new energy, and shape an international and regional industrial chain dominated by Chinese enterprises. Second, China must invent its own new technologies and products in order to open up new markets and establish its leading position in different regional and international industrial chains. In the future, new-energy vehicles, autonomous driving and smart cars will appear as new solutions to transportation; various industrial robots, drones and intelligent machinery will emerge as production equipment; and various intelligent home appliances will come into being as mass consumer goods. The three new industries associated with them will lead the future international industrial chain. China should take these products as the focus of its efforts in the new development pattern featuring domestic-international dual circulation. Third, whether for the traditional three major industrial chains or for the new intelligent and green products in the future, China must firstly form a domestic industrial division and circulation, cultivate international competitiveness by relying on the super-sized domestic market, and then form external industrial radiation. Fourth, shaping an international value chain requires not only hard power, but also soft power in effectively controlling services, information and data. China’s future dual circulation is not limited to the international production and flow of physical products, but also involves the flow

and circulation of services, information and data. Therefore, China needs to actively participate in international digital trade and the formulation of the relevant international rules, but at the same time it should take into account both the free flow of information and national security, and coordinate open development, security and stability, which is also an important requirement and goal of domestic and overseas markets reinforcing each other.

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