

efforts by the China International Consumer Products Expo to build a global platform for displaying delicate consumer products.

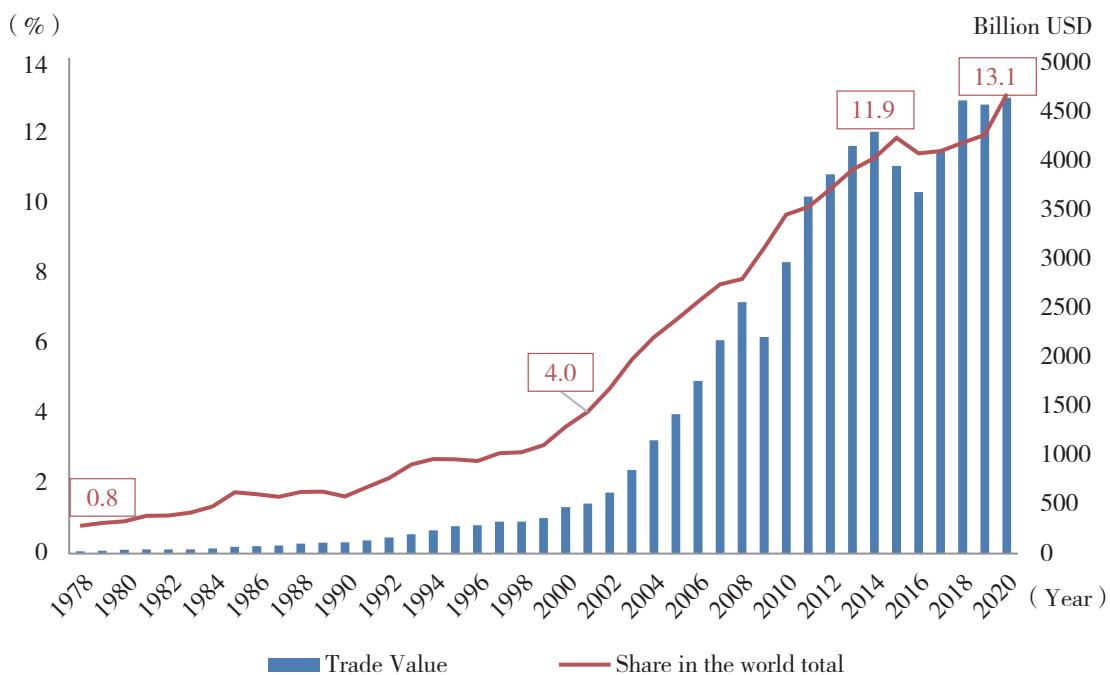
**Improving circulation system.** China should improve backbone circulation networks, build an efficient urban and rural distribution system, improve the rural circulation system, raise circulation efficiency, and reduce circulation costs. It should cultivate modern circulation enterprises with global competitiveness, stimulate the vitality of small and medium-sized commercial enterprises, strengthen protection and growth of time-honored brands, promote the innovative development of the commodity market, and foster and expand e-commerce enterprises. It should also support the upgrading of physical commercial entities, accelerate the innovation and transformation of circulation, and strengthen the construction of commerce and trade circulation standard system.

### III. Promoting An Internal-External Virtuous Cycle to Push Forward High-Quality Development

In the era of globalization, internal and external cycles are intertwined and it is impossible to clearly separate them. The new development paradigm is by no means a closed domestic cycle, but an open and mutually reinforcing dual cycles, including both domestic and international cycle. With the domestic cycle as the mainstay, it is by no means a closed-door operation. Instead, it aims to better connect domestic and foreign markets through leveraging the potential of domestic demand and better utilize resources of both domestic and international markets to achieve more robust and sustainable development.

**From the perspective of external cycle promoting internal cycle,** the smoother the external circulation is, the better the internal cycle will be in terms of quality and outcomes. China's development has always been inseparable from the outside world. International talents, technology, management, and data resources are the most fundamental production factors. Through the benign interaction between internal and external cycles, more high-quality global resource factors will be attracted, which can help meet domestic demand, improve the level of domestic industrial technology development, and form new advantages for China to participate in international economic cooperation and competition.

**From the perspective of development space**, China's foreign demand still has potential to further expand. History shows that the share of international trade in the United States and Britain once reached more than 20%. In recent years, China's share has only been about 13%. China's per capita export value of goods and services is only one fourth of that of the United States, one fifth of Japan, and one tenth of Germany. China should promote the benign dual-cycle interaction, so as to be helpful to realize the coordinated development of domestic and external demand, imports and exports, inbound foreign investment and outbound foreign investment.



**Figure 8-4 China's Trade Volume (\$100 Billion) and Ratio (%), 1978-2020**

Source: World Trade Organization.

China also has some hidden worries as it implements its current domestic and international dual-cycle strategy. In the early stages of reform and opening-up, in order to give full play to the advantages of labor and other resource endowments, China participated in the international economic cycle by relying on the international market for raw materials and sales markets. The effect of relying on external cycle to promote development of the internal cycle was remarkable and it has become an important driving force for China's miraculous development. However, from an objective perspective, the dual-cycle also features the characteristics of internal and

external separation and dual-track coexistence, and there are many blocking points in the smooth flow between the internal and external cycles.

**The domestic and foreign markets need to be further integrated.** Due to inconsistencies in domestic and foreign quality standards, inspection and quarantine, certification and approval, and sales channels, products produced by foreign trade companies can only be sold overseas, and domestic consumers have to resort to e-commerce platforms to buy China-made products from overseas markets.

**The two resources need to be better utilized.** China has adopted a gradualist approach in its opening-up. At present, the physical manufacturing industry has basically been fully liberalized, but there are still some access restrictions in some fields. As of 2020, China's foreign investment stock and outbound investment stock had both been about 30% of that of the United States, and China's ability to utilize global resources needs to be improved.

**The connection of rules needs to be further strengthened.** The contents of international economic and trade negotiations have extended from *on-the-border* to *behind-the-border* issues. At the same time, the disputes over new topics such as cyber security, digital sovereignty, and data flow have become more intense. China still suffers from a low level of free trade area construction, and it is yet to deepen its participation in the formulation of high-level rules; and it still falls far behind the world's advanced levels.

### Box 8-2 On-the-border Opening-up and behind-the-border opening-up

*On-the-border* opening-up refers to reduction of barriers to the flow of goods and capital and the realization of the flow of factors through the reduction of tariffs and non-tariff barriers and the implementation of preferential investment policies. It has been the main method for China to implement reform and opening-up for more than 40 years in the past.

*Behind-the-border* opening-up refers to domestic reforms to increase openness in intellectual property rights, fair competition, environmental protection, labor issues, consumer protection, among others, to achieve conformity with international rules, and attract more factor resources flowing. It is a higher-level opening-up.

To build a new development paradigm, it is necessary to not only smoothen the domestic cycle, but also promote the international cycle, and allow the two cycles to reinforce each other, like in the structure of a horizontal “8”, where the internal cycle leads the external cycle, and the external cycle boosts the internal cycle, so as to form a virtuous circle of openness at a higher level. A virtuous cycle of market connectivity should be promoted, market access should be continually expanded, and a strong domestic market should be turned into the main engine of its own development and an accelerator for common development. A virtuous cycle of industrial integration should be promoted to create a more open, resilient, and dynamic industrial and supply chain in the global industrial structure. A virtuous cycle of innovation should be promoted and it is not about “decoupling”, but about taking the path of openness innovation and deepening of international cooperation in innovation. A virtuous cycle of rules should be promoted, and the effective connection of domestic and international rules should be achieved to enhance the system, integrity, and coordination of openness.

— **Promoting the innovative development of foreign trade.** China should strengthen technological innovation, institutional innovation, model and business format innovation in the field of trade, and promote the coordinated development of imports and exports, trade in goods and services, trade and two-way investment, and coordinated development of trade and industry. It should optimize its trade structure, promote the high-end and sophistication-oriented development of imports and exports, and create a “China commodity” brand. It should improve the trading platform and give full play to the role of important exhibition platforms, such as the China International Import Expo. It should cultivate new momentum for trade development and accelerate the in-depth integration of digital technology and trade development. And it should innovatively develop service trade and build a “China Service” brand.

— **Improving quality of foreign capital utilization.** China should fully implement the Foreign Investment Law and relevant implementation regulations, continue to optimize the market-oriented, law-based and international business doing environment, and focus on structure optimization, quality improvement, so as to attract high-quality global production factors with high-level openness. It should further shorten the negative list for foreign investment access. It should accelerate its pace to improve the new foreign investment management system, and improve the level of interim and ex-post supervision. It should also upgrade national economic development

zones in an innovative way, enhance the level of foreign cooperation, and improve the quality of economic development.

### **Box 8-3 Implementation of China's Foreign Investment Law**

The Foreign Investment Law of the People's Republic of China (hereinafter referred to as FIL) took effect on January 1, 2020, replacing the Sino-Foreign Equity Joint Ventures Law, the Foreign-funded Enterprises Law and the Chinese-Foreign Contractual Joint Ventures Law (referred to as “the three laws on foreign investment”). It is a new basic law in the field of foreign investment, which provides a more powerful systemic guarantee for further opening-up and actively and effectively using foreign capital under the new situation. The promulgation of the FIL marks a big step forward in China's institutional opening-up.

The FIL contains six chapters and 41 articles, which clarify the contents of foreign investment promotion, investment protection, investment management, among others, establish a pre-establishment national treatment plus a negative list system, and clearly stipulate that domestic and foreign investment should be treated equally and protection of foreign investment should be strengthened. The law also stipulates some systemic measures, such as the establishment and improvement of the foreign investment service system, and the national foreign investment information reporting system.

The FIL highlights the main theme of actively expanding opening-up and promoting foreign investment, adheres to the positioning of the law as a basic foreign investment legislation, and adheres to the convergence of Chinese characteristics and international rules. Foreign media have paid close attention to the FIL, saying that it has enhanced the confidence of foreign investors and the attractiveness of the Chinese market to foreign investors, and demonstrated China's determination and active efforts to further its opening-up.

— **Optimizing regional opening-up layout.** All provinces and regions are encouraged to expand opening-up based on their comparative advantages, effectively connect their opening-up with major regional strategies and regional coordinated development strategies, promote inter-regional opening-up linkages, and promote the establishment of an openness pattern featuring land-sea and domestic-foreign linkages, as well as mutual assistance between eastern and western regions. The leading role

of the eastern regions in opening-up should be strengthened, the pace of opening-up in central, western and northeastern regions should be accelerated, the opening-up of border areas should be strengthened, and the opening-up to, and cooperation with, Hong Kong, Macao and Taiwan should be deepened.

— **Improving level of foreign investment and economic cooperation.** Support should be provided for enterprises to participate in the reshaping of global industrial and supply chains; domestic and foreign industrial coordination should be promoted. Efforts should be made to promote steady and orderly development of outbound investment and cooperation, and encourage Chinese products, services, technologies, brands, and standards to go global. Outbound investment should be carried out in an innovative way. Efforts should be made to push transformation and upgrading of outbound contracted projects, promote the orderly development of outbound labor cooperation, and improve foreign investment cooperation policies and service systems.

#### IV. Always Adhering to Reform and Opening-up as A Strong Driving Force

History at home and abroad has made it clear that openness brings progress, and closure will inevitably lead to a country lagging behind. Opening-up is the fundamental way for a country to become prosperous and strong, as well as a key strategy for China's development. For more than 40 years of reform and opening-up, it is precisely because China persisted in pursuing its development through opening-up to the outside world and promoting reform, development and innovation through opening-up, the country has achieved the great transition from a closed and semi-closed state to a state of all-round opening-up, so that its overall national strength and international influence have improved. The wider China opens up, the better it develops, and the better it develops, the more open it is. The door to China's opening-up will not possibly be closed. China should further deepen reform and pursue higher-level opening-up to provide a strong impetus for building a new development paradigm.

At present, China's reform has entered the deep-water zone. The opening-up dividend of its WTO membership is disappearing, and it still faces severe challenges in carrying out reform and opening-up in some key areas and links. They have become institutional obstacles restricting high-quality development and high-quality life.

**The unified domestic market needs to be improved.** In recent years, China has