



Asia Research Centre Commentary

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Chinese decoupling – “dual circulation economy”

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In March this year, the Chinese National People's Congress of the National People's Delegates approved the 14th Five-Year Plan. The concept of "dual circulation economy" is one of the key elements of this plan's economic agenda which will shape the business environment in China in the coming years. Xi Jinping and other members of the CPC leadership were personally involved in the process of consulting the new strategy, which emphasizes its importance.

With this new strategy, Beijing wants to overcome the impact of policy of decoupling with China implemented by the previous administration of Donald Trump and continued with some modifications by Joe Biden's team. Chinese companies, especially those operating in technologically advanced industries, are struggling with the effects of Washington's actions. The implementation of the strategy is also expected to reduce the impact of the current and future external economic shocks on the Chinese market, primarily caused by Washington's actions, but also being a result of other disruptions, such as recurrence of epidemics, political crises, natural disasters and other factors adversely impacting global economy.

The "dual circulation" policy is an enhancement and adaptation of the existing economic policies. It builds very strongly on the already implemented concepts of the supply-side reform, "Made in China 2025" policy, and military-civil fusion. In some respects, it is also a new iteration of Beijing's efforts to move away from the economy dependent on export processing toward a model based on production targeting domestic demand, in which growth is supported and stimulated by the state. The strategy is aimed at reducing imports

of high-tech components and other inputs and capital goods related to the CPC's leadership desire to reduce dependence on foreign suppliers, especially in high-tech. Its implementation may affect trade and, consequently, PRC's relations with the country's key economic partners other than the US: Germany, Japan and South Korea. Beijing wants to have control over production chains and will therefore force foreign companies to localise production as a part of strengthening the internal circulation.

A key element and prerequisite for the full success of implementing the "dual circulation" policy is acquiring technologies that will enable Chinese companies to produce advanced products. In addition to the aforementioned development of technologies under the state-supported "Made in China 2025" or the military-civilian fusion, the required technologies will be obtained by the Chinese enterprises from foreign companies through corporate acquisitions, purchase or licensing. It can be expected that both agencies within the party-state system as well as Chinese companies will, as before, use any means to acquire the technologies they need, not excluding cyber espionage, forced technology transfer, stealing trade secrets, defaulting on license agreements or technology sales, and through scientific exchange.

The implementation of the "dual circulation economy" will have limited direct impact on Polish businesses in the near term. However, its long-term effects, as with the earlier "Made in China 2025" and other policies supporting Chinese entrepreneurs, may negatively impact the competitive position of Polish companies against Chinese rivals and the access of Polish companies to the Chinese market to a significant degree. It is necessary to undertake actions mitigating the negative effects of the Chinese economic policy by:

1. Optimising the exposure of Polish companies to the Chinese market by taking into account the risks associated with Beijing's new policies.
2. Diversifying exports to other Asian markets with the support of relevant state agencies.
3. Supporting Polish companies in competing with Chinese rivals in Poland and in foreign markets, especially in industries where Chinese authorities support their own companies.

4. Undertaking and supporting initiatives rejecting the ratification of CAI. The concluded agreement, taking into account its provisions and the realities of the Chinese political and economic environment, could result in moving the production in some sectors from Poland to China while not bringing major benefits for Polish companies, especially those from the SME sector which are eyeing the access to Chinese market.

5. Undertaking activities (by relevant state agencies) aimed at increasing the awareness among Polish companies and research institutes of the threats connected with Chinese industrial espionage and other activities which can lead to the loss of research results and industrial or intellectual property rights.