

CHINA'S CONCEPT OF STRATEGIC AUTONOMY IS ABOUT DUAL CIRCULATION

China's dual circulation could be considered a form of strategic autonomy but it differs in many aspects. First and foremost, China's dual circulation has as ultimate objective China's self-reliance or, in other words, China's reduced dependence from Western imports, specially technology or any other which can create bottlenecks for the Chinese economy. While the EU's concept of strategic autonomy also pays attention to the resilience of supply chains, its ultimate objective is not self-reliance, as it focuses on co-dependence, as has been clarified by the addition «open» strategic autonomy. Finally, China's dual circulation also aims at fostering export markets beyond China's already very high share of global exports which inevitably increases the world dependence on China.

El concepto chino de autonomía estratégica es de doble circulación

La doble circulación de China podría considerarse una forma de autonomía estratégica, pero difiere en muchos aspectos. En primer lugar, la doble circulación de China tiene como objetivo último la autosuficiencia de China o, en otras palabras, la reducción de la dependencia de China de las importaciones occidentales, especialmente de tecnología o cualquier otra que pueda crear cuellos de botella para la economía china. Aunque el concepto de autonomía estratégica de la UE también presta atención a la resistencia de las cadenas de suministro, su objetivo último no es la autosuficiencia, ya que se centra en la codependencia, como se ha aclarado con la adición de autonomía estratégica «abierta». Por último, la doble circulación de China también pretende fomentar los mercados de exportación más allá de la ya muy elevada cuota de China en las exportaciones mundiales, lo que inevitablemente aumenta la dependencia mundial de China.

Keywords: dual circulation strategic autonomy, self-reliance, exports, tech competition.

Palabras clave: doble circulación de autonomía estratégica, autosuficiencia, exportaciones, competencia tecnológica.

JEL: F4, F5, O1, O3, O5.

* Senior Research Fellow at Bruegel.

Final version: March 2023.

<https://doi.org/10.32796/ice.2023.930.7566>

1. Introduction

When discussing the concept of strategic autonomy in European policy circles, one should start with security before moving to economics. In fact, in 2016, strategic autonomy became part of the European Union (EU) Global Strategy doctrine to improve the EU defense capabilities, including the setting up of a European Defense Fund, which was established in 2017. However, that concept has evolved over time to a much broader one. In particular, the concept currently coined for EU strategic autonomy (acronym EU-SA) refers to the capacity of the EU to act autonomously—that is, without being dependent on other countries—in strategically important policy areas. These can range from defense policy to the economy, and the capacity to uphold democratic values.

The evolution of the concept from a narrower one centered on security to a broader one, where economic autonomy plays a major role, can be explained by the rapidly evolving—and worsening—external environment. In fact, since President Trump came to power in November 2016, the United States (US) has been less interested in the Transatlantic Alliance, not only in terms of security but also in terms of the economy. In addition, China's rise has been quite different from what the EU had expected. In fact, China has not leaned towards a market economy, as had been agreed at the time of its accession to the World Trade Organization (WTO). Especially since President Xi came to power in 2013, China has gone back to a much more state-led economic model which, given China's sheer size, has created important distortions in the global economy, negatively affecting the EU. Against such complex external backdrop, EU policy makers have stepped up efforts to expand, deepen and operationalize the concept of strategic autonomy.

A wealth of literature exists on the EU's definition of strategic autonomy but much less is known about how it compares with other similar concepts developed by major economies, from Trump's mantra of «America

first» to a much more developed and institutional idea in the case of China, namely «dual circulation». In this paper, China's «dual circulation» concept is explained in the next section. The third one introduces key ideas of the EU's strategic autonomy and compares it with those underlying China's dual circulation. In the fourth and last section, some policy conclusions are drawn.

2. China's dual circulation

Strategic autonomy is known as the ability of a state to advance its national interests and implement its desired foreign policy without largely relying on other foreign nations. The focus and scope of definitions of strategic autonomy evolved over time. The idea was initially used in the discussion of security and defense issues in Europe. However, the concept of strategic autonomy has grown broader to encompass economic, energy, and technology.

To pursue strategic autonomy, recent definitions have essentially focused on three dimensions in practice: the political, institutional and functional. Politically, strategic autonomy involves a shared comprehension of primary goals, which is based on trust and a feeling of shared destiny. Institutionally, effective institutions are essential for facilitating decision-making, establishing regulations, and administering pooled resources in a flexible, efficient, and legal manner in a political system. The functional dimension includes all resources, whether they be sufficient funds, military strength, or cutting-edge innovation, that need to be matched to achieve primary goals and facilitate autonomous action when necessary.

As for the benefit, strategic autonomy contributes to sovereignty in three ways: responsibility, resilience and peer partnership. Firstly, strategic autonomy requires assuming greater responsibility for its own well-being and security. Secondly, strategic autonomy is about strengthening its own resilience to the challenges of globalisation, as well as to the political and economic tactics employed deliberately by external parties. Thirdly, strategic autonomy is not about isolation, but

rather building a stronger platform for cooperation and partnership. In a world where big powers are more assertive, strategic autonomy is necessary to enter into peer partnerships with the heavyweights; and to avoid asymmetric relationships, where isolated EU members lack bargaining power.

However, the concept of autonomy is not absolute but rather a matter of degree. Although achieving complete autonomy is frequently impossible and not always desirable, progress can be made to help an economy to become more capable of advancing its own interests and values. In addition, it takes time to reach the level of strategic autonomy.

China's concept of «dual circulation» is much more recent than the EU's strategic autonomy. However, it is much more economic than that of Europe. It was first mentioned by President Xi on May 14, 2020 in the midst of the COVID-19 pandemic and a protracted trade war with the US, initiated by President Trump in early 2018 (Jinping, 2020a). This does not mean that China's push for self-reliance only started then. As early as 2015, right after being elected, President Xi sealed an important industrial policy plan, under the name of «Made in China: 2025», whose main goal was to reduce China's dependence on the rest of the world for key technologies, such as electric vehicles, semiconductors, etc. President's Xi's speech formally introducing dual circulation at a meeting of the Standing Committee of the Politburo in 2020 aimed at enshrining China's objective to achieve self-reliance while remaining competitive externally in a single concept. Not many details were offered on this occasion, except for Xi's brief clarification of the two dimensions of the concept, namely, internal circulation and external circulation, echoing the traditional two sources of aggregate demand—domestic demand and external demand—. President Xi also mentioned that making full use of domestic resources to promote technological innovation was essential to ensuring China's self-sufficiency in key areas. A further clarification of the concept came with President Xi's August 24 speech to a group of social scientists

(Jinping, 2020b), when he noted two important factors relating to China's growth pattern: first, the structural reduction in the current account surplus and the rising contribution of domestic demand, and, second, the role of supply reform to increase the contribution of domestic demand due to more value-added production. Similarly, in November 2020, China's Vice Premier Liu He published a long article in the People's Daily (He, 2020) to explain the «dual circulation framework,» with specific reference to the 14th Five-year Plan and China's targets for 2035. Within this general objective, Liu He made six policy recommendations on implementation of the dual circulation strategy, with the last recommendation focusing on the need to open up. The other five recommendations were in line with President Xi's quest for a strong domestic economy by promoting technological innovation, increasing domestic supply, improving financial services, increasing smarter urbanization, and boosting employment and income.

EU strategic autonomy (EU-SA) refers to the capacity of the EU to act autonomously—that is, without being dependent on other countries—in strategically important policy areas. These can range from defense policy to the economy, and the capacity to uphold democratic values.

In order to structure the debate on strategic autonomy into analytical categories, this paper assumes that by and large there have been several phases to the debate about EU-SA, each with a different focus. From 2013 to 2016, it was mainly seen as an approach to security and defence matters. From 2017 to 2019, EU-SA was considered as a way to defend European interests in a hostile geopolitical environment, marked by Brexit, the Trump Presidency and China's growing assertiveness. In 2020, the COVID-19 pandemic shifted the focus to mitigating economic dependence on foreign supply chains. Since 2021, the scope of EU-SA has been widened to virtually all EU policy areas, including that of the EU's values, while the expression 'strategic autonomy' was paradoxically used less and was often replaced by similar concepts, such as 'open strategic autonomy',

‘strategic sovereignty’, ‘capacity to act’ and ‘resilience’. This paper uses ‘strategic autonomy’ and ‘strategic sovereignty’ as equal and interchangeable terms. Since the Russian invasion of Ukraine in February 2022, steps towards achieving EU-SA are being taken, while the concept nevertheless remains blurred by the variation in terminology.

Achieving EU-SA will require a common vision, political will and capabilities to implement it, and a distinct role for the EU, between Member States and global players. Visual tools, such as the 360° strategic autonomy wheel, can help to identify dependencies and understand complex interdependencies between policy areas. Political will was expressed in the European Council’s Versailles Declaration of 11 March 2022, which aims at greater EU-SA in defence, energy supply and the economy. However, EU-SA can be constrained by Member States and non-EU (third) countries or international organisations that challenge the EU. This EU strategic autonomy monitor is the first in a series on the state of play in the debate and implementation of EU-SA. It will be complemented by thematic papers in the ‘strategic autonomy 360°’ series.

China’s idea of strategic autonomy: dual circulation central in the 14th Five-year Plan

The dual circulation strategy was crowned as a central part of China’s economic planning when the 14th Five-year Plan was unveiled during the Two Sessions beginning on March 4, 2021 (National Development and Reform Commission [NDRC], 2021a). In fact, a full chapter (Chapter 4) of the Plan is dedicated to dual circulation (NDRC, 2021b), but with more of a focus on «internal circulation» rather than external circulation, as a clear sign that self-reliance is an overriding objective. One notable aspect of how the dual circulation strategy is embedded in the Five-year Plan is the unification of domestic and foreign economic policies in one specific chapter. This differs from previous plans, in which economic strategies were more scattered, and it points

to more coordination between domestic and external policies to achieve a single target, namely, self-reliance through technological upgrading. Second, covering both sources of growth jointly in a single chapter makes it even more clear that one can serve as a substitute—or a hedge—for the other. This is particularly important in the event of a shock, such as the COVID-19 pandemic, or a more structural change in the external environment, such as the radical change from engagement to containment in US attitudes toward China.

For many analysts, the dual circulation strategy is nothing more than a more sophisticated name for China’s policy response to the global financial crisis, *i.e.*, a «rebalancing» away from the vanishing external demand to the internal market. This strategy became even more specific after the massive infrastructure-led investment boom financed by China’s 2008 fiscal stimulus. In fact, the concept of a rebalancing referred to increasing reliance on domestic consumption rather than on exports or investment, and it became the mantra of a number of key economic policies, such as the massive push to increase wages to create room to boost household consumption. In the same vein, the dual circulation strategy was also announced only several months after a sudden external shock, namely the COVID-19 pandemic, so it might appear that these two strategies differ only in terms of their names, but this is not the case.

There is actually an important difference between the two in terms of the external context. When China introduced its rebalancing strategy, the West, and particularly the US, was fully engaged with China and multilateralism was very much in vogue. In contrast, President Xi’s announcement of the dual circulation strategy came about after a protracted trade and technology war that President Trump started in early 2018. The policies introduced to contain China’s technological rise, such as the «entity list» forbidding exports of key inputs to some of China’s key technology companies, including 5G providers such as Huawei, clearly had a bearing in China’s much more aggressive push for the self-reliance enshrined in the dual circulation strategy.

During the months between President Xi's first mention of the new strategy to its inclusion in the 14th Five-year Plan, there were no signs of improvement in the external environment. The Biden administration has basically kept in place most of the China-related policies of the Trump era, including the various restrictions on technology transfers, whether through exports or Chinese acquisitions of overseas technology companies. Furthermore, the Biden administration has been much more proactive in seeking support from US allies with respect to China. Against this backdrop, the response of Chinese policymakers to the external risk, that is, self-reliance has clearly not lost ground, and if anything, the opposite has occurred.

The above does not really mean that the Chinese leadership's quest for self-reliance would not have occurred without an external threat. In fact, a focus on technological development and industrial policy was present in previous five-year plans, but this has occurred in a much more aggressive way after President Xi came to power. The best example of China's quest to move up the ladder in key strategic sectors through industrial policy is the Made in China 2025 program announced on May 8, 2015 by the State Council (2015). In fact, China's catch-up with the developed world in terms of research and development expenditures has been astounding and China has thus increased its sophistication of production and exports (Figures 1 and 2).

The rebalancing mantra was really all about boosting domestic demand to mitigate the sharp fall in external demand, which ended in an investment boom—more than a huge increase in consumption—as household income until 2008 remained low and there had been meager growth during the previous five years. The focus on supply policies was still absent. It finally came about, with great fanfare, with China's 2015 major industrial-policy tool—Made in China 2025.

The rebalancing in 2008 also relied on raising the contribution of domestic demand to China's growth. It was coupled with the idea that driven by faster growth in domestic consumption, China's long-standing current

account surplus would, as imports increased, give way to a deficit.

This time, however, the notion is to ensure that more of that increased demand is met by domestic production rather than by imports. In this regard, the dual circulation strategy is a corollary of the government's previous Made in China 2025 program to upgrade China's technological capacity as it has become possible to substitute high-end goods only due to advances in key sectors. In fact, such an industrial policy tool incorporates setting targets for domestic sourcing of intermediate goods in key industries—from semiconductors to electric vehicles—leading to a reduction in China's imports of such intermediate goods.

Put another way, the previous rebalancing was about reducing China's dependence on exports. In contrast, the thrust of dual circulation is about reducing dependence on imports and increasing self-sufficiency. This can be equated with a «hedged integration» to protect the Chinese economy from volatility from abroad, while still benefiting from selling in overseas markets.

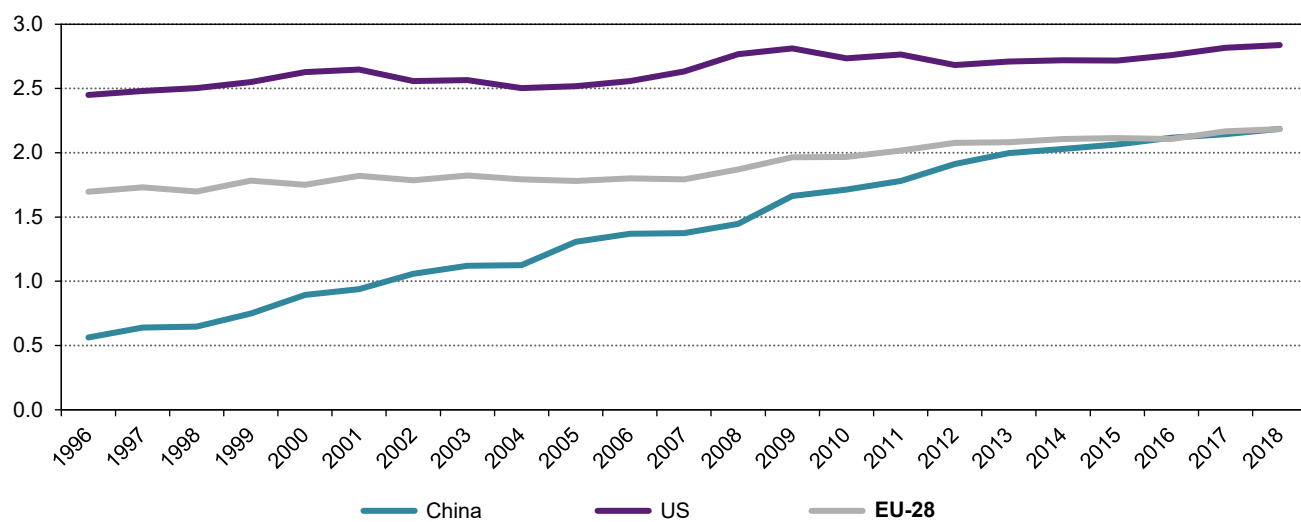
How the Dual Circulation Strategy Is Being Implemented

After the concept was launched and, even more so, after it appeared in the 14th Five-year Plan, a number of more specific policies have been developed by the National Development and Reform Commission (NDRC).

The first, issued on September 9, 2020, aims to ease supply-side bottlenecks for production, under the lemma of «promoting deep integration and innovative development of the logistics and manufacturing industry» (NDRC, 2021c). The plan sets goals to reduce production and logistic costs and to improve the efficiency of distribution. The focus is not only the physical integration of manufacturing enterprises but also the enhancement of information-sharing through the use of 5G. This plan not only covers domestic logistics but also those for export markets.

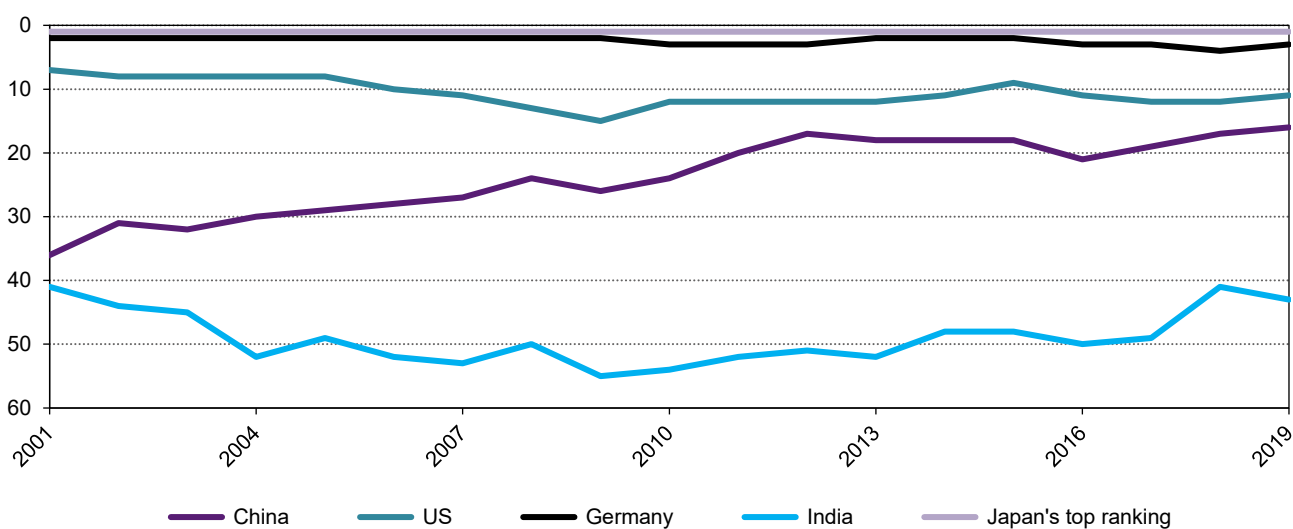
An important implication of the dual circulation strategy, and more generally of the 14th Five-year Plan, is

FIGURE 1
R&D AS A SHARE OF GDP
(In %)



SOURCE: World Bank.

FIGURE 2
EXPORT COMPLEXITY RANKINGS



SOURCE: Growth Lab at Harvard University.

the push for basic science. Indeed, unlike the previous plan for 2005-2020, the «Medium and Long Term Plan for Science and Technology 2021-2035» focuses on foundational technologies. In a related document, the NDRC reiterates support for priority sectors, including the next generation IT, biotech, high-end manufacturing, new materials, new energy, electric vehicles, environmental protection, and digital creativity (NDRC, 2020).

The Ministry of Commerce of the People's Republic of China (MOFCOM), in its own five-year plan, has started to use the concept of dual circulation to introduce measures supportive of domestic consumption and a diversification of trade. The best example of the former is new measures announced in February 2021 in the auto sector to stop local governments from introducing restrictions on car purchases while requesting subsidies from them for the purchase of electric vehicles (MOFCOM, 2021a). As for the latter, on March 1, 2021, MOFCOM announced measures to increase the presence of foreign investors at the highest end of China's value chain (MOFCOM, 2021b), aiming, of course, at further integrating China's production capacity vertically. More recently, six ministries and government agencies jointly issued guiding opinions aimed at accelerating the development of small and medium-sized enterprises (SMEs) active in technologies listed in the Industrial Four Bases Development Catalogue, a supplement to the Made in China 2025 Strategy. The policy aims to cultivate SMEs into «little giant» companies that excel in niche sectors. Similarly, MOFCOM has also published a guideline for the diversification of imports in a way that reliance on the Western economies is reduced by giving more weight to emerging economies, especially the Russian economy (MOFCOM, 2021c). Furthermore, MOFCOM, together with the Ministry of Industry and Information Technology (MIIT) and the Cyberspace Administration of China (CAC), have jointly issued a guideline to support the expansion of China's digital economy internationally by setting up international R&D centers (MIIT-CAC, 2021).

In sum, measures to support domestic demand and upgrade China's supply chain through inward Foreign

Direct Investment (FDI) or technological upgrading are all associated with the internal channel of the dual circulation strategy. In addition, attempts to diversify the sources of imports away from the developed economies, especially the US or its close allies such as Australia, aim at boosting China's own ecosystem and export markets, especially in the emerging world. This is, of course, supported by the improved logistical connectivity through Belt and Road Initiative (BRI) related investments and by the expansion of China's digital commercial capabilities overseas.

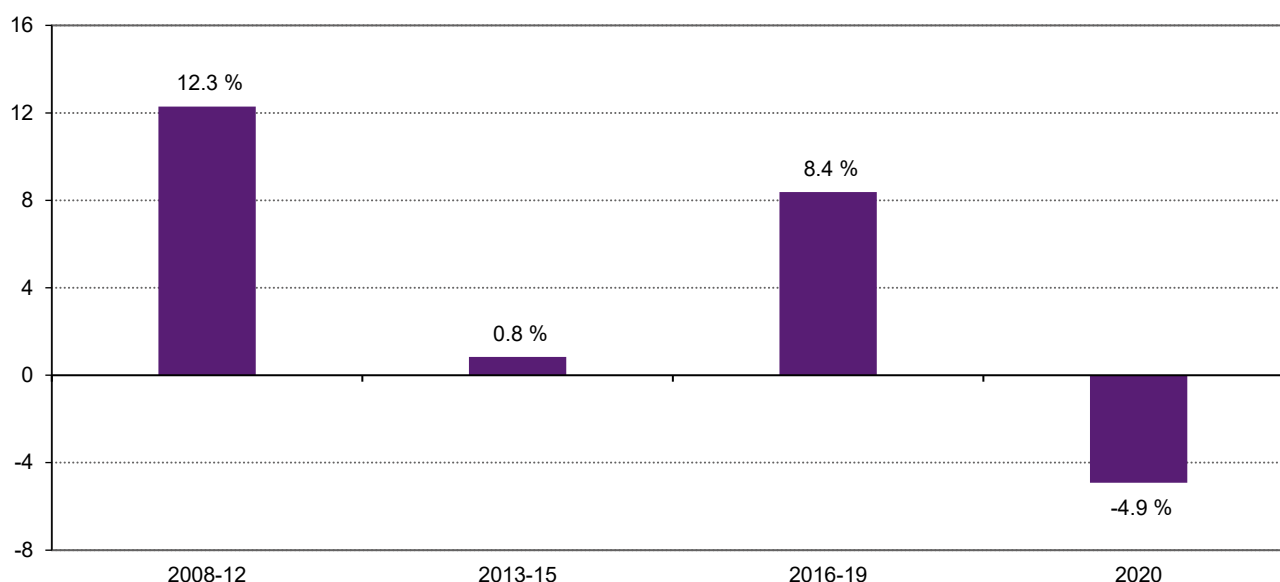
What This Means for the Rest of the World

The way the dual circulation strategy is interpreted, whether similar to the idea of rebalancing or as a quest for self-reliance, has major implications for the rest of the world.

The rebalancing strategy in 2008 relied on raising the contribution of domestic demand to China's growth, but this was done with the support of imported goods. In fact, Chinese imports of commodities and intermediate goods ballooned beginning from 2008 as a consequence of China's infra-led fiscal stimulus. The rebalancing mantra was coupled with the idea that faster growth of domestic consumption would result in a reduction of China's longstanding current account surplus and that this was a natural course in the country's development model. It was of course great news for the rest of the world as it boosted most countries' exports to China. Figure 3 shows that exports to China by the world's major economies witnessed positive growth rates during the past decade.

In contrast, dual circulation is geared toward achieving self-reliance, or self-sufficiency. The implication is that imports can be substituted for domestic production as soon as China is able to produce them domestically. Moving to the terminology of supply chains, this is nothing but the vertical integration of manufacturing production within China rather than sourcing inputs from the rest of the world. In other words, China's foreign partners

FIGURE 3
CHINA IMPORT GROWTH BY PERIOD
(In % YoY)



SOURCE: CEIC, Natixis.

might see much less of an increase in exports to China, particularly high-end manufacturing equipment, than was the case after 2008 with the rebalancing strategy. This should be particularly problematic for Germany, Japan, and South Korea, but also for Taiwan and the US as the main exporters of intermediate goods, whether machinery, chemicals, auto parts, or semiconductors, to the mainland.

Furthermore, and in the best spirit of the dual circulation strategy, not only does China intend to substitute its imports as soon as it is capable of producing such intermediate goods,¹ but also it expects to export them, competing with these larger exporters in third markets. In

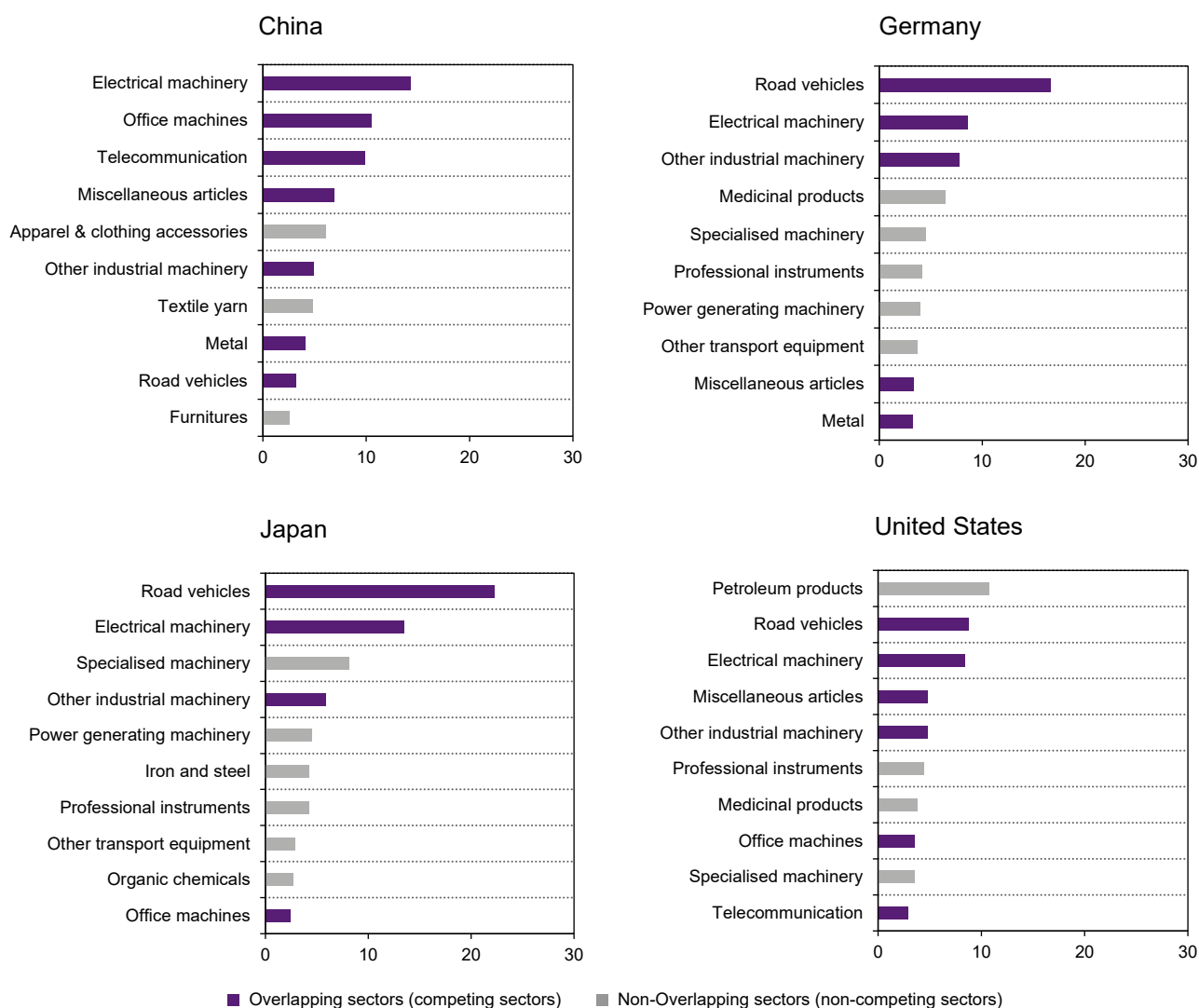
fact, this is already occurring. China is already competing with Germany in key export sectors, such as autos, industrial and electrical machinery, and the same is true for Japan and the United States (Figure 4).

In fact, third market competition is already a harsh reality for the most advanced exporters of manufacturing. Europe, for example, has lost market share in Russia (García-Herrero, 2016) and Latin America (García-Herrero, 2018), for example, and this is bound to increase as China's quest for technological upgrading results in more value-added sectors. In other words, the dual circulation strategy, rather than a manna from heaven for the rest of the world, might result in a double whammy, especially for exporters of high-end intermediate products. In some key sectors in the future (whether for energy sustainability or digitization), China has already leapfrogged past many of the incumbents.

¹ China's export structure has become increasingly similar to that of the major exporters of high-end intermediate goods, such as the EU, the US and also Korea and Japan.

FIGURE 4

TOP 10 EXPORT SECTORS TO CHINA, THE UNITED STATES, GERMANY, AND JAPAN (Percentage in total exports, 2019)



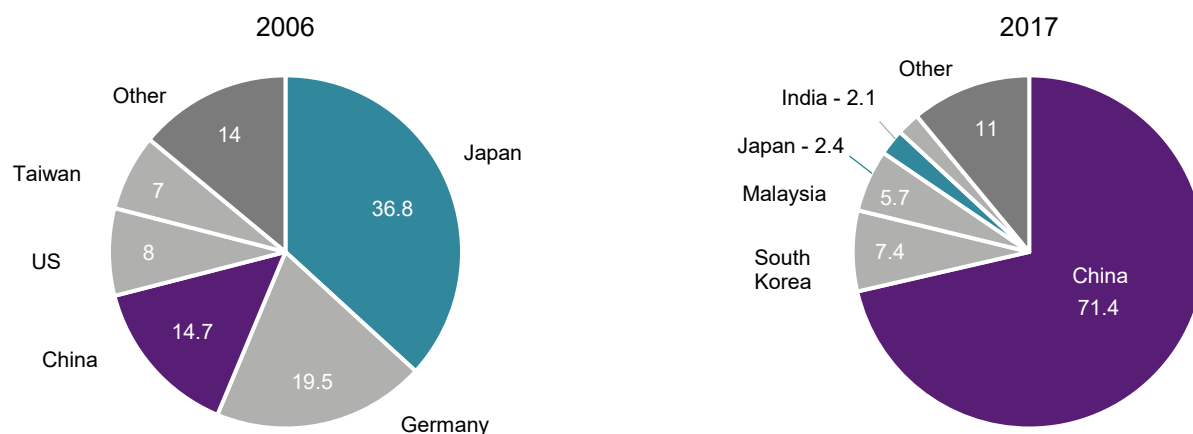
SOURCE: Natixis, UNCTAD.

A good example is renewable energy, and especially solar panels, as China already counts for 71 percent of the global production share—from barely 15 percent in 2006—while Japan and Germany, once the leaders, have clearly fallen behind (Figures 5-6).

3. Comparing China's dual circulation with Europe's conception of strategic autonomy

Europe is big economically but not fully integrated. The European Union, with a GDP of around \$17.18 trillion is

FIGURES 5-6
 SHARE OF GLOBAL SOLAR PANEL PRODUCTION
 (Percentage of total)



SOURCE: RTS Corp.

the third largest economy in the world, below the United States and China. Thirty years ago, the EU launched the single market aimed at achieving the internal integration of Europe. However, the single market is still not completed. Since the days of the EU's founding, EU autonomy has been a relevant aspiration but far from accomplished. The concept of «EU strategic autonomy» was first mentioned in 2013 when talking about strengthening Europe's defence industry (Damen, 2022). However, since Trump's victory in the US elections in 2016, the terms 'geopolitics' and 'geo-economics' were on the rise and the EU has started to expand strategic autonomy to a wider range. The policies brought by Trump's administration, especially «America First», and policies against the World Trade Organization and, to some extent also NATO, have become a catalyst for the EU to accelerate the pursuit of strategic autonomy. Although the US and the EU have a close partnership in terms of international trade, in 2018 the US Trump administration imposed tariffs on imports of critical raw

materials including steel and aluminum in the name of national security. The EU and its member states also regard the Trump administration's attitudes and actions towards the rules-based international trading architecture especially the WTO —as a great challenge—. Therefore, the EU has to be waken up to face the new reality and do what it takes to develop capabilities to act more autonomously.

Starting in 2020, the onset of the COVID-19 pandemic has further exposed EU's fragility and external dependencies, especially on China. Over the years, China has become increasingly authoritarian and assertive on the world stage, especially economically and technologically. Heavy dependence on critical goods like medical products imported from China was revealed after COVID-19 outbreak, which also made the EU realize the necessity to reduce China-related supply chains' vulnerabilities (García-Herrero & Martínez Turégano, 2020). Another major factor behind the need to avoid dependence on China is related to the US-China

decoupling. Maintaining a balance between political and economic interests is becoming increasingly difficult with the politicized rivalry between China and the US, and choices must be made.

Putin's invasion of Ukraine on February 23, 2022, gave a major boost to the development of EU strategic autonomy. Crimea should have been an important wake-up call even before Trump era, but it didn't reach the level it needed to be. A key moment in common EU action was the European Council meeting of 10-11 March 2022, which adopted the Versailles Declaration: a strong declaration of political will to achieve more strategic autonomy. Versailles Declaration calls for the EU to reduce dependencies on Russia in the fields of energy, critical raw materials, semiconductors, health, digital technology and food (European Council, 2022).

The initiation of EU strategic autonomy and China's dual circulation are for different objectives. As the original suggestion for EU strategic autonomy in 2013 was mainly for promoting security and defence, the initial aim of China's «dual circulation» focused on reducing the dependence of economic development on international trade and shifting the focus to domestic consumption and investment.

For China, compared with Europe, the biggest structural advantage of achieving «self-reliance» lies in the national sovereignty ruled from top to bottom. While member states of EU could put a hold on grounds of national sovereignty to quest for EU-SA, China does not need to worry about those internal problems on the path to realize «dual circulation».

However, the proposal of these two concepts both relate to the complex global context. Similar to how the EU's strategic autonomy has been emphasized during the US Trump administration, China's «dual circulation» concept was also raised in the context where geopolitical tension existed. Since Trump indicated in 2017 that manufacturing subsidies would be strengthened, the Sino-American trade war has prevented American businesses from buying Chinese goods. The percentage of Chinese-made imports into the United States has

decreased. In addition to dependence on raw materials, China also needs to worry about the source of high technology, as the US has been restricting China's access to high technology. For example, the US chip ban could have had negative impact on China's semiconductor manufacturing industry. The Chinese government assigned more subsidies to those really critical industries like semiconductors (García-Herrero & Weil, 2022). However, the difference between China and the EU is that China is a stronger exporter with more industrial manufacturing capacity and has comparative advantages in the production of labor-intensive products.

Besides, China also faced supply chain disruptions due to COVID-19, despite having a stronger industrial manufacturing capacity. The difference is that there could be more challenges coming from the demand side for China at that time compared to the EU. Since the pandemic, the global economic downturn has weakened demand, and this has forced a true wave of manufacturing returns to concentrate on the domestic market.

However, China's response to Russia's invasion of Ukraine could be one of the key differences compared to the EU. Although energy autonomy has also been mentioned in the «dual circulation», unlike Europe, China has significantly increased its import volume from Russia since May, especially the crude oil. In addition, the strengthened China-Russia trade seems to be a leeway for China to diversify trade away from Western countries.

4. Conclusions

The dual circulation strategy might initially appear to be a buzzword, but it actually has very important implications both for China and for the world. If we move beyond the obvious, namely, the boost in both domestic and external demand, the dual circulation strategy is really about self-reliance in response to a more hostile external environment.

In other words, China is turning closer to an economic model on the import side, but not on the export side, as

a way to ensure that China's technological progress will be able to continue independently of US intentions. An important and positive consequence of China's moving up the ladder through a technological upgrading is that it will be able to dominate export markets in more sectors (particularly high-end sectors).

This is very different from the old rebalancing strategy that Chinese policy-makers introduced in response to the global financial crisis. The push for a consumption-based model at that time represented a call for more, rather than fewer, imports, as is the case for the dual circulation strategy.

One could argue that the rebalancing strategy was in line with China's external environment at that time, namely, engagement with the superpower, the US. The dual circulation strategy is the result of China's new «Weltanschauung» namely a much more hostile world with the hegemon trying to contain China's rise.

It is important to note that China's push for self-sufficiency is not only a problem for the rest of the world, particularly the major exporters of high-end goods, but also for China itself. The reason is that China's own quest for decoupling will require huge financial resources, with all the related inefficiencies. The size of the inefficiencies will depend on how far China is from the technological frontiers and what China can do to shorten that gap. Acquisitions of foreign companies in areas where China faces the most significant bottlenecks can clearly help, as in the case of semiconductors, but that route seems increasingly difficult as the developed economies step up scrutiny of Chinese acquisitions. As China continues to close its economy through the mantra of self-reliance, it will find it increasingly challenging to maintain a competitive edge. This could result in China eventually losing its international competitiveness. Within that context, China's Belt and Road Strategy can be seen as an important complementary policy to the dual circulation policy. By building transport infrastructure in a hub-and-spoke mode, China is basically ensuring that economies linked through such an infrastructure will increasingly depend on China for imports. If the world

ends up with two ecosystems, China will be one of them, as it develops its technology to cover all its needs and as it develops its own standards, as conceived by China's manufacturing 2035.

In sum, the dual circulation strategy is a crucial policy that clearly reflects China's view of the world and its place in it. China is seeking to become a fully integrated market with no need for help from the rest of the world, though still benefiting from export markets. If the US pushes for decoupling and takes its allies along, China can always rely on its own allies along the Belt and Road. As regards global imbalances, the dual circulation strategy might result in another trade surplus for China, as imports would be controlled so to reduce excessive dependence on the rest of the world, but exports will be further promoted as a way to monetize China's efforts to move up the ladder. In other words, the new dual circulation policy can basically be understood as an important substitution strategy that keeps foreign markets open for Chinese goods. Therefore, the dual circulation strategy should not be dismissed as a buzzword. Rather, its implementation will entail major consequences.

When compared to the EU strategic autonomy, it remains clear that the latter is more open than dual circulation although the evolution of strategic autonomy may be such that the difference might be blurring.

Bibliographic references

- Cision. (2021, June 22). China Makes Policy Changes to Curtail Crude Steel Production. *Beroe Inc.* <https://www.prnewswire.com/news-releases/china-makes-policy-changes-to-curtail-crude-steel-production-beroe-inc-301317109.html> (accessed August 10, 2021).
- Damen, M. (2022). *EU strategic autonomy 2013-2023: From concept to capacity*. European Parliamentary Research Service (EPRS).
- European Council. (2022, March 11). *The Versailles declaration, 10 and 11 March 2022* [Press release]. Retrieved on March 23, 2023 from <https://www.consilium.europa.eu/en/press/press-releases/2022/03/11/the-versailles-declaration-10-11-03-2022/>
- Ezell, S. (2021). Moore's Law under Attack: The Impact of China's Policies on Global Semiconductor Innovation.

- Information Technology and Innovation Foundation. <https://itif.org/publications/2021/02/18/moores-law-under-attack-impact-chinas-policies-global-semiconductor> (accessed August 10, 2021).
- García-Herrero, A., Marbach, T., & Xu, J. (2018). *European and Chinese Trade Competition in Third Markets: The Case of Latin America* (Bruegel Working Paper No. 6). https://www.bruegel.org/wp-content/uploads/2018/06/WP-2018-06_-060618.pdf (accessed August 14, 2021).
- García-Herrero, A., & Martínez Turégano, D. (2020, November 27). Europe is losing competitiveness in global value chains while China surges. *Bruegel-Blogs*.
- García-Herrero, A., & Weil, P. (2022). *Lessons for Europe from China's quest for semiconductor self-reliance* (Bruegel Policy Contribution No. 20/22).
- García-Herrero, A., & Xu, J. (2016). *The China-Russia Trade Relationship and its Impact on Europe* (Bruegel Working Paper No. 4). https://www.bruegel.org/wp-content/uploads/2016/07/WP-2016_04-180716.pdf (accessed August 14, 2021).
- Hanada, Y. (2019, July 31). China's Solar Panel Makers Top Global Field but Challenges Loom. *Nikkei Asia*. <https://asia.nikkei.com/Business/Business-trends/China-s-solar-panel-makers-top-global-field-but-challenges-loom> (accessed August 10, 2021).
- He, L. (2020, November 25). Accelerate the Construction of the New Development Pattern with Domestic Circulation as the Main Body and Domestic and International Dual Circulation Promoting Each Other (Studying and Implementing the Spirit of the Fifth Plenary Session of the 19th Central Committee of the Party). *People's Daily*. <http://politics.people.com.cn/n1/2020/1125/c1001-31943814.html> (accessed August 2021).
- IC Insights. (2021). Sales of Logic ICs Account for Largest Share of China's IC Market in 2020. *Design & Reuse*. <https://www.icinsights.com/data/articles/documents/1347.pdf> (accessed August 10, 2021).
- Jinping, X. (2020a, May 14). *Chairs the Meeting of Standing Committee of the Political Bureau of the CPC Central Committee* [Meeting]. Xinhua Net. http://www.xinhuanet.com/politics/leaders/2020-05/14/c_1125986000.htm (accessed August 10, 2021).
- Jinping, X. (2020b, August 24). *Speech at the Symposium of Experts in Economic and Social Fields* [Speech]. Xinhua Net. http://www.xinhuanet.com/politics/leaders/2020-08/24/c_1126407772.htm (accessed August 10, 2021).
- Keju, W. (2021, March 25). More R&D Tax Incentives in Pipeline. *China Daily*. <http://global.chinadaily.com.cn/a/202103/25/WS605bd982a31024ad0bab16d2.html> (accessed August 10, 2021).
- MIIT-CAC. (2021). *Guidelines for Outward Investment Cooperation in the Digital Economy*. <http://images.mofcom.gov.cn/hzs/202107/20210723142119100.pdf> (accessed August 10, 2021).
- MOFCOM. (2021a, February 10). The Ministry of Commerce Announces Several Policies to Streamline 'Dual Circulation'. *Xinhua Net*. http://www.xinhuanet.com/fortune/2021-02/10/c_1127089178.htm (accessed August 10, 2021).
- MOFCOM. (2021b). The Ministry of Commerce Issues a Notice on Building a New Development Pattern and Stabilizing Foreign Investment. *Ministry of Commerce of the People's Republic of China*. <http://www.mofcom.gov.cn/article/ae/ai/202103/20210303041579.shtml> (in Chinese) (accessed August 10, 2021).
- MOFCOM. (2021c). Notice of the Ministry of Commerce on Printing and Distributing the 'Fourteenth Five-year Plan for Business Development'. *Ministry of Commerce of the People's Republic of China*. <http://www.mofcom.gov.cn/article/guihua/202107/20210703174101.shtml> (accessed August 10, 2021).
- NDRC. (2020). *Guiding Opinions on Expanding Investment in Strategic Emerging Industries, Cultivating and Growing New Growth Points and Growth Poles*. https://www.ndrc.gov.cn/xxgk/zcfb/tz/202009/t20200925_1239582.html (accessed August 10, 2021).
- NDRC. (2021a). *The Fourteenth Five-Year Plan for National Economic and Social Development of the People's Republic of China and the Outline of the Long-term Goals for 2035*. <https://www.ndrc.gov.cn/xxgk/zcfb/ghwb/202103/P020210323538797779059.pdf> (accessed August 10, 2021).
- NDRC. (2021b). *The Fourteenth Five-Year Plan for National Economic and Social Development of the People's Republic of China and the Outline of the Long-term Goals for 2035*. Chapter 4. <https://www.ndrc.gov.cn/xxgk/zcfb/ghwb/202103/P020210323538797779059.pdf> (accessed August 10, 2021).
- NDRC. (2021c). *Plan to Promote Deep Integration and Innovative Development of the Logistics and Manufacturing Industry*. <https://www.ndrc.gov.cn/xxgk/zcfb/tz/202009/P020200909333031287206.pdf> (accessed August 10, 2021).
- State Council. (2015). *Notice about Issuing 'Made in China 2025'*. http://www.gov.cn/zhengce/content/2015-05/19/content_9784.htm (accessed August 10, 2021).
- US-China Economic and Security Review Commission. (2016). *Transcript of Hearing on China's 13th Five-year Plan*. https://www.uscc.gov/sites/default/files/transcripts/April%2027,%202016%20Hearing%20Transcript_0.pdf (accessed August 10, 2021).