

## **Analysis on the Construction of My Country's Domestic Demand System under the Double Cycle Strategy**

### **--Based on the Drawbacks of the "International Cycle" Strategy**

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#### **Abstract**

At present and in the future, my country is still in an important strategic period, the development environment will face profound and complex changes, and economic development is full of opportunities and challenges. With the continuous recession of the international economy and the impact of the new crown pneumonia, the economic development strategy of the international cycle is no longer suitable for the needs of my country's current economic development situation. Finding the root of the problem from the shortcomings of the old strategy, and taking the domestic big cycle to drive the domestic and international double cycles as the strategy of my country's economic and social development is an analysis of the shortcomings of the international cycle strategy and a comprehensive consideration of the domestic and international environments. Supported by the expansion of domestic demand, through the optimization and adjustment of the industrial chain supply chain, technological innovation as the engine, regional coordinated development and the new urbanization process as an opportunity, and my country's institutional advantages as a guarantee, we will build a scientific and complete domestic demand system to promote my country's domestic cycle. Promote a new pattern of domestic and international dual-cycle strategy, and help my country's economic development to successfully complete the 2035 long-term goal.

#### **Keywords**

**International Big Cycle; Domestic Big Cycle; Expanding Domestic Demand; Science and Technology; New Pattern.**

#### **1. Introduction**

At present and for a period in the future, my country is still in an important strategic period, the development environment will face profound and complex changes, and economic development will be full of opportunities and challenges. With the continuous decline of the international economy and the impact of the new crown pneumonia, the economic development strategy of the international cycle is no longer suitable for the needs of my country's current economic development situation.

Therefore, the Fifth Plenary Session of the 19th Central Committee pointed out: "Form a strong domestic market and build a new development pattern. Adhere to the strategic basis of expanding domestic demand, accelerate the cultivation of a complete domestic demand system, and organically integrate the implementation of the strategy of expanding domestic demand with the deepening of supply-side structural reforms. Leading and creating new demand with innovation-driven, high-quality supply. It is necessary to smooth the domestic cycle, promote domestic and international double cycles, comprehensively promote consumption, and expand investment space. "Exploring the domestic demand system under the domestic cycle strategy is important for promoting my country's domestic cycle. It is of great significance to drive the formation of a new pattern of domestic and international dual-cycle strategies.

## **2. The fatal drawback of the international cycle-restraining our domestic demand**

The concept of the international circular economy development strategy aims to bring my country's domestic labor transfer into the international system by vigorously introducing foreign capital and labor-intensive product exports. In October 1987, Wang Jian from the Economic Research Institute of the State Planning Commission submitted a document entitled "Concepts on the Development Strategy of the International Large-scale Circular Economy", which unveiled my country's economic strategy with the international cycle as the mainstay. The significance at the time was worthy of recognition. First of all, this move greatly solves the way out for our surplus labor force and increases the income of our residents; Secondly, in exchange for foreign exchange in the international market, so as to obtain the funds and technology needed for the development of heavy industry, so as to communicate the circular relationship between agriculture and heavy industry through the conversion mechanism of the international market.

Since China's economy has entered a new normal, the shortcomings of the international large-scale circular development strategy have now become apparent. First, from the perspective of my country's external environment, international financial trade under the US dollar hegemony system has caused my country to be cruelly plundered by the US dollar system. In addition, many uncontrollable factors such as the complexity and uncertainty of the current international environment are the majority. The rise of geopolitical forces such as unilateralism and trade protectionism, and the sudden new crown pneumonia has caused a sharp decline in international demand (external demand); second, restraining domestic demand. The economic development strategy of "big import and big export, both ends outside" has severely restricted the expansion of my country's domestic demand and the stimulation of domestic demand potential; third, since my country's accession to the WTO, my country's position in the division of labor in the world market has been restricted to the industries of developed countries Low-end attachment. The uncertainty, complexity, severity, and long-term characteristics brought about by the impact of international environmental constraints have brought great instability to my country's future economic development.

### **2.1 The continuous trade surplus has caused the real income of the Chinese people to decline**

At present, our country is deep in the "dollar trap", which is an extension of the international cycle strategy. my country's consecutive years of trade surplus has led to a serious outflow of national wealth. Under the dominance of the US dollar hegemony system, the use of US dollars to buy my country's export products has caused my country's resulting US dollar trade surplus to evaporate a lot of funds needed for my country's development in multiple fields (such as education, medical care, social security, etc.).

Statistics in 2010 showed that my country's trade surplus was 183 billion U.S. dollars, and the exchange rate between the U.S. dollar and the renminbi was 1:6.6227 that year. The surplus of U.S. dollars can be exchanged for twelve hundred billion renminbi. At that time, the domestic peasants' convention in my country was 200 million. If the trade balance was balanced and the currency flowing out of the trade surplus was used to improve the wage income of migrant workers, it would bring about an annual income increase of nearly 6,000 yuan for the national migrant workers. However, in reality, it is impossible to achieve a theoretical trade balance. Due to my country's huge trade surplus in 2010, not only was it unable to further expand the income of domestic residents, but also due to the rapid increase in currency issuance due to foreign exchange, which triggered inflation, which made the income of Chinese residents "increased" but "money did not advance", and finally changed It became a "decline in real income", which further exacerbated the shortage of domestic demand in my country. [1]

### **2.2 The economic model of "two ends outside, big in and big out" aggravates the imbalance of regional development in my country**

The strategy of the development mode of the international circular economy has created a "dual economy" that has been split between the export-oriented economy in the eastern region and the

sluggish development in the interior region since 2008. The introduction of foreign capital is still transforming domestic savings into foreign exchange reserves with low availability and poor security, and continues to exacerbate this deformed "dual economy", at the expense of domestic demand development. [2]

The strategy of "both in and out" in coastal areas is actually a resource allocation mechanism that competes with the inland and domestic industries for capital, resources, and labor. The more foreign investment and export earnings in the eastern region, the more resources will be drawn from the domestic industries in the central and western regions, resulting in slower development in the interior and the poorer the domestic industries in the central and western regions. [3]

Suppose the exchange rate ratio of USD to RMB is 1:6. my country's coastal areas have introduced 100 billion US dollars of foreign capital, which must be converted into 600 billion yuan in order to be used domestically. Hypothesis 1: If my country's currency issuance remains unchanged, the coastal areas will siphon away 600 billion yuan of investment in the central and western regions; Hypothesis 2: If my country's currency supply is guaranteed, the People's Bank of China prints 600 billion yuan in currency, which will lead to The increase in inflation rate. On the surface, the money supply remains unchanged, but in fact, more money is issued to trigger inflation, which will further reduce the purchasing power of money. The subsequent linkage effect caused a reduction in domestic resource utilization and a flow of domestic resources to the eastern region, which in turn led to a shrinking domestic demand in the central and western regions except the eastern region.

The huge dollar reserves accumulated by foreign exchange earning from exports and foreign direct investment for export purposes have not only been siphoning domestic

The funds and resources needed for development have led to a serious shortage of domestic demand development, and the inland or domestic demand industries have been subsidizing the export-oriented sectors in coastal areas, which has triggered the prosperity of export-oriented sectors and the shrinkage of the domestic demand market since 2008, and intensified them. The imbalance in economic development between the eastern region and the central and eastern regions has prevented the rise of the central region and the development of the western region from being fully effective.

### **2.3 The self-exploitation of labor greatly limits the height of our domestic demand**

The self-exploitation of power is one of the important factors that my country has been unable to stimulate domestic demand for a long time. my country's "labor-intensive" and "export-oriented" are deeply controlled by the capital power behind multinational companies.

The competitive advantage of my country's export-oriented economy lies in its low labor cost, and competitive pressure will stimulate capitalists to use cheap labor. The intensive industry strategy has led to the self-reinforcement of this low-level specialization, and also led to the "competitive" economic behavior of China and all developing countries under the economic globalization system dominated by developed countries. Taking intensive industries and human resource advantages as competitive conditions is also a continuous squeeze on the wage level of employees, which indirectly promotes more labor and less expenditure, which has become a new type of self-exploitation. The fundamental reason for low consumption is low income and low purchasing power. This also further uses the "sweatshop system" as an entry point to demonstrate the impact of residents' disposable income on domestic demand, and the impact of labor-intensive and export-oriented economic development on the current Chinese economy. The status quo is no longer suitable. [4]

## **3. The domestic big cycle strategy is a comprehensive consideration of internal and external situations**

In recent years, geopolitical risks have continued to rise, and anti-globalization forces such as trade protectionism and unilateralism have continued to rise, making the global economic situation more complex and changeable. China's economic development cannot be separated from the world economy, but it cannot be completely dependent on the world economy either. How to seek further

development amidst various uncertain factors is a major task of the "14th Five-Year Plan" and even 2035 that must be scientific and prudential.

### **3.1 The "reverse pressure" of the international environment forces my country's economic strategy to change**

In the face of the sudden new crown pneumonia, the global spread of the epidemic has caused the world economy to enter a further recession, the total amount of international trade and investment has been drastically reduced, the international financial market is turbulent, and normal exchanges between countries have been severely hindered and restricted. The only way to break international shackles is to find new impetus for China's economic development. The pressure brought about by changes in the external environment makes China's economic development face new challenges, but my country's domestic economic situation is basically positive and the overall stable economic characteristics have not changed. my country's economic development has huge potential, sufficient economic resilience, wide room for maneuver, and the policy environment created by leadership and institutional advantages, which provide a good ecological guarantee for my country's economic stability and progress.

### **3.2 The recession of the international demand side makes my country's economy seek "opportunities" in "crisis"**

Before 2020, the main challenges facing my country's economic development stem from issues such as institutional obstacles, structural constraints, and periodic reversals. Since 2020, the proportion of challenges posed by external environmental factors has increased. Anti-globalization forces and the spread of the epidemic have led to extremely unstable international demand. The global industrial chain and supply chain have been loosened, and there may even be a certain degree of tearing and decoupling. On the demand side, international demand has dropped significantly. As the world's largest exporter, China will inevitably lead to a significant decline in my country's exports on the international supply side under this external environment. The international supply chain presents the main characteristics of poor stability, and the enthusiasm for international supply has also suffered a major blow. Therefore, the international circular strategy of "both ends outside, big in and big out" has come to an end. In addition, the apparent recession of the global economy has caused my country's economy to fall into a passive situation in the process of "opening up".

### **3.3 Based on the objective reality of my country's economy, "do your own thing well"**

In the face of the ever-increasing pressure in the external environment and the end of the international cycle strategy of "two ends, big in and big out", China's economic development is not accompanied by the international economic recession. The essence of ensuring stability and growth is to ensure demand. my country has an ultra-large-scale market in China, with more than 400 million middle-income groups and 900 million low- and middle-income groups forming a continuous driving force for the ultra-large-scale market. Secondly, our country has a large-scale domestic market, as well as the largest and most complete industrial system in the world today. This unique industrial system advantage provides a basic system construction guarantee for my country's domestic circulation. In addition, China's institutional advantages have emerged, providing an incomparable economic development foundation for other countries to integrate multiple institutional tools, quickly promote institutional innovation, and adapt to the new environment and technological system advantages in a short time. Therefore, there is still much to be done to focus on domestic economic development and the way out.

My country must establish a complete domestic supply system to meet the needs of the domestic market. Especially in the current complex international situation, it should not be over-reliant on foreign supply on the supply side. It should continue to meet domestic demand by improving domestic supply capabilities. The construction of the domestic large-scale circulation system is a strategic judgment made by the current situation. The construction of the road requires determination and hard work. As a result, there are some key constraints in the process of construction.

#### **4. To build a complete domestic demand system to stimulate the potential of domestic demand and drive the domestic cycle**

Firmly implementing the strategy of expanding domestic demand and building a complete domestic demand system are related to the long-term development and long-term stability of our country. The implementation of the strategy of expanding domestic demand is the current need to deal with the impact of the epidemic, the need to solve the main contradictions of our society, the need for the "14th Five-Year Plan" period and even the realization of the long-term goal of 2035, and the maintenance of long-term sustainable and healthy economic development of our country. The need for socialist modernization is also the need to continue writing the "two miracles" and realizing the great rejuvenation of the Chinese nation.

From both domestic and international perspectives, it is concluded that the international cycle is no longer suitable for the needs of China's economic development today, and even left behind a number of "sequelae." In the next five to fifteen years, opening up the domestic market and stimulating domestic demand will be an important impetus for maintaining high quality and stability of our economy. How to solve the "sequelae" of the previous international cycle strategy, how to stimulate the potential of our domestic demand, and expand domestic demand are the test papers of the times brought about by the economic development we will face. The primary task of expanding domestic demand is to build a complete domestic demand system to stimulate the potential of domestic demand. Only by building a system channel can the strategic advantages of the domestic large-cycle strategy be released.

##### **4.1 Improve the market mechanism and create a good domestic market environment**

Judging from historical experience, as an economic development strategy, an export-oriented economy is no longer in line with a large economy with a vast domestic market. With the continuous appreciation of the renminbi exchange rate and the export decline of one of the "troikas", my country's economy is bound to shift its vision from outside to inside, and with profound structural changes to ensure the long-term stability of my country's economic field in the future. The strategic task of expanding the domestic market and demand forces us to further adhere to the comprehensive and deepening reforms, further improve the market mechanism and mechanism, and break the constraints of the system on the expansion of the domestic demand market. In addition, it stimulates the metabolism of enterprises in the domestic market, and continuously unblocks the blood circulation of my country's domestic domestic demand system. Both sides work together to provide strong support for creating a good domestic market environment.

First, persist in comprehensively deepening reforms and build a high-level socialist market economy system. Adhere to and improve the basic socialist economic system, give full play to the decisive role of the market in the allocation of resources, and further promote the good combination of an effective market and a promising government. By improving macroeconomic governance, establishing a modern fiscal, taxation and financial system, building a high-standard market system, and accelerating the transformation of government functions; second, we must deepen the reform of "delegation, management, and service". In the post-epidemic era, under normalized epidemic prevention and control, we must first adjust measures and simplify procedures to promote the full resumption of work and production and the resumption of business. Second, relax the restrictions on the registration of small and micro enterprises and individual industrial and commercial households, encourage entrepreneurship and facilitate entrepreneurship. Furthermore, we will maintain fair competition with fair supervision and continue to create a market-oriented, legalized, and international business environment; third, we must promote the market-oriented reform of factors, adhere to the general tone of the work of seeking progress while maintaining stability, and insist on supply-side structural reforms Focus on the main line, adhere to the new development concept, and adhere to high-level openness. It is necessary to break through the system and mechanism barriers that hinder the free circulation of factors, expand the scope of factor market allocation, improve the factor market system, promote the construction of factor market systems, realize factor price market decisions, flow autonomously and orderly, and allocate universities fairly. This is the fundamental



way for my country to resolve economic structural contradictions and promote high-quality development. It is also an important guarantee for the vitality of the elements. Fourth, promote the optimization and structural adjustment of the state-owned economy, promote the reform of the mixed ownership of state-owned enterprises, and optimize the development environment of the private economy. It will also play a positive role in further stimulating domestic demand.

#### **4.2 Further optimize the industrial chain and supply chain**

The industrial chain and supply chain cannot be dropped at all times. This is an important feature that a major country's economy must have. "Danger" and "opportunity" coexist in the sudden new crown epidemic. The economic situation in 2020 has made us more clearly aware of the shortcomings of my country's industrial chain and supply chain. First, the backup capacity of my country's industrial chain needs to be improved. The supply channels for individual products are single, and the eggs are always in one frame, which are greatly affected by the external economic environment and have poor ability to resist risks. Second, the supply chain is in the factor market and product market. In the service market, there are irrational flow of resource elements, high product logistics costs, and the "last mile" in some areas has not been opened; third, the supply of the service industry still needs to be diversified, and the supply of education, medical care, and elderly care needs to be improved, The domestic demand for the service industry exceeds the supply.

The expansion of domestic demand in my country is inseparable from the integrity and stability of the industrial chain and supply chain. In order to achieve the country's medium and long-term stable economic and social development, we must devote ourselves to creating an independently available, safe and reliable industrial chain and supply chain, and strive for important products and supplies. All channels have at least one alternative source to form the necessary industry backup system. First, we must further deepen the reform of factor market resource allocation, build and improve the socialist market economy system; second, increase the construction of new infrastructure, realize the smooth flow of digital economic development, and drive the further development of the tertiary industry; third, expand The source of supply, to achieve healthy competition on the supply side of the industrial chain, to stimulate supply vitality and quality; fourth, to further give play to the pillar role of state-owned enterprises in the process of national economic development, so that the reform of state-owned enterprises and the improvement of the socialist market economic system can be more effectively connected And more flexible system matching.

#### **4.3 Adhere to the core position of technological innovation in my country's modernization process.**

In today's world, the development of science and technology determines the rise and fall of a nation. The "14th Five-Year Plan", as the first march of the new journey of socialist modernization, is bound to work hard and make a fuss about improving the level of science and technology. The expansion of domestic demand is inseparable from high-quality supply, and high-quality supply requires high-quality and diversified products to meet the material needs of the people. In addition, stimulating the potential of domestic demand is also inseparable from the international monopoly of specific commodities and technologies. Adhering to the core position of scientific and technological innovation in my country's modernization process is not only a key weapon to break the prison that restricts my country's domestic demand, but also a key to maintaining a good economic situation in the next few years or even decades. [5]

First, comprehensively enhance the country's scientific and technological strength and innovation capabilities. As the world's largest industrial country, my country still has core technologies stuck in many fields and cutting-edge technologies are unbreakable. Faced with the outstanding problems in this situation, firstly, strive to seize the opportunity of the fourth industrial revolution to enable my country to provide a deep foundation for the modernization journey in the post-industrialization period; secondly, promote technological innovation, especially in the field of artificial intelligence, 5G, quantum The development of key areas of the era such as the communications field has continuously improved my country's overall technological competitiveness, thereby further breaking the technological gaps in my country's cutting-edge and core areas; furthermore, actively

coordinating and promoting the depth of technology and economy, national defense, people's livelihood, ecology, etc. Integrated development will enable scientific and technological achievements to be implemented as soon as possible in many areas of my country's modernization process.

Second, strengthen basic research and applied basic research. In the field of science and technology in our country, there are still many breakthrough fields "from 0 to 1". To achieve the transition from "0" to "1", it is necessary to ensure large-scale "open source" exploration in the field of science and technology. First of all, in the field of basic research, we must not avoid the pressure of large up-front investment and long return periods, broaden the channels of R&D investment in basic fields, prevent "overflow irrigation", expand the scale of "drip irrigation", and increase investment in basic research; Establish and improve the basic research and development system and mechanism, improve the scientific and technological innovation governance system, and provide institutional guarantees for the basic scientific and technological research and development; furthermore, cultivate a team of high-level scientific research personnel to ensure longevity in the scientific research field.

Third, my country should deeply promote the deep integration of technological innovation and economic society, transform technological innovation into economic growth, use economic growth to counteract technological innovation, and further promote technological innovation momentum and the domestic environment. First, it is necessary to transform science and technology into productivity, and scientific and technological achievements take root in enterprise production; secondly, it is necessary to increase the connection between scientific research and economic fields, and establish a sound mechanism for science and technology enterprises; second, establish a sound incentive mechanism to encourage scientific and technological personnel to develop research and development and promote social advocacy Science and technology, respect the value atmosphere of scientific research personnel and the guidance of public opinion, guarantee the protection of scientific and technological property rights and patents, and mobilize the enthusiasm of scientific research personnel for innovation; finally, promote scientific and technological innovation to improve people's livelihood, increase the civilian and social penetration rate of scientific and technological innovation, and release China's demographic dividend The economic potential of technological innovation.

#### **4.4 Domestic demand potential further released through new urbanization**

At present, my country's urbanization process is still in the mid-term and still has a broad space for development. Cultivating new urban growth poles in the process of new urbanization is another source of deepening domestic demand and expanding the consumer market. In 2019, the urbanization rate of the registered population in my country was 43.38%, and the population separated from households was approximately 280 million. The household registration reform and full coverage of public services need to be further promoted. The new type of urbanization will bring huge objective support to the domestic big cycle strategy in the future. According to budget estimates, China's urbanization rate will reach 71% in 2030, 80% of the newly added urban population of about 200 million will be concentrated in 19 urban agglomerations, and 60% will be in seven scales including the Yangtze River Delta, Guangdong-Hong Kong-Macao, and Beijing-Tianjin-Hebei. Larger urban agglomerations will face severe shortages of infrastructure such as rail transit, intercity railways, education, medical care, and 5G. Shortage means demand, and demand means market. Promote the coordinated development of regions with new development concepts, combine regional development with new urbanization, and further protect my country's domestic demand potential in the next 5-10 years.

First, promote the high-quality development of the regional economy and promote the obvious complementary advantages of the main functions. Regional industrial transfer is one of the magic weapons to realize the strategy of expanding domestic demand. Through the transfer of some intensive industries from the eastern region to the central and western regions, the optimization of the industrial chain in the eastern region and the development of the central and western regions will be supported by new driving forces, which will further promote the coordinated development of my

country's regional economy; second, promote the integrated development system of urban agglomerations and metropolitan areas Mechanism innovation. Coordinate and coordinate new-born cities (mostly concentrated in the Yangtze River Delta, Guangdong-Hong Kong-Macao, Beijing-Tianjin-Hebei regions, etc.) and shrinking city relations, and carefully adjust resource-exhausted types (Daqing, Huaibei, Tengzhou, etc.), passive siphon types (Yuxi, Ruian, Dujiangyan, etc.) Etc.), regional remote (Jiayuguan, Altay) and industrial change cities (Jilin, Luoyang, Fushun, etc.) type urban development methods to promote urban development capacity adjustment and kinetic energy transformation; third, to empower internal circulation with new infrastructure. Affected by the acceleration of my country's urbanization, the new infrastructure is connected to huge investment demand at one end and the escalating consumer market at the other end, which is an important support for effectively expanding domestic demand, coping with downward pressure on the economy, and accelerating economic development; fourth, guarantee Employment of urban population to expand residents' income to drive the development of domestic demand. Employment is the first livelihood of the people, and it is related to whether the domestic demand market can grow. We must attach great importance to and scientifically understand the employment of an urban population of 200 million in the next ten years is an important factor that cannot be ignored in expanding consumption and demand. [6]

#### 4.5 Stimulate corporate vitality and enrich the role of hematopoietic cells in the market

Business activities such as expanding production scale and strengthening research and innovation are inseparable from a good business environment. In the face of the global economic recession and the global impact brought by the new crown pneumonia, many small and medium-sized enterprises in my country have suffered heavy losses. Unstable enterprises make supply difficult. How to make private capital tide over the difficulties is not only related to the stability of the domestic supply side, but also plays an irreplaceable role in people's livelihood, taxation, and the overall stable growth of my country's economy.

First, effectively reduce the burden of corporate taxes and fees, and reduce the cost of corporate output; second, actively adopt financial measures to effectively solve the financing problems of private enterprises, increase the strength of loans to private enterprises, and reduce the interest on private enterprises' loans, so that private enterprises will get out of the epidemic due to the break of the capital chain, The impact of jams and other issues; third, promote the joint construction of state-owned and private enterprises. Create a level playing field and actively guide private enterprises to participate in the reform of state-owned enterprises; fourth, actively build a new type of political-business relationship, break bad habits and vicious competition, and actively promote the "entrepreneurship"; fifth, improve policy implementation methods to improve The business policy is implemented in the enterprise.

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