

THE ROLE OF GUANGDONG PROVINCE IN DUAL CIRCULATION ECONOMY

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SUMMARY

This paper touches on the important issue of navigating the dual circulation economy in China throughout the provincial channel in Guangdong province. By defining the concept of dual circulation vs. decoupling, the authors demonstrate the complexity of Beijing's based government project for a high-tech economy. In this context, the Guangdong government positions itself as the vanguard of the new era in China's economic development. This position is seen as the historical continuation of Qing's dynasty Canton system in the 1760s, forced to open city ports during the Opium Wars and ultimately the window for China's development under Deng Xiaoping. Finally, the critical understanding is given to the fact that the central government needs to limit the horizontal competition and create the effective division of labor within China, otherwise the long-term plan of high-tech independency might be undermined.

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KEY FINDINGS

1. Dual circulation strategy is a diversification response to recent uncertainty and volatility of the world's markets where Chinese companies face the limitation in acquiring financial and technological resources and leads to the partial decoupling
2. The effective partial decoupling faces three level competition: first Chinese companies in the international markets, second domestic competition between local champions mainly located in Shanghai and the other, and third intraprovincial competition between cities and local governments inside Guangdong
3. The Chinese Central Government will take a leading role in managing horizontal competition in the semiconductor industry, however, as in previous instances, it might struggle effectively managing intra-China cooperation and competition
4. Guangdong is a crucial part of the dual circulation strategy as it is not only a gateway to the world but a powerhouse of the new technological independence era of China
5. The current government's decision reminded of the Qing government's decision in the 1760s when Guangdong was the only place for foreign trade and due this decision Beijing postponed the Opium Wars for more than 80 years

INTRODUCTION

As the central leadership in China introduced the dual circulation economy concept, the provincial level governments declared their readiness to take part in centrally led policies. Apart from its economic power (the 12th largest economy in the world equaling South Korea), Guangdong has the cultural peculiarities of the Lingnan culture, a different type of Chinese dialect (Cantonese). The province also has close relations with the Cantonese origin diasporas, which are spread all over the world. These factors have helped Guangdong to be a unique province of dominant position inside China. Moreover, in the 1760s, the Qing government decided to close all ports, and Guangdong was the only place in China allowed to trade with foreign countries. This model was replicated under Deng Xiaoping's opening up and reform period. This Guangdong exceptionalism led the provincial government to secure its position as a gateway to China but still needed to be carefully managed by Beijing's central government, limiting its independence tendencies.

The persistent lobbying of local policymakers in Beijing for enlarging Guangdong's provincial power by interacting with the outside world has remained largely unchanged. Now, even with the dual circulation pattern, Guangdong or Canton keep on being a place of opportunities. In this context, the critical question is how does the local government in Guangdong position itself within the dual circulation policy, and what is really needed for the effective partial decoupling?

THE DUAL CIRCULATIONS VS. DECOUPLING

At the beginning of 2020, Chairman Xi Jinping introduced a new development pattern, promoting and centering the domestic cycle (*nei xunhuan* 内循环) and combining it with the international cycle (*wai xunhuan* 外循环). This idea was developed in the fifth plenary session of the 19th Central Committee of the Communist Party of China (CPC) held in Beijing from October 26 to 29 and featured as the "dual circulation" strategy (*guonei guowai shuang xunhuan* 国内国外双循环). According to Chairman Xi, this is not a strategy to close the domestic cycle, but instead, raise the domestic cycle and balance it with the international cycle.

Contrary to the above presented understanding the decoupling is a process defined by the disconnection of a country's economy with its underlying "coupled" foreign economy.

Nowadays, the world's economies (except in some exceptional cases) are interrelated or coupled. An example of this interrelation was the 2008 financial crisis, which revealed the interdependence between countries. However, this interdependence also demonstrates the vulnerabilities in the system. Since the crisis, many countries have opted for protectionism measures and sometimes regionalizing their markets to prevent and protect their economies from another widespread contagion.

Similarly, in recent years China has faced different economic threats, particularly the “trade war” with the United States. These threats have significantly affected the Chinese manufacturing sector, export capacity, and technological development. The Chinese companies have been affected by threats like the listing of Huawei, and other Chinese owned hardware companies in the U.S. Entity List (a trade blacklist), U.S. tariffs on more than USD 360bn goods, the ban of TikTok and WeChat, just to name a few. Therefore, the Chinese leaders have had to look for options to protect its domestic interests and, in some sense, decouple its economy from these threats. As a result, China has unveiled the dual circulation strategy that expects to take advantage of China's domestic market's rapid growth and potential and diversify its production market.

To elaborate further, it is essential to note that the dual circulation strategy is not a strategy to decouple from the global economy completely. Since the reform and opening up, China has adopted an export-oriented strategy by using its relatively cheap labor and developing its economy. This strategy has helped China to grow at an unprecedented pace. However, the early competitive advantages are diminishing. Therefore, China has established programs like Made in China 2025 and the Belt and Road Initiative to keep these advantages and create new ones on the international market. Hence, the Chinese economy has long-term commitments and ambitions to be a relevant world player and shift its manufacturing focus into higher-end products. Thus, the recent dual circulation strategy is not decoupling as China is not looking for a full split from the world's market but a long-term strategy for development pushed by recent trends.

During the Political Bureau of the CCP Central Committee meeting in July 2020, the central government identified the medium and long-term challenges for China's future economic status and as stated by the rulers "We must recognize them from the perspective of



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protracted war (*chi jiu zhan*持久战) and accelerate the formation of a new development pattern with the domestic big cycle as the main body and the domestic and international dual circulation promoting each other." By referring to the Mao Zedong's concept of the protracted war (1938), the central government signalled the potential usage of small forces likewise during the anti-Japanese war when Mao Zedong calls for small assaults on Japanese supply lines instead of large confrontations on the battlefield. Taken this Maoist strategy the central government adopts the

anti-trust steps and by demonopolisation promises to combat the crisis and stimulate economic growth in the country; nevertheless, the important role is given to the provincial level.

DUAL CIRCULATION AND GUANGDONG

As said above, the provinces might play a pivotal role in the implementation of the dual circulation strategy. In this context, Guangdong is recognized as one of the most important player. Guangdong's province officials have designated the province as a "big economic province" with "huge human resources" and "big market." Thus, Guangdong stands ready to play its key role as the pawn in the central government. The readiness of Guangdong was confirmed by Ma Xingrui, the governor: "We (the local government) are confident that both Guangdong and the three special economic zones can play an important role in promoting and participating in the dual circulation strategy." Guangdong's new "dual circulation" policy arrangement will focus on three aspects: first, ensuring the security of the industrial supply chain to boost industrial development; second, advancing the logistics infrastructure to improve market development; third, developing clusters of cities to continue enhancing its socio-economic development.

One of the possible solutions is to bring more integration into the fragmented domestic market. From the perspective of Guangdong, the critical voice is given to the construction of Guangdong, Hong Kong and Macao Great Bay Area (GBA). This integration is further supported by the platforms for international innovation in the Hong Kong-Shenzhen Innovation and Technology Park, the Sino-Singapore Guangzhou Knowledge City, the innovation and technology base in Qingsheng of Nansha, the Traditional Chinese Medicine Science and Technology Industrial Park of Cooperation between Guangdong and Macao in Hengqin.

By only creating more coordinated and integrated development in the first stage at a local Cantonese level, China is able to better handle severe external challenges. Hu Gang believes that regional development, fundamental infrastructure, and transportation are the foundation for opening up the circulation flow between regions and balanced growth. The option here is to open the high-speed railway

between Guangzhou and Zhenjiang – the city located across the Hainan island. A different view was presented by Wang Xianqing, President of the Institute of Business Circulation of the Guangdong University of Finance and Economics. He believes that Guangdong should promote its own leading enterprises like JD.com or Sunning and build a domestic effective distribution chain system inside China. In his eyes, the critical for future development is to balance the interests between different urban areas within Guangdong (between Guangzhou and Shenzhen in particular). In this context, the ambitious plans of Shenzhen should be given full play in the provincial economic development. Chen Rugui, mayor of Shenzhen, said the city is a hub of innovation, and one person in 10 is a founder of a startup. The city consolidates its market-oriented innovation system that centers on market entities and combines scientific research with industrial development.

However, such ambitious plans will only emerge on a city level by the effective division of labour between big cities in Guangdong the local government may create the space for innovative, coordinated, and integrated development but, it is far from reality. The



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second important part of the dual circulation economy is international cooperation. As said in the beginning, Guangdong sees itself as the pawn, the most important player in China's economic "go global" and "bringing in" policies. In order to compete with foreign companies, Cantonese businesspeople should be more focused on reducing production costs and institutional transaction costs of the industrial chain. Consequently, the process should help drive enterprises and clusters to comprehensively improve the global competitiveness of the industrial chain of the Greater Bay Area. This industrial potential should focus on the field of electronic information, especially integrated circuits, 5G, and high-end equipment.

THE GREATER BAY AREA: SEMICONDUCTORS' SELF-SUFFICIENT PLACE?



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Although China is the destination of USD 304 billion or more than 50% of the world's production, it has a self-sufficiency rate of less than 20%. The world's leading producers of semiconductors, especially microprocessors, are in Taiwan, the United States, and South Korea. In other words, China remains reliant on technology from foreign countries. For example, China's biggest phone producer, Huawei, used HiSilicon chips made in Taiwan by the Taiwan Semiconductor Manufacturing Company (the world's biggest producer). However, U.S. sanctions put an end to that cooperation, as Huawei and other producers have been restricted from the use of U.S. technology and finance. In this regard, Chinese companies need to compete with more developed foreign companies

with more developed machinery to produce semiconductors. In Ni Guangnan's view, China's current shortcomings are mainly in chips, operating systems production, industrial software, and large-scale basic software. The only possible solution for a further self-reliant approach is that the Chinese companies should integrate domestic resources, make good use of local talents and market advantages. As far as the biggest semiconductor producers in Mainland China, most of them are located in Shanghai (five of ten). This concentration might produce future horizontal competition which might undermined central government efforts. To elaborate further, in the words of Ni: "The development of the integrated circuit industry requires long-term mental preparation and investment. We cannot expect returns in just a few years. It may take another 10 to 20 years to develop the integrated circuit industry".

Apart from the above-mentioned issues, the critical for the future self-sufficiency high-tech industry will be a limitation of horizontal competition between local governments within the province of Guangdong. Shenzhen issued the "Action Plan for Further Promoting the Development of the Integrated Circuit Industry (2019-2023)" in May 2019. The plan states that by 2023, Shenzhen will fill the gap in chip manufacturing and take the lead in the integrated circuit industrial cluster. Shenzhen's government hopes to promote three major semiconductor design companies HiSilicon, Sanechips Technology Co., Ltd., and Goodix (see chart no 1).

The province of Guangdong is the biggest IC market in Mainland China. Therefore, Guangzhou, Guangdong's capital city, aims to develop itself into the IC industry's national innovation hub. In 2017, the local government-sponsored the CanSemi project. The Canmi project is the only 12-inch chip production line and production platform in the GBA. This project has the objective to become a centre of R&D for the production of IC semiconductors in Mainland China. So far, it has attracted 64 companies such as Anyka, On-Bright, and GOWIN Semiconductor. However, the progress of this project is not easy. Dr. Li Haimian, vice president of Canmin, admits that "Compared with



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foreign leading enterprises, such as Intel and Samsung, we have more than two-three generations of differences." Nonetheless, this project has seen continuous growth despite the pandemic as chip market demand in the GBA increases.

Chart no 1. Shenzhen's high-tech companies overview

HiSilicon: HiSilicon Technologies Co Ltd (formerly Huawei Integrated Circuit Design Centre) was founded in 2004 and is the world's leader in fabless manufacturing of semiconductors and device designs. The company is most famous for its HiSilicon chips, smart homes, smart cities, and smart travel, and other pan-smart terminal chip solutions for a number of industries.

Sanechips: Sanechips Technology Co., Ltd is a company founded in 2003 (formerly Shenzhen ZTE Microelectronics Technology Co., Ltd.) and specializes in developing communication chips for communication networks, smart homes, and industrial applications. It serves more than 160 countries and is one of the top ten Chinese designers of Integrated Circuits (IC).

Goodix: Shenzhen Goodix Technology Co., Ltd. is a publicly listed company on the Shanghai Stock Exchange that produces semiconductor components. The company is a famous developer, supplier, and distributor of most of the most prominent phone producers' fingerprint identification chips.

Source: information retrieved from <https://www.hisilicon.com/cn/about-us/company>, <https://www.bloomberg.com/profile/company/0174314D:CH> <https://www.bloomberg.com/profile/company/603160:CH> (accessed 12th January, 2021).

CONCLUSIONS

In conclusion, the new dual circulation concept is a reaction to China's exposure to the world's recent volatility and its attempt to protect and separate itself from it. However, it should be understood as the partial decoupling from the world and a diversification of China's production chains. In order to be more self-reliant, as said in Beijing, the coordinated development might be a possible solution. In this regard, Guangdong was chosen as the vanguard or pawn for the next economic reforms in China. Since the Canton system was introduced in the 1760s, the province has always been a gateway to China's external trade. This historical continuation allows the local government to fulfil the obligations imposed by the political centre. On the other hand, this means that the central government offers this position as the incentive to stimulate the provincial government in Guangdong to deliver a more coherent, effective and self-reliant high-tech

industry. This solution, however, faces three level competition: first Chinese companies in the international markets, second domestic competition between local champions mainly located in Shanghai and the other, and third intraprovincial competition between cities and local governments inside Guangdong. The horizontal competition, as in the past, like during the Great Leap Forward, might undermine the country's self-reliant status.



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