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Theory and Practice of the New Pattern of Development*

Abstract The new dual circulation development pattern is not only a far-sighted strategy based on current economic development, but is also grounded in economic theories (such as theory of economic development of large countries, economic growth theory, international trade theory, new economic geography theory, and Marxist political economics theory). Among them, Marxist political economy is the keystone theory as the domestic circulation reflects Marx's theories of capital turnover and social reproduction, the international circulation involves the theories of spatial production and world market put forward in the book *Capital*, and the “dual circulation” theory, which combines both, shows Marx's theory of the organic composition of capital. The proposal of “dual circulation” mechanism is an innovative proposition in the theoretical study of socialist political economy with Chinese characteristics. The important practical innovation of building the new pattern of development will open a new chapter of socialist development with Chinese characteristics in the new era, the reasons for which are as follows: Scientific understanding of the historical orientation of the new development stage is the foundation for building a new pattern of development, with the domestic circulation leading the international one, and realizing the combination and coordination of efficient market and effective government as the policy base for its smooth implementation. The main means to build the new pattern of development is to deepen reform and expand opening-up.

Keywords dual circulation, Marxist political economy, socialism with Chinese characteristics, infinite-symbol model

On May 14, 2020, the Standing Committee of the Political Bureau of the Communist Party of China (CPC) Central Committee held a meeting and proposed to deepen structural reform on the supply side to give full play to the advantages of China's mega

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market and the potential of domestic demand, and build a new pattern of development with domestic and international circulations reinforcing each other (People's Daily, 2020). In October 2020, the *Proposals for Formulating the 14th Five-Year Plan (2021–2025) for National Economic and Social Development and the Long-Range Objectives through the Year 2035* were adopted at the Fifth Plenary Session of the 19th CPC Central Committee. The proposals mentioned that “A new ‘dual circulation’ development pattern will assign a central role to the domestic market, with domestic and international markets complementing each other” (An & Chen, 2020). This is a major adjustment to the 14th Five-Year Plan and the longer-range strategies and paths of China's economic development, and a major strategic deployment for China's long-term development and security. It will have a far-reaching impact on China's effort to achieve the development featuring higher quality and efficiency as well as greater equity, sustainability, and safety which can further boost the world economy (Liu, 2020).

This new pattern of development is proposed under the context of the changes unseen in a century when China entered its new centennial development stage. The new pattern of development not only sets the tone for China's future focus on economic development: lowering reliance on other countries and turning to the domestic market with an orientation toward external markets, but also is significant to the innovative development of political economy theory of socialism, constituting the latest chapter in the history of economic thoughts of the CPC in the past century. On the basis of outlining the economic theories of the new pattern of development with domestic and international circulations reinforcing each other (simplified as the new pattern of development), this paper emphasizes Marxist political economy theory and what kind of innovation modern China has done in the new pattern of development.

1 Synopsis of Economic Theory of the New Pattern of Development

“Dual circulation” refers to a combination of domestic and international circulations. This concept can be divided into two layers. First, domestic and international circulations are combined with each other, with the domestic one as the mainstay. Second, domestic and international circulations are effectively aligned, with domestic factors and products as the main body, and the imports and exports of factors, products and demand as a means to regulate domestic economic production and development. Therefore, the domestic and international dual circulation is the combination and upgrading of a single domestic or international cycle. In the dual circulation, the domestic cycle and the international cycle might have different weights, but they are by no means exclusive to each other. Instead, they are mutually compatible and

intermingled, constituting a complete whole.

The new pattern of development is not only a far-sighted strategy based on the current state of development at home and abroad, but is also grounded in economic theories, with Marxist political economy as its keystone theory. Among the economic theories of the past and present, five theories can provide the theoretical basis for the study of the new pattern of development.

1.1 Theory of Economic Development of Large Countries

1.1.1 The Effect of Large Markets and Economies of Scale: Smith's and Marshall's Economic Paradigms

The theory of economic development of large countries is mainly based on Smith's and Marshall's economic paradigms (Ouyang, 2012). Smith explains the economic effect brought by the specialization of division of labor. Large economies have large markets, which can bring huge demand and enable specialization of division of labor to make full use of the resource endowments and comparative advantages of regions, thus bringing high efficiency. In *The Wealth of Nations*, Smith points out, "The greatest improvement in the productive powers of labor, and the greater part of the skill, dexterity, and judgement with which it is anywhere directed, or applied, seem to have been the effects of the division of labor. The extent of this division must always be limited by the extent of that power, or, in other words, by the extent of the market" (Smith, 1972, p. 5). Marshall emphasizes that economies of scale can enhance economic effectiveness and that such economies of scale not only exist in the economies of scale of production, but also in the size of markets and resources due to large populations in large countries. The market is the most scarce resource, and the industrial agglomeration and cost advantages brought by these economies of scale owned by large countries can be transformed into their competitive advantages in the international economy. Moreover, the diversification of demand brought about by the vast market in large countries can also facilitate product differentiation and technological innovation of enterprises, which can be transformed into their advantages in international competition. The research of these two paradigms shows that the economic development of large countries has a large scale and is characteristic of endogeneity and pluralism.

1.1.2 Modern Economic Theory

Modern economic theory argues that the economy of large countries differs from that of small countries. Because of its large-scale market and large-scale supply capacity of elements and products, a large country tends to have more or less influence on the international market, rather than become a price taker like small countries. Therefore, large countries tend to internalize externalities due to the advantages of their

economies of scale, so they have a stronger ability to handle risks and influence the international market.

1.1.3 New Economic Growth Theory

The new economic growth theory holds that returns to scale increase progressively. Especially in the era of the digital economy, due to network externalities, the general market is in favor of the promotion of digital technology which tends to form advantages in scale. Judging from the empirical evidence from horizontal comparison, domestic demand has become the primary force to drive the economic growth of large countries and consumption has become that of domestic economic circulation (Duan, 2021).

1.2 Economic Growth Theory

1.2.1 Keynes's Principle of Effective Demand

Keynes's effective demand theory proposes that the fundamental problem of social development is effective demand. Based on the national income accounting equation, effective demand can be divided into investment, net export, and consumption, of which net export is external demand and consumption is domestic demand, which can both boost the economic development of a country.

1.2.2 Rostow's Stages of Economic Growth

The theory suggests that when a country moves from mature advancement period to high consumption one, luxury consumption will climb up, and people will spend more on leisure, education, health care, national security, and social security programs. In other words, the domestic demand keeps expanding, while the dependence on other countries that facilitates economic development will gradually dwindle. The development model will focus more on domestic demand, with international demand as its complement, which is a more reasonable model of economic development that suits economic growth.

1.3 International Trade Theory

1.3.1 Comparative Advantage Theory and Factor Endowment Theory

From Adam Smith to David Ricardo, British classical economists had an important influence on the formation and development of world markets and free trade theory. According to David Ricardo's comparative advantage theory and Heckscher-Ohlin model featuring factor endowments, each country (region) has different factor endowments and relative differences in production technology and production costs. Therefore, each country should export products in which they have comparative

advantages and import products in which they have not, so as to maximize their benefits.

1.3.2 Technological Gap Theory, Product Life Cycle Theory and Theory of Factors of Research and Development (Ding & Zhang, 2013)

This group of theories holds that before new products enter foreign markets, they must first enter the domestic market. Because of the lag in demand, the production and demand of products are affected by the income and scientific and technological development of a region, and have a bearing on the development of this industry. New products first enter the market in the originating region, and then enter the international market as similar demands arise in other regions.

1.4 New Economic Geography Theory

According to Paul Krugman's new economic geography, the implementation of a large domestic economic circulation can trigger a "domestic market effect" (Liu & Guan, 2021). Countries with large domestic consumption markets can maintain economic stability and lower production and R&D costs at the same time by achieving economies of scale with the domestic circulation, thereby enabling enterprises to maintain price advantages and international competitiveness. In doing so, the international circulation is facilitated through domestic circulation, and mutual coordination and an effective connection between the two are formed.

1.5 Marxist Political Economics Theory

Marxist political economy points out that the socialist economy is essentially a virtuous circular economy, and the national economic cycle is manifested in the process of continuous social reproduction and the continuous realization of the total social product. As is shown by Marx's world market theory and the theory of space production with capital production and space as the axis in *Capital*, the domestic and international circulations are complementary to each other and indispensable.

At the macro level, Marx's theory of social reproduction believes that to keep the economic cycle unimpeded is to make the aggregate social product realized in social reproduction. Marx points out, "The space required is an element of all production and all human activity" (Marx & Engels, 1995). The essence of economic growth is the process of capital discovery, production, the occupation of new economic space, and the accordant capital accumulation. In this sense, it is natural for an economy to seek space in order to develop. In modern times, the continuously upgrading technological revolution, the ever-expanding world market, and the deepening globalization are all essentially opening up new space for economic development

(Hu & Zhu, 2020).

In “dual circulation,” the domestic circulation is the mainstay, and reinforced by the international circulation. For one thing, the economic theory of large countries has proved the feasibility of the domestic circulation as the mainstay. From an international perspective, the economic size, income, and service sector’s share are directly proportional to the GDP. As such indicators increase in China, the national economy will rely more on the domestic circulation in the future. This is a natural and gradual process of transformation, justifying the mainstay status of the domestic circulation. China’s large size determines that it needs to put priority on domestic needs and the domestic circulation. For another thing, Marxist political economy points out the necessity of the greater domestic circulation. The expansion of economic space is determined by the “law of surplus value.” Whether the economy is dually circulated, or whether the focus is at home or abroad depends on the maximization of the surplus value of the circulation. The fundamental reason for the internationalization of capital and the international division of labor are determined by the law of surplus value. Based on the “law of surplus production,” when there is a surplus of goods and thus a surplus of capital, capital starts to be exported abroad in order to obtain higher surplus value (profit). From the above theories, it is clear that the new pattern of development has abundant theoretical evidence.

2 An Analysis of Marxist Political Economy Theory behind the New Pattern of Development

Marxist political economy points out that the social economy is essentially a national economic circulation system. The system is the process of continuous social reproduction and continuous realization of the aggregate social product. Marx’s world market and spatial production with capital production and space at the center involved in *Capital* also indicate that the domestic and international circulations are complementary to each other and indispensable.

2.1 Domestic Circulation Mainly Manifests Marx’s Capital Turnover and Social Reproduction

When it comes to the circuit of capital and capital turnover, the national economic circulation can be examined from two aspects: the circuit of individual capital and the aggregate social circuit. For the circuit of individual capital, the theoretical analysis in the first and second chapters of Volume II of *Capital* shows that the movement of individual capital is manifested in two aspects including the circuit of capital and capital turnover, three stages including purchase, production and sale, and three functional forms of monetary capital, productive capital, and commodity capital,

respectively. The precondition for the circulation of industrial capital movement is that the three functional forms of capital can maintain continuity in time and coexistence in space. The faster the circulation, the higher the annual surplus value and surplus value rate. For the aggregate social circuit, Marx's social reproduction theory believes that to keep the economic circulation unimpeded is to enable the aggregate social products to be realized in social reproduction. *Capital* shows that the movement of aggregate social capital is not only restricted by the proportion between the value components of social products, but also by their value in use and their material form (Marx, 2004a). When it comes to the circulation process, Marx elaborates on production, distribution, exchange, and consumption in *A Contribution to the Critique of Political Economy*, "Production appears as the point of departure, consumption as the conclusion, distribution, and exchange as the middle (Marx & Engels, 2009c, p. 13)." As the national economy is an organic whole composed of many interdependent sectors that overlap each other, the virtuous circle of the national economy requires an orderly division of labor, mutual support, and coordinated development in proportion among all sectors, so that the national economic cycle can remain continuous and smooth. It can be seen that the four links of production, distribution, exchange, and consumption in a country and the relationship between them constitute the domestic circulation of the country (Fang, 2021). Therefore, compared with the contradiction between the private possession of the means of production and the anarchy of production, which are inherent in capitalism, the socialist system "adapts the way of production, possession, and exchange to the sociality of the means of production" (Marx & Engels, 2009d, p. 560), which is prerequisite for the sound circulation of the national economy.

Marx points out that "They are dislodged by new industries, whose introduction becomes a life and death question for all civilized nations" (Marx & Engels, 2014, p. 31) in modern society. So the economy of any country must be open. For this reason, after the introduction of reform and opening up, China has given full play to its advantages in low labor cost and other factors, seized the important opportunity of economic globalization, participated in the international division of labor and international circulation, formed a "two ends out" development model of markets and resources, and promoted rapid economic growth. However, the world is undergoing great changes not seen in a century, and China's development still faces strategic opportunities. And there comes the new pattern of development based on the new changes in both opportunities and challenges. First, it is the choice made to adapt to the changes in China's current stage of economic development, which include significant changes emerged in the demand mix and production function in the new stage of development, impeded internal circulation of the production system and supply-demand disconnection, prominent bottlenecks in development, and the increasing

complexity of structural transformation. Second, it is a strategic measure to deal with the complex changes in the international environment. The global industrial chain and supply chain are facing a major impact, which has affected national economic security. Third, it is an important guarantee for the long-term stable and healthy development of China's economy, giving play to the advantages of China's super-large economy (Liu, 2020).

2.2 International Circulation Contains Spatial Production Theory and World Market Theory Included in *Capital*

When talking about ground rent in *Capital*, Marx points out that the essence of economic growth is to discover, produce capital and occupy new economic space in an effort to facilitate capital accumulation (Li et al., 2021). Marx states that in the same way, the expansion of foreign trade, although the basis of the capitalist mode of production in its infancy, has become its own product, however, with the further progress of the capitalist mode of production, through the innate necessity of this mode of production, its need for an ever-expanding market (Marx, 2004). In *the Communist Manifesto*, Marx and Engels point out that "The need of a constantly expanding market for its products chases the bourgeoisie over the entire surface of the globe. It must nestle everywhere, settle everywhere, and establish connections everywhere. The bourgeoisie has, through its exploitation of the world market, given a cosmopolitan character to production and consumption in every country (Marx & Engels, 1848, p. 31)." The space production theory with capital production and space as the center shown in *Capital* indicates that economic development naturally requires space. The continuous technology revolution, the expanding world market, and the deepening globalization have made international division of labor more extensive and deeper and boosted the wide application and progress of science and technology. Countries' participation in the international circulation has also facilitated their domestic industries, with domestic and international circulations coordinating with and boosting each other. In essence, they are opening up new spaces for economic development. Marx's world market theory stresses that the establishment of the world market is the result of the continuous outward expansion of the capital-based mode of production, while the development of productive forces and the transformation of the mode of production provide the possibility of its realization.

2.3 Dual Circulation Theory Shows Marx's Organic Composition of Capital

The organic composition of capital in Volume III of *Capital* proposes that the productive capital of a country can be divided into constant capital and variable capital. The organic composition ratio of capital consists of the value of constant capital and variable capital ($c : v$), and this ratio will continue to evolve along with

social development. The organic composition of capital can reflect the changes in the composition of capital technology. From the age of the handicraft industry to the age of the large-scale machine industry, the age of information, and then to the age of artificial intelligence in the future, people need to effectively develop employment forms, increase the variable capital of labor, and vigorously develop new technologies to raise constant capital. In a capitalist society, the essence of capital accumulation is capitalist expanded reproduction, and the expanded capitalist reproduction process will transform the law of ownership of commodity production into the law of capitalist appropriation, leading to the separation of ownership and labor. “More capitalists or larger capitalists at this pole, more wage workers at that (Marx & Engels, 2009a, p. 708).” In particular, the progress of science and the improvement of social labor productivity will lead to an increase in the organic composition of capital and a relative decrease in variable capital in the process of capital accumulation, resulting in a relative surplus population, from which the law of capitalist accumulation can be concluded: “The greater the social wealth, the functioning capital, the extent and energy of its growth, and, therefore, also the absolute mass of the proletariat and the productiveness of its labor, the greater is the industrial reserve army” (Marx & Engels, 2009a, p. 742).

Through the principle of the organic composition of capital, products circulating in the world market are produced by laborers with different incomes determined by how advanced the human capital is in different countries. The complexity of the products (and their processing links), the value-added degree of the industrial chain, and the final sales price are connected with different incomes determined by the human capital endowment of the labor force in each country. If the specific resource endowment (especially the special human capital endowment and structure) and productivity of a country at a certain stage of development are ignored and the country is expected to produce everything it needs, the principles of specialization and economies of scale will be abandoned in terms of supply. This will lead to non-optimal use of resources and low economic efficiency. From an allocation point of view, there is a more serious problem that prevents looping processes. In other words, the internationalization of capital can boost productive forces and provide the basis for material conditions for the transition to socialism. At the same time, its side effects also exist: strengthened exploitation and control of developing countries by international monopoly capital. The development strategy of “dual circulation” in the new era needs to fully consider the organic composition of capital, and use the theory to guide the appropriate regulation of the new pattern of development in each economic cycle.

Judging from the main ideas of Marx’s political economics theory, to build a new pattern of development, it is imperative that China theoretically integrates capital turnover and social reproduction, spatial production, world market, and organic composition of capital in Marx’s theory. In practice, China needs to realize an organic

unity of reproduction of material goods, reproduction of labor force, and reproduction of production relations under the socialist market economy.

3 The Innovation of Socialist Political Economy with Chinese Characteristics from the Perspective of “Dual Circulation” Operation Mechanism

Marx's political economics theory believes that the key to realizing social circulation is that capital should complete not only the cycle of value, but also the cycle of material objects. If the process of value compensation and material compensation in the social cycle can be successfully completed, and the capital scale is expanded in cycles, both the aggregate social product and economic growth can be achieved. The smooth progress of the social circulation requires a balance between the value and the material objects, but in reality, the process is often blocked or interrupted. On the surface, it is market coordination that makes the value or material objects of an individual capital unable to be compensated in a certain cycle. But in essence, the stagnation or blockage of the social circulation stems from the profound conflicts of capital operation. Cross-border commodity flows and capital flows are also made up of exchanges. The difference is not only that these exchanges occur between different countries, but also that they are effective in achieving or promoting exchanges. However, as globalization encounters headwinds and challenges, and the pandemic unseen in a century blocks the space for normal economic activities, global uncertainties and risks increase. As Xi Jinping points out, “International economic connections and interactions meet the need for the world economic growth,” and “the new pattern of development is never a closed domestic circulation, but an open domestic and international dual circulation” (Xi, 2020, p. 2). This puts forward the proposition of the application and innovative research of the theory of socialist political economy with Chinese characteristics from the perspective of the “dual circulation” operation mechanism, which can be deepened from the following three aspects.

3.1 The Operation Mechanism of Domestic Circulation: Social Circulation Based on the Movement of Industrial Capital

The economy grows in circulation. Capital must be in a state of flow and circulate to appreciate. Starting from the monetary form G , industrial capital successively goes through three stages of purchase (purchase of labor and means of production), production, and sales, respectively taking three functional forms of monetary capital G , productive capital P , and commodity capital W , and finally realizes the movement process of value proliferation ($G' = G + g$), returning to the initial form. This is the circuit of capital in the basic form of “ $G-W... P-G'$.” The continuous real circulation

of industrial capital is the unification of the three circulation forms: monetary capital circulation ($G-W...P...W'-G'$), productive capital circulation ($P...W'-G'-W...P$), and commodity capital circulation ($W'-G'-W...P...W'$). In a constantly revolving circuit of capital, the reproduction of capital in each of its forms and at each of its stages is just as continuous as the metamorphosis of these forms and the successive passage through the three stages (Marx, 2004a). The process of industrial capital circulation requires that the three functional forms of industrial capital coexist in space. In addition to industrial capital, commercial capital and financial capital also have their own cycles. These capitals are intertwined in the process of circulation, forming an extremely complex economic system for social circulation. Motivated by profits, capital constantly pursues the accumulation of surplus value and the acceleration of the circuit of capital. This directly promotes technological progress and the deepening of division of labor, with the former further changing the degree and form of the latter. Division of labor is embodied in the production and circulation of capital. The former is shown as the vertical or horizontal integration between outsourcing and industrial capital of individual industrial capital in production, while the latter is shown as the independence of commercial capital and financial capital from industrial capital and their own development under the pressure of capital growth. Based on this, the cycle of the industrial circuit of capital as the basic form expands to include the cycle modes of industrial, commercial, financial, and other capitals. In essence, purchase, production, and sales are still the three basic links of the circuit of capital, but the chain density in the circuit of capital has been increased, and the capital functions in different links will also be undertaken by more market entities. The chain will also expand in width. After the deep integration of commercial and financial capital and industrial capital, capital will be invested in a complex cycle in different forms.

It can be seen that the industrial base is positively correlated with the cycle. The social cycle not only requires a good foundation for a single industry, but also requires a certain degree of similarity in the development of different industries. If there is a weakness in an industry in the economic system, it will not only affect the circuit of capital of the industry, but also the industrial capital cycle that forms social production with it. The institutional system aimed at promoting the circuit of capital is also the main reason for hindering the circuit of capital. This involves national economic regulation and macroeconomic policies.

3.2 The Operation Mechanism of International Circulation: External Circulation of Space Expansion

In the context of economic globalization, the circuit of capital is no longer confined to one country, but has extended to a global scale. For the cycle, the raw materials and labor purchased by industrial capital come from all over the world, and the goods

produced are likewise sold all over the world. The financing used to support industrial capital may come from financial institutions in other countries, and the products sold to other countries may be made with the help of transnational trading companies. In this way, both value and in-kind compensation of capital are made worldwide. The rapid development of communication and transportation technologies is constantly removing the spatial and geographical barriers to facilitate the movement of capital, and the degree of economic globalization is further increased, all of which are rooted in the exchange properties of commodities. When capital accumulation reaches its limit within a country, capital expands outward, allowing the economic cycle to cross national borders and unfold internationally. Cross-border commodity flows and capital flows are both exchanges in essence, except that these exchanges take place between countries. But the international circuit does not change the nature of capital. The international circuit of capital dominated by monopoly capital, which came forth in the late 19th and the early 20th centuries, brought changes to mankind by extending the contradictions of capitalism in one country to the world and by making the international circuit of capital dominate the conflicts of interests between countries, the extremes of which were often dissolved by wars.

The basic principle of the external circulation is that countries in the international market leverage their comparative advantages in international competition and cooperation, which leads to overall well-being enhancement. The international landscape before the introduction of reform and opening up determined that China's production, in terms of value in use, had been mainly targeted at meeting domestic demand. The major function of import and export was mainly to optimize the allocation of resources, adjust the structural differences between domestic production and domestic demand, and enhance social well-being. After the introduction of reform and opening up, China realized that the necessity to participate in the international circulation to achieve economic development and began to fully leverage its comparative advantages and participate in the global market division of the labor system, forming and promoting the great development of the international external circulation.

3.3 The Operation Mechanism of the Domestic and International Circulations: Mutual Promotion with Domestic Circulation as the Mainstay

Marx's study of the economic cycle of capitalism does not distinguish between domestic and international circulations. In general, he considers the circuit of capital within a country, and places great emphasis on analyzing the class differentiation and the conflict of interests between classes arising from the circuit of capital within the capitalist society. The theory of socialist political economy with Chinese characteristics needs to make key breakthroughs in the operation mechanism of the domestic and international circulations, that is, the mutual promotion mechanism

based on domestic circulation.

Today's China is a major country in any of the following terms: population, geography, or from the perspective of politics, economy and international influence. A minor country is different from a major one in that it has a small territory, a relatively single resource endowment, and limited number of products that can be produced. Therefore, specialized production and economies of scale determine that it is impossible for all of its products to be consumed within its domestic market. At the same time, for many needs, conditions are inadequate for quite a few products to be made and they must rely on imports. But major countries are different, with a vast territory, diverse resource endowments, and large populations. Therefore, they can produce a wide variety of products to meet many domestic needs. At the same time, due to the large population, the demand for some major products related to the national economy and people's livelihoods is quite large, and it is difficult to rely on the international market alone to meet the demand. It is more realistic to ensure their domestic supply. Therefore, in terms of the use of its domestic products, as a whole, it is essential to put domestic needs and domestic circulation as a priority.

The pursuit of excess profit (surplus value) by capital owners is the micro-motivation for the operation of the "dual circulation." Capital owners have a strong incentive to increase labor productivity in order to keep the individual value of the goods they produce below the social value. Once a capital owner has a higher level of technology than the social average, he or she will be able to make excessive profits and imitate and spread the technology, which will eventually lead to the technological progress of the whole society. In turn, technological progress itself will promote the circuit of capital. In recent years, the rapid development of information and logistics technologies has accelerated the circulation of capital, and promoted the integration of industrial, financial, and commercial capital, which has built many new and more efficient forms of social circulation. Thanks to advancements in technology, the process of international circulation has become smoother. With the development of digital technology, cross-border settlement can be achieved in just a few seconds.

Marx's theory of the circuit of social capital clearly shows that for an economic system to run smoothly, different sectors must work in concerted efforts. A socialist market economy should deal with the relationship between the government and the market, so that the market can play a decisive role in resource allocation and the government can play a better role. This has been well explained by the theory of socialism with Chinese characteristics in the new era. Domestic circulation refers to the economic circulation with all links of the industrial chain functioning inside the country, including production, distribution, circulation, consumption, and investment,

based on Marx's theory of the circuit of capital and capital turnover, socialized mass production and reproduction. The international circulation refers to the export-oriented economic development method featuring the import of raw materials and the export of products. This method enables enterprises to become a part of the international industrial chain, and is based on Marx's theory of the world market and the theory of spatial production with capital production and space at the center, as mentioned in *Capital*. In addition, the theory of globalization and the theory of scientific and technological development are also a critical component. The domestic circulation as the mainstay is in line with the policy of seeking progress in a stable manner and expanding domestic demand, and is a framework of understanding that relies more on the release of China's strong local market potential, reflecting the strategic thinking to better grasp the initiative of risk prevention, stable growth and the pursuit of upgrading development. Of course, the domestic circulation does not mean a return to a closed country, but the "mutual promotion" between domestic circulation and international circulation. To sum up, it can use an infinite symbol to show the basic circular route of the new pattern of development and the structural model of Marxist political economics theory (see Figure 1).

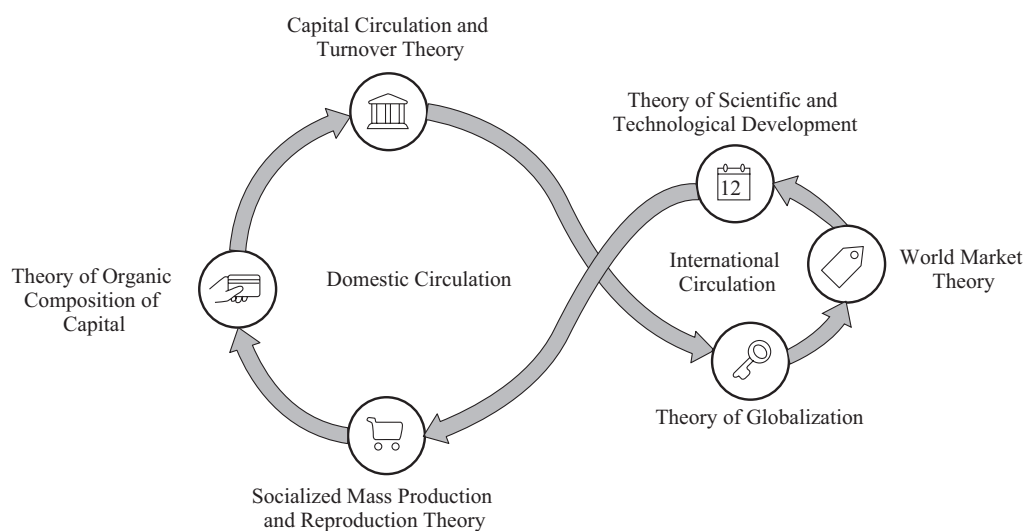


Figure 1 New Pattern of Development and Its Related Political Economy Theory

4 Practical Innovation in the New Pattern of Development: Opening a New Chapter of Socialism with Chinese Characteristics in the New Era

The practical innovation in the new pattern of development will open a new chapter of socialism with Chinese characteristics in the new era, which will be elaborated from the following four aspects.

4.1 A Scientific Understanding of the Background of the New Pattern of Development: The Historical Orientation at the New Development Stage

The new historical orientation of China's development is that it has entered a new stage. Building a new "dual circulation" development pattern is in line with China's national conditions and development stage, and can make China's economic development healthier in the new era. It is a scientific judgment and decision made from the overall perspective of the development of the CPC and the state, based on the historic achievements and historic changes made in the first centennial development, in the face of the world's unprecedented changes in the second century of orientation, and according to the characteristics of the new stage of development and the new development concept.

In the 40 years of reform and opening up, China's domestic and international circulations have continued to evolve, with the international circulation leading the domestic one in the early stage and the domestic circulation being the mainstay in the current stage. In the future, China's economy will enter a new development stage where domestic circulation is the mainstay, with domestic and international circulations reinforcing each other.

The external circulation happened after the introduction allowed China to achieve rapid economic development. In 1978, China's total import and export of goods accounted for 0.8% of the global share. In 2013, China surpassed the United States to be the world's largest trading country. In 2019, the total value of China's imports and exports registered 31.54 trillion yuan, hitting a record high. The foreign dependence on China's economy also soared at the same time, reaching 50% in 2012, while that of the United States, Japan, and India was 23%, 24%, and 30% respectively during the same period.

At the early stage of reform and opening up, the strategy of integrating into the international economic circulation, represented by the "three-plus-one" trading mix (custom manufacturing with materials, designs, or samples supplied and compensation trade), greatly unleashed China's productivity. But at the same time, it also confined China at the lower end of the international division of labor where it depended largely on the international market, and a large amount of capital, resources, and labor had been absorbed into the export-oriented sectors on the coast, leading to a deformed "dual economy," which divided outward and domestic demand, and it was unable to full play to the inherent potential demand. While becoming the second largest economy in the world, China's national economy has become more and more susceptible to changes in the world economic environment as it has become more integrated into the world's economic activities in recent years, which has elevated the instability and uncertainty in China's economic development. After a long period of development, China's economy is now able to base itself on the domestic market and expand the domestic demand. China's foreign trade dependence declined from 64.2% in 2006

to 31.8% in 2019, a remarkable change. In 2019, the contribution of consumption to economic growth reached 57.8%, becoming the first driving force of economic growth for six consecutive years. China's economy as a whole has shown a complementary and mutually reinforcing economic development that is able to make full use of both domestic and international markets and two resources, giving full play to its comparative advantages and the mechanism of economies of scale, while also being able to take advantage of the mega-market advantage and the potential of domestic demand. Therefore, under the historical orientation of the new development stage, the proposal to build a new pattern of development is the result of comprehensive analysis and scientific decision-making based on national and world conditions, history and reality, and short-term and long-term linkage.

4.2 Adapting to the Important Characteristics of the New Pattern of Development: International Circulation is Boosted with Domestic One As the Mainstay

In the future, China's production will still first satisfy domestic demand, or in another word, promote domestic circulation, which is a distinctive feature that distinguishes a large country's economy from a small one. To build the domestic and international circulations, a more specialized division of labor and a greater international circulation should be realized from the perspective of the product's value in use. From the perspective of the product's value in use, the domestic circulation should be the main focus and the basis of operation is the supply chain, the industrial chain as well as the value chain based on this. The former should participate in the international division of labor through the Belt and Road Initiative, promote the international circulation of product's value in use, improve the specialized division of labor of domestic factors and industries, boost the upgrading of domestic industries, and extend the industrial life cycle. The latter should enhance domestic market integration by narrowing the gap between domestic regions, leverage the market capacity of countries along the Belt and Road to expand the value chain of exports, and increase the disposable income of residents to spur consumption (Li & Wang, 2021). Since China is a large developing country, such a flow of products will certainly facilitate the high-quality development through the new pattern of development in which the domestic circulation is the mainstay and the domestic and international circulations reinforce each other.

At the same time, China should have a clear understanding and prevent going to extremes when making policies. It is not advisable to advocate domestic production for all domestic needs, 100% localization, partially enhancing the localization rate of all products or components, and striving to do everything without asking for help. It is also inappropriate to increase the proportion of domestic circulation as a policy goal. Instead, China should continue to advocate active participation in the

international division of labor. According to resource endowment and the potential advantages of productivity at a particular stage of economic development, China needs to do something more important by leaving the others undone. And China should continuously promote specialized division of labor in industries and actively participate in the international circulation. In participating in the international circulation, China needs to continuously improve its competitiveness. In doing so, the discourse power and control of domestic industries in the international circulation can be enhanced.

4.3 Laying a Solid Foundation for the Operation of Dual Circulation: The Unity and Coordination between the Efficient Market and the Effective Government

The new pattern of development helps to create and achieve value in the current situation, and sets a higher demand on the production and the production system itself. First, the domestic production system must be sound and independent. Since it is necessary to take the domestic circulation as the mainstay, the domestic production system should be considerably independent and not be subject to others. This includes two aspects. Firstly, China should give support to key areas and key enterprises, and put more effort into developing independent science and technology that contains its development. Secondly, China should continue to maintain a leading position in quantum communication and other high and new technologies that may fundamentally change the economic development model and paradigm, and strive to take the initiative in future competition. Second, a systemic, coordinated, and complementary nature of the domestic production system should be developed. In a capitalist society, there is a strong interactive relationship between the circuit of capital and institutional designs, and many institutional designs in the market system are derived from the need for the efficient circuit of capital. While the institutional system aims at improving the efficiency of the circuit of capital, an imbalance in development has emerged, which is most typically manifested by overproduction and economic crisis. From the perspective of the dual circulation, the crisis of overproduction will block all kinds of cycles: It will be manifested as the failure to survive in the “salto mortale (of the commodity)” (Marx & Engels, 1972) and the occurrence of economic crisis. Therefore, the realization of the new pattern of development cannot rely solely on the market mechanism, but also requires an “effective government” with considerable economic regulation capabilities. It is worth pointing out that the “effective government” does not negate the market mechanism. The underlying logic of the new pattern of development is still the logic of the market, and only the market mechanism can be effective in the allocation of resources in the economy. In the dual circulation, the government needs to make up for the shortcomings of the market mechanism, in order to break through the limitations of the spontaneous, natural cycle system. With the domestic circulation as the mainstay,

it is necessary to allow resources such as labor and production materials to be combined and matched more often in the country to build a more robust and smoother industrial circulation and regional economic circulation. The government should moderately intervene in the economic operation process, and ensure the realization of the new pattern of development through the organic combination of an efficient market and an effective government, the design of the labor-oriented institutional system, the formulation of transaction rules between heterogeneous economies, the cross-cycle macroeconomic regulation, and control, and the role of an effective government.

4.4 The Main Means of Promoting the Formation of a New Pattern of Development: Deepening Reform and Expanding Opening-Up

According to Marx's analysis of the dialectical relationship between production, distribution, exchange, and consumption, it can infer that: First, to build a new pattern of development, China should put quality and benefit as the priority. With the supply-side structural reform as the main line, great effort should be made to improve the quality of the production supply system, which to be specific is to improve the supply quality and the supply mix, thus creating new consumption and new markets. In terms of production, the government should give top priority to innovation regarding China's modernization drivers. Through the strategy of self-reliance and self-improvement in science and technology, China should work harder in scientific and technological innovation to address challenges in the production supply of dual circulation. China should improve the environment of scientific and technological innovation to stimulate innovation and creativity, and make up for the shortfall in the core technology of digital transformation of the traditional manufacturing industry and cultivation and development of advanced manufacturing industry, in the effort to boost industrial upgrading, and realize the transformation from "Made in China" to "Intelligent Manufacturing in China."

Second, China should optimize the distribution, especially the distribution of production factors, increase the proportion of labor remuneration in the initial distribution, and improve the mechanism in which labor, capital, land, knowledge, technology, management, data, and other production factors are evaluated by the market and the remuneration is determined according to their contributions. At the same time, China should improve the new social division of labor and labor exchange system in the context of the digital economy, make market exchange deeper, wider, and more diversified, build a multi-layer market system of factors and products, so as to accelerate the efficient flow of production factors and products, and build a smooth intermediary circulation for the effective connection of high-quality production supply and production consumption.

Third, China should establish the strategic goals of expanding domestic demand, and make meeting demand and improving people's livelihoods the goals of building a new pattern of development. In doing so, production, distribution, circulation, and consumption can flow smoothly and effectively align with each other, forming a higher level of dynamic balance in which demand drives supply and supply creates demand. To this end, it is necessary to raise the income of residents and unleash consumption potential through the reform of the wealth distribution system and the government's public livelihood service system in an inclusive and fair manner. And the relevant governments also need to make good use of the active fiscal policy, expand effective investment, and accelerate new infrastructure construction and the implementation of major national strategic projects. By promoting demand-side reforms, China can provide a strong foundation for consumption-driven economic growth and maintain an inclusive economy so as to push forward common prosperity.

Fourth, it should prevent risks and stick to the bottom line. The emergence of international circulation has greatly enhanced productivity, and the fundamental reason for which is the increase in efficiency due to the division of labor. However, the increase in productivity is accompanied by an increase in the risks of the economic system. This includes two aspects: Firstly, there is a risk that the meticulous collaboration among different capitals required by the division of labor may not be successfully achieved. In contrast to the situation when industrial capital independently assumed the functions of money and commodity capital, after the realization of the cycle, the organization of production by industrial capital needs to rely on third-party financial and commercial capital that is beyond its control or even awareness. Regardless of the problems in the purchase, production, and sale stages, each capital under the cycle will bear the losses and the whole cycle will even be unsustainable. Secondly, the expansion of the cycle will deepen the imbalance between value in use and exchange value, as evidenced by the decline of value creation capacity in society after the economy shifts from the real economy to the virtual economy in the process of the cycle, thus increasing the possibility of crisis. Therefore, when conducting foreign trade, China should always be alert and skillful in dealing with cross-border exploitation under the disguise of fair trade.

In short, China should continue to regard reform as a key move and stay brave and resolute to meet the challenges ahead. Centering around improving the socialist system with Chinese characteristics and modernizing the national governance system and governance capacity, China will make reforms deeper and achieve higher-standard opening-up, providing a strong impetus for building a new pattern of development.

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