

3. Only path to promoting the building of a community with a shared future for mankind

Human beings live in the same global village and are increasingly becoming an intimate community of a shared future where people engage in close interaction. The historical trend of economic globalization is irreversible. The world as a global village is highly interconnected, and the economies of all countries are deeply integrated and share a common future. It is impossible for any country to develop behind closed doors, which, from an objective perspective, requires the domestic and international dual cycles to reinforce each other. The international community has had significantly higher expectations towards China. China has a large economy and it is among the world's leaders in terms of major economic indicators. It is a major trading partner of more than 120 countries. The international demand for cooperation with China is even greater. China should take the opportunity to proactively push forward opening-up to promote a common future of the world, and expand the world's openness through China's own opening-up. As a single large market with a population of 1.4 billion, China should proactively expand opening-up and push forward free trade, which will help promote interaction between China and the rest of the world, so that close cooperation can lead to improving wellbeing of both China and other countries. China will accelerate the construction of a new development paradigm, promote win-win cooperation with the rest of the world, and demonstrate its responsibility instead of pursuing success without helping others to succeed. It is conducive to the world sharing China's development dividends and promoting common development.

II. Expanding Domestic Consumption to Foster A Powerful Domestic Market

Accelerating the cultivation of a complete domestic demand system is a major scientific judgment and strategic choice made by the Party Central Committee, which has profound insights into the general trend of domestic and international development. It highlights the importance and urgency of adhering to expansion of domestic demand. It is a must for China to form a powerful domestic market and shift to a development strategy based on the domestic cycle.

On the one hand, the proportion of domestic demand, especially consumption, is too low. Domestic demand includes investment and consumption. The investment rate in China is generally very high, and its consumption rate is obviously low. At present, the ratio of retail sales to export value in major countries, such as the United States and Japan, has stabilized at 4:1 and 6:1, while in China, it is less than 2:1. Both retail sales and export value reflect the final commodity demand, and the low ratio largely points to an unbalanced domestic and foreign demand ratio in China, indicating that the role of domestic demand needs to be improved.

On the other hand, China has huge market potential. As it is moving towards a modern socialist country, China has seen its domestic market expand continually. According to McKinsey's research, by 2035, the scale of China's consumer market will exceed that of Europe and the United States combined. Implementing the strategy of expanding domestic demand and continually increasing consumption rate are conducive to bringing out the great advantage of domestic market and promoting long-term stable economic development.

At present, China's domestic consumer market is not fully developed, which is mainly reflected by the following factors.

Weak consumption capacity. The proportion of residential income in the primary distribution is low. In 2020, the monthly per capita disposable income of Chinese residents is 2,682 yuan, which is only 44.7% of per capita GDP. There is no solid foundation for expanding consumption. After the eruption of the 2020 pandemic, the instability of residential income increased, the recovery of consumption was relatively slow, and the total value of retail sales failed to register positive growth throughout the year.

Inadequate consumption momentum. China is facing such challenges as worsening aging and declining proportion of working population. The consumption of some major commodities, such as automobiles, is becoming saturated. Online consumption is actually the transfer of offline consumption, and efforts should be made to tap new and sustainable momentum of consumption.

Imbalance in urban-rural development. The rural population accounts for 36% of the nation's total, but rural retail sales accounts for only 14% of the national total. The overall consumption in China's urban areas is 3.7 times that in rural areas, and per capita consumption in the urban areas is twice that in rural areas.

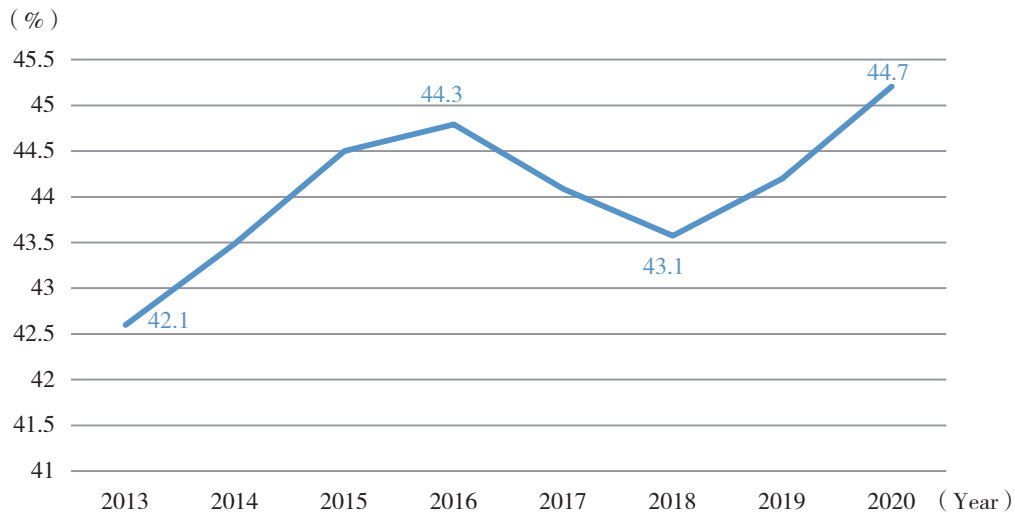


Figure 8-1 Ratio of Per Capita Disposable Income to Per Capita GDP (%), 2013-2020

Source: National Bureau of Statistics.

Inadequate development of modern commerce and trade logistics. China’s logistics cost as a percentage of GDP is 14.7%, which is 6-7 percentages higher than that of developed countries. China’s logistics companies have a low level of internationalization. The number of stores of online retailer Suning is almost the same

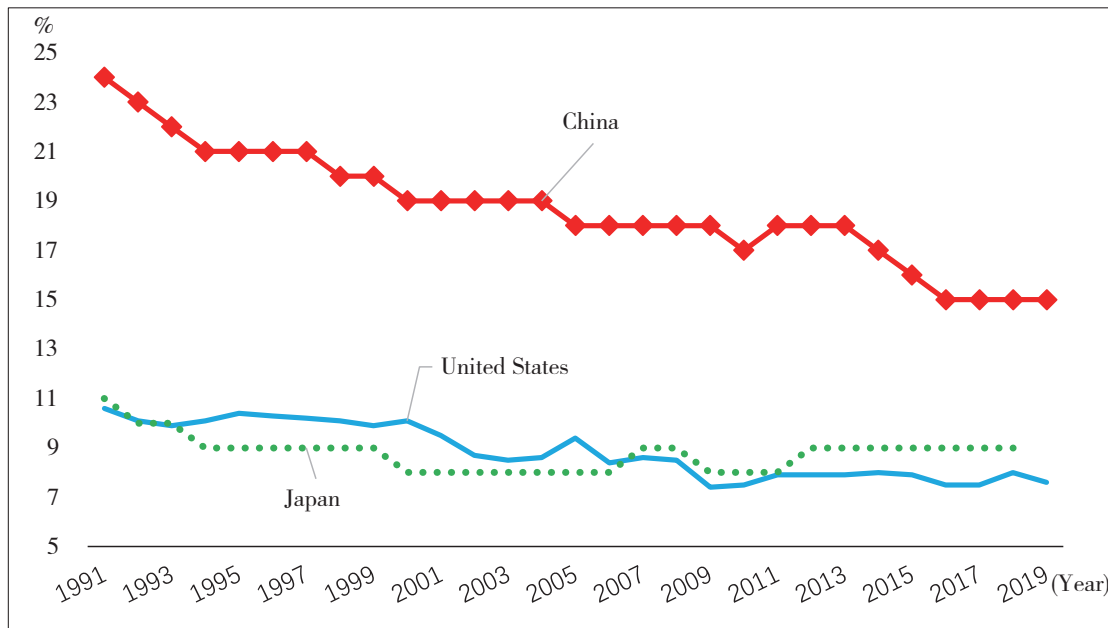


Figure 8-2 Total Logistics Cost to GDP Ratio in China, the US and Japan (%), 1991-2019

Sources: China Federation of Logistics & Purchasing, Council of Supply Chain Management Professionals, Japan Institute of Logistics Systems.

with that of Wal-Mart stores, but Suning's overseas stores only account for 0.5% of its total, which is much lower than Wal-Mart's 60%. China suffers from low cold chain circulation rate and insufficient supporting capacity of infrastructure. The per capita possession of refrigerated and insulated vehicles is only about 8% of that of the United States and Japan.

Meanwhile, China has great potential in expanding domestic consumption. **Its fundamentals of consumption that is expected to expand in the long run have not changed.** China's total population and the size of its middle-income group rank first in the world, and its per capita GDP exceeds 10,000 US dollars. The implementation of the rural revitalization strategy and the acceleration of urbanization will lead to the rapid growth of rural consumption.

The overall trend of consumption upgrade has not changed. China's younger generation, represented by those born in the 1990s and 2000s, accounted for about one fourth of its total population, and the proportion is even higher among netizens; they have increasingly become the backbone of consumption. Individualized and diversified consumption has become the mainstream trend. New forms of consumption, such as unmanned sales and sharing economy, development-oriented and enjoyment-oriented consumption have continued to heat up, and people's service consumption in tourism, culture, entertainment, health, and ecology will continue to increase.

China has the foundation, condition and room for expanding consumption. China will hopefully become the largest consumer market of goods in the world. In the past ten years, China's final consumption rate has increased by an annual average of 0.5%. It is expected to reach about 62% by 2035, and the scale of consumption will increase by about 1.5 times.

While pursuing a new development paradigm, China must take the supply-side structural reform as the main focus, pay attention to demand-side management, and reach a higher level of dynamic balance in which demand drives supply and supply, in return, creates demand. It should continue to expand consumption and make more efforts to build a modern circulation system. It should sort out the blocked links in circulation, strengthen areas of weakness, improve both "hardware" (such as infrastructure) and "software" (such as management expertise), channels and platforms, so as to turn the strong domestic market into a huge "magnetic field" that attracts global factor resources.

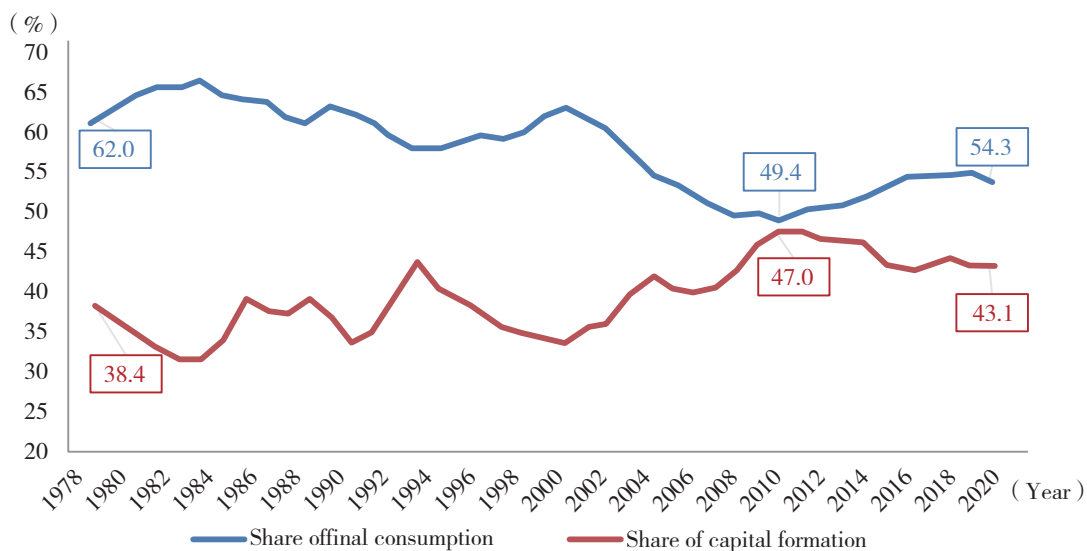


Figure 8-3 China's Fiscal Consumption Expenditure Ratio and Capital Formation Rate (%), 1978-2020

Source: National Bureau of Statistics.

Promoting consumption in an all-round way. China should further bring out the fundamental role of consumption in economic development and tap urban and rural consumer markets. It should promote commodity consumption, develop service consumption, expand rural consumption, promote the high-quality development of county-level commerce, establish and improve the rural commercial system, improve urban consumption, and promote the quality and upgrading of urban consumption.

Cultivating new patterns of consumption. China should cultivate a new pattern of consumption featuring information technology, multi-business aggregation, and multi-scenario coverage, develop new commodity consumption models, support consumer platform companies creating new digital consumption environment, strengthen the construction of intelligent service terminals, and foster an orderly environment for developing new forms of consumption.

Upgrading consumer platforms. China should take the lead in cultivating and building central cities for international consumption in Shanghai, Beijing, Guangzhou, Tianjin, and Chongqing. It should promote the differentiated development of urban commercial districts, and carry out high-quality renovation and upgrading of pedestrian streets. China should also foster a convenient life circle in the cities, where people can go to any major destinations within a quarter of an hour. Moreover, it should establish and improve the normalization mechanism for promoting consumption, and support

efforts by the China International Consumer Products Expo to build a global platform for displaying delicate consumer products.

Improving circulation system. China should improve backbone circulation networks, build an efficient urban and rural distribution system, improve the rural circulation system, raise circulation efficiency, and reduce circulation costs. It should cultivate modern circulation enterprises with global competitiveness, stimulate the vitality of small and medium-sized commercial enterprises, strengthen protection and growth of time-honored brands, promote the innovative development of the commodity market, and foster and expand e-commerce enterprises. It should also support the upgrading of physical commercial entities, accelerate the innovation and transformation of circulation, and strengthen the construction of commerce and trade circulation standard system.

III. Promoting An Internal-External Virtuous Cycle to Push Forward High-Quality Development

In the era of globalization, internal and external cycles are intertwined and it is impossible to clearly separate them. The new development paradigm is by no means a closed domestic cycle, but an open and mutually reinforcing dual cycles, including both domestic and international cycle. With the domestic cycle as the mainstay, it is by no means a closed-door operation. Instead, it aims to better connect domestic and foreign markets through leveraging the potential of domestic demand and better utilize resources of both domestic and international markets to achieve more robust and sustainable development.

From the perspective of external cycle promoting internal cycle, the smoother the external circulation is, the better the internal cycle will be in terms of quality and outcomes. China's development has always been inseparable from the outside world. International talents, technology, management, and data resources are the most fundamental production factors. Through the benign interaction between internal and external cycles, more high-quality global resource factors will be attracted, which can help meet domestic demand, improve the level of domestic industrial technology development, and form new advantages for China to participate in international economic cooperation and competition.