

Dual Circulation Development Pattern: its Influence on China's Export-oriented Enterprises & their Transformation Paths

Yixuan Ding^{1, 2, *}

¹School of Economics & Management, Nanjing University of Science & Technology, Nanjing, P.R. China

²Research Center for International Economy & Trade, Nanjing, P.R. China

*Corresponding author: betterdingyx@163.com

Abstract. In the face of an external environment characterized by rising protectionism, a global economic downturn, and a shrinking international market, our Chinese government has proposed the Dual Circulation Development Pattern in late 2020. The dual circulation pattern will bring China's export-oriented enterprises both opportunities and challenges. What role should those export-oriented enterprises play, and how to deal with it. This paper put forwards that those export-oriented enterprises must accelerate the transformation from the following aspects, which include innovating the operating models, improving the innovation capabilities, strengthening the brand building, developing the diverse markets, adhering to the green development, and strengthening risk early warning.

Keywords: Dual Circulation; Export-Oriented Enterprises; Transformation

1. Introduction

The "dual circulation" is a strategic choice made by China in light of its changing development stage, it is a strategic choice to reshape China's new advantages in international cooperation and competition. Its connotation is the major domestic cycle as the main body, domestic and international dual circulation, domestic and foreign two cycles promote each other, depend on and support each other.^[1]

2. Opportunities and challenges of the pattern of dual circulation to China's export-oriented enterprises

2.1 Opportunities

2.1.1 The policy environment is favorable for reform

Under the new development pattern of dual circulation, although the domestic cycle is the main body, it is more important to continuously maintain the balanced development of the two cycles of the domestic cycle and the international cycle. Therefore, the state has successively issued dual circulation policies to create a favorable environment for export-oriented enterprises. National policies mainly focus on two aspects: one is stabilizing foreign trade and the other is transferring to the domestic market. This is a good opportunity for export-oriented enterprises.

Since 2020, both the central and local governments have actively issued policies to help export-oriented enterprises overcome difficulties. With the formation of the new development pattern of "dual circulation", the domestic business environment will continue to improve. For export-oriented enterprises, on the one hand, can utilize policies to overcome the negative impact of an unstable international environment, on the other hand, they can seize the opportunity to expand export business or make timely transformations, helping them find their own path under the new pattern.

2.1.2 The whole industrial chain expands its advantages

Under the new pattern, optimizing and stabilizing the industrial chain and supply chain is a key link to breaking through the blocking point of the domestic circular economy, and it is also an important feature that a powerful economy must have.^[2]

Compared with overseas export-oriented enterprises, China's export-oriented enterprises have an advantage that other countries do not have, that is, China is the only country in the world with the whole industrial chain. In terms of the breadth of industrial distribution, China has 39 industrial categories, 191 medium categories, and 525 subcategories, forming an industrial system with a complete range of industries. Compared with the uncertainty of the epidemic in foreign countries, domestic export-oriented enterprises can take advantage of the whole industrial chain to resume work as soon as possible, reduce the losses caused by the COVID-19, and strive to be a patch at the break of the international market to further expand the international market. For enterprises that want to switch to the domestic market, they can also take advantage of the situation to integrate into the domestic supply chain and complete the transformation with the help of the huge domestic market.

2.1.3 The Internet environment facilitates the upgrade

During the 14th Five-year Plan period, China's digital economy turns to a new stage of rapid development. Both internal and domestic circular economies are inevitably accompanied by the digital transformation of the real economy and the application of digital economy technology.

Export-oriented enterprises in the digital economy high-speed development of the moment, on the one hand, in the mode of foreign trade business, in recent years, cloud computing, big data, artificial intelligence, and other digital technology are widely used in every aspect of the trade, export-oriented enterprises can use the tide of the digital economy, to carry on the digital transformation, for the export business, cross border e-commerce is the general trend under the new pattern, it is also an important way to disperse channel risk. According to statistics, the scale of cross-border transactions in China has been growing steadily, reaching 12.5 trillion yuan in 2020, with a growth rate of 19.05%. For the domestic market, the domestic e-commerce live stream is developing rapidly. Taking Alibaba's "Double 11" as an example, it can achieve tens of billions of yuan in sales within one day. Export-oriented enterprises can step in the electronic trend and make full use of the huge domestic market to achieve the purpose of transformation.

2.2 Challenges

2.2.1 The risk of contract orders increased

Under the leadership of the Communist Party of China (CPC), China took the lead in overcoming the economic stagnation caused by COVID-19, with enterprises resuming work and the economy growing steadily. However, in the normal period of epidemic prevention and control, export-oriented enterprises are still inevitably affected by the imbalance of supply and demand of global products. Since 2020, China's major exporters, such as the United States, Japan and India, have experienced a prolonged economic downturn due to the epidemic, and their demand for China's exports has declined. India's import to China in 2020 was only 4612.7 million yuan. A year-on-year decrease of 11.78% from 2019.

Although most of the domestic work has resumed, foreign countries are still in the stage of epidemic control. It is not only difficult for China's export commodities to enter the country, but also the consumer demand of the blocked countries has been restrained, resulting in the cancellation of a large number of orders produced by Chinese enterprises, and the order volume is easy to drop sharply. At the same time, due to the instability and mutability of the COVID-19, there is also the risk of a recurrence of the COVID-19 in China, the risk of chain disruption among domestic producers, and the potential threat of contract breaking of export business, especially for some seasonal sales of commodity producers, which is a great blow.

2.2.2 The factors of cost increased

The complex and changeable international environment and the uncontrollable epidemic have increased the costs of export-oriented enterprises in many aspects. First, the trade friction led by China and the United States has not been fundamentally eased. The high tariffs and the costs paid to cross-trade barriers have increased the costs of enterprises.^[3] Second, the quantitative easing monetary policy maintained by the United States and other developed economies has led to the rise of inflation

expectations and further promoted the rise of global commodity prices. Since February 2021, the prices of non-ferrous metals, crude oil, steel, chemicals and other bulk commodities have risen one after another. In October 2021, the bulk commodity price index BPI reached the annual peak of 1388, up 47.4% year on year. China's export-oriented enterprises will face rising raw materials. The third is the increase in transportation costs. Since 2020, due to the outbreak of the COVID-19 in various countries, sea and air transportation have been blocked, and a large number of export products have been transported to overseas ports. However, overseas ports have been unable to operate normally due to strikes, lack of vehicles, ship delays, and other reasons, resulting in slow container return, the serious shortage of containers, and even difficult to find one container. By December 2021, the quotation of China's export container freight index had reached 3265.41, an increase of 125.8% over the end of 2020. The price of container shipping has increased more than ten times, which has greatly increased the transportation cost of enterprises.

2.2.3 The transformation to the domestic market is difficult

Although there is a huge consumption potential in China, export-oriented enterprises can obtain new market profits by turning to the domestic market, but foreign trade products are not completely suitable for the domestic market, and some products will have difficulties in docking. First, product standards at home and abroad do not match, second, domestic and foreign consumer preferences are also different.^[4] Some export-oriented enterprises engaged in processing and manufacturing, in particular, more than ever before to order driven, in accordance with the requirements for the order after production has delivered the goods directly to the overseas distributors, focusing on the scale to reduce costs, and non-market channels to expand, and the circular economy needs smooth sales channels, but most enterprises who want to reform are small and medium-sized, their capital and ability to expand market channels are limited, so it is very easy to meet barriers.

3. The role of export-oriented enterprises under the new pattern of dual circulation

3.1 Benefits of export promote the domestic economy

For a long time, foreign trade is one of the main power of China's economic development, to satisfy the demand of the three major economic contribution degrees, contribution degree of the net exports of goods and services as final consumption expenditure and the total amount of capital formation, but the following is shown in figure1, the contribution of net exports bring degree and driving role, mostly positive effect, especially in the past two years, In 2020, the contribution level will reach 28%, and the boosting force will reach 0.7%.

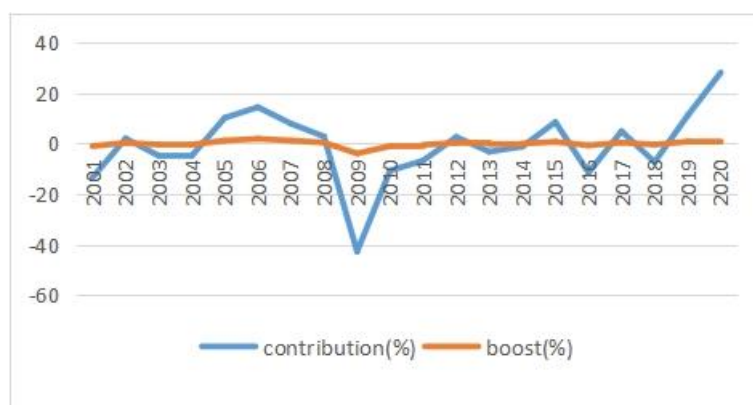


Figure 1. Contribution rate and boost of import and export of goods and services to the economy from 2001 to 2020

Source: National Bureau of Statistics

Under the dual circulation pattern, export-oriented enterprises also contribute to the internal and external balance of the economy in terms of exports. According to the statistics of the Ministry of Commerce, the number of jobs created by foreign trade has reached 180 million, and the tax contribution of import links accounts for about 10% of the total national tax revenue. In 2020, China's trade surplus reached US\$535 billion, an increase of 27.4%, effectively stabilizing the balance of payments. In addition, exports can also increase the income of producers and workers, and increase the consumption of savings, further energize the internal cycle. Therefore, from two aspects, export-oriented enterprises, as direct participants in undertaking exports, play an important role in the dual circulation.

3.2 High-quality exports enhance the level of global value chains

As the main body of China's participation in the international division of labor, export-oriented enterprises have promoted China's position in the value chain in the global division of labor through continuous self-improvement. For a long time, export-oriented enterprises have mainly gone upstream of the industrial chain through two modes.^[5] One is an innovative development, which fundamentally improves the value space of products and promotes the optimization and upgrading of the internal structure of the high-tech manufacturing industry. At present, the export growth of China's high-tech products is stable (Figure 2). In 2020, the export volume of China's high-tech products reached US\$7767 million, with a year-on-year increase of 6.3%. It can be seen that the innovative development of export-oriented enterprises has made some achievements.

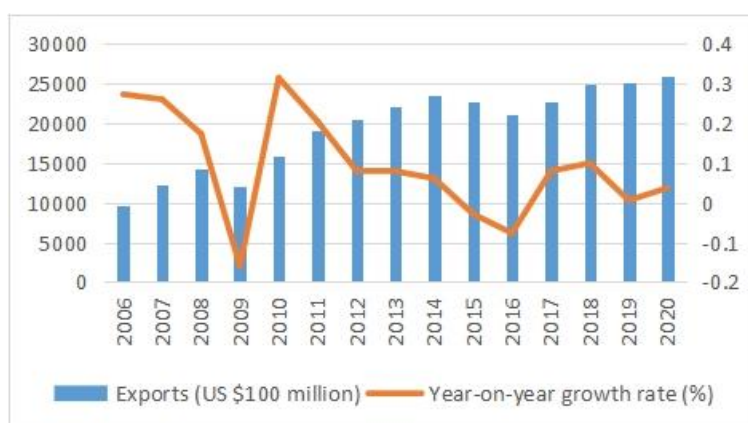


Figure 2. China's High-tech Product Exports (2006-2020)

Source: Statistical Yearbook of China's High-tech Industry

Second, China's export-oriented enterprises should accelerate the improvement of the service level of the manufacturing industry. *The 14th five-year plan for national economic and social development of the people's Republic of China and the outline of long-term objectives for 2035* pointed out that it is necessary to accelerate the development of the modern service industry, promote the extension of the producer service industry to specialization and high-end value chain, and promote the deep integration of modern service industry and advanced manufacturing industry. Today, with the rapid development of the digital economy, export-oriented enterprises are increasingly showing the development trend of intelligence, flexibility, and efficiency with the help of digital technology. They are also gradually integrating with the service industry in order to improve and break through the "low-end lock" and transfer to both ends of the smile curve.^[6]

3.3 Connect domestic and foreign markets

The construction of the "dual circulation" development pattern requires effective circulation of production links such as production, circulation, and consumption, accurate and efficient connection between supply and demand in domestic and foreign markets to ensure the high-quality and efficient operation of the national economy. Enterprises are the key to the interlocking supply chain and the

basic unit of the industrial chain. To a large extent, the development of export-oriented enterprises and the linkage between enterprises determine the toughness and synergy of the national industrial chain supply chain.

In terms of internal circulation, when the national epidemic is not fully controlled, the global supply chain will inevitably suffer a secondary impact. As an intermediary connecting domestic and foreign supply and demand, export-oriented enterprises drive the linkage development of upstream and downstream enterprises, form a cluster effect, improve the supporting facilities of upstream and downstream industrial chains, form a closed loop of industrial chains, realize continuous raw material supply chain, continuous manufacturing and continuous logistics line, and ensure domestic supply and demand, it is the basis for the smooth development of internal circulation.

From the perspective of international circulation, improving the modernization level of the industrial chain is an inevitable requirement to promote international circulation and expand China's competitive advantage. China takes the lead in controlling the COVID-19, and the global dependence on China's industrial chain will be further enhanced. The gap in the supply chain will make orders flow into China. Export-oriented enterprises can seize orders. Under the reconstruction of the industrial chain, they can create a "chain master" of the global industrial chain, integrate the industrial chain and innovation chain, improve the international competitiveness of China's export trade, and ensure that China's industrial chain wins the core competitive position in the international cycle value chain.

4. Transformation path choice of export-oriented enterprises

4.1 Change business models and create new forms of trade

Under the dual circulation pattern, the online and e-commerce of foreign trade activities has become the general trend. Export-oriented enterprises should innovate their operation mode and move closer to the data age. Export-oriented enterprises with a science and technology foundation can choose to use front-end technologies such as big data and cloud computing to independently develop online software systems, make more use of data platforms to show product advantages and reflect product differentiation and use social media platforms to establish and increase the viscosity of potential global buyers and form a stable ecosystem through articles, pictures, videos, and interactive content.^[7]

While traditional export-oriented enterprises, especially those without mature technology and e-commerce experience, can take advantage of domestic digital foreign trade platforms, such as AliExpress and Alibaba, to achieve upgrading. Through the online exhibition of new, promote the online completion of trade negotiations and transactions, comprehensive application of e-commerce platform to explore the international market. Such as *changxing Bertrand electronic technology co., LTD*. Selected cooperated with Netease, before that, it is a foreign trade-oriented enterprise, an export share of the enterprise production capacity of 90%, but because of the COVID-19, orders declined seriously. However, through cooperation with the e-commerce platform, *Botai Electronics* began to develop disinfection, sterilization intelligent new products for the domestic market, and successfully entered the domestic market, to solve the difficulties of its product sales.

In addition, the Chinese government is also constantly promoting model innovation in the field of cross-border e-commerce, realizing the promotion of new retail, independent cross-border e-commerce stations, cross-border live e-commerce, cross-border social e-commerce, cross-border community e-commerce, and other new models.

4.2 Insist on innovation

Innovation has always been the main source of driving development. To achieve product performance upgrading, cost reduction and production efficiency improvement by independently creating innovative products or integrating the innovation chain into production is the key for

enterprises to move their products to the high end of the value chain and an important step to expand the product market.

Under the new development pattern, export-oriented enterprises that have accumulated certain funds and experience can try self-innovation. Increasing investment in the product R&D department is no longer to connect with the original partners to produce a single commodity but to change to the D4C (Design for customers) strategy, focus on consumers, match consumers' preferences, and develop new products that meet the market. Some enterprises without sufficient funds can also choose to integrate the innovation chain into the manufacturing chain and use innovative products to promote cost reduction and efficiency.^[8] At present, the new infrastructure represented by 5G technology, artificial intelligence, big data, and industrial Internet has become the driving force of a new round of scientific and technological revolution and industrial reform. Even traditional labor-intensive industrial sectors can also use digital technology products to accelerate enterprise transformation and upgrading, improve the overall production efficiency, such as introducing some intelligent sorting equipment to realize logistics sorting, improve efficiency and reduce labor cost.

In addition, export-oriented enterprises can make full use of the advantages of big data, deeply understand consumers' preferences, realize "C2M reverse customization", and rely on information advantages to put forward suggestions for the factory. Reduce the risk of trial and error in the product market by reducing the circulation cost of intermediate links and reducing the final sales price.

4.3 Accelerate the development of your own brands

The lack of intellectual property rights and independent brands has always been a difficult problem for export-oriented enterprises. Under the dual circulation pattern, export-oriented enterprises must actively establish a brand image, build their own brands and break the dilemma according to their own market and product positioning if they want to successfully transform and upgrade.

For the overseas brand, OEM that has just entered the domestic market and hopes to shape its own brand, establishing a good image is the first step to build the brand, which requires the use of high-quality and low-price goods to touch customers and gradually penetrate the market. For enterprises that establish brands for the first time in China, if they want to quickly have a brand foundation in the market, they can also use the current domestic e-commerce platform, and make good use of the special space provided by the platform for new products, accurately grasp the demands of consumers through the platform data, and form unique brand competitiveness in combination with their own advantages.

For export-oriented enterprises that already have independent brands, strengthen brand promotion, actively participate in domestic chambers of commerce and trade fairs, let the advantages of products consolidate the brand image, and continuously improve the core competitiveness of the brand.

4.4 Strengthen the capacity of risk prevention

In the face of the complex international environment, social and economic development is not stable, and the risks faced by export-oriented enterprises are increasing, some export-oriented enterprise markets may face risks such as customer bankruptcy, default, poor logistics, information leakage, unstable exchange rate and so on. The anti-risk ability of small and medium-sized export-oriented enterprises is weak, so we should improve the relevant risk prevention ability.

First of all, before the risk comes, there should be a complete set of risk early warning mechanisms. Enterprises should fully grasp the development trend of economic globalization, conduct a comprehensive study on the relevant policies of trading countries, sort out the possible potential risks with the help of historical experience data, and once the potential risks are found, they should conduct a comprehensive analysis and formulate targeted risk early warning schemes. In addition, enterprises should set up special risk early warning Posts internally, focus on existing orders and order performance risks, inventory and market dynamics, and use the Internet to investigate the potential risk factors of foreign trade business, so as to minimize the possibility of risk.

When facing risks, export-oriented enterprises should keep a cool head, comprehensively analyze and design the expected loss of risks faced by exports, risk response measures, risk control schemes,

and risk control results, and fully learn and refer to the advanced experience of risk management and control of domestic export-oriented enterprises, improve the existing risk management system, and ensure that the risk control measures can be fully implemented. In addition, it is more necessary to establish and improve the risk early warning mechanism, and the construction must be accelerated.

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