

# Study on the Reform and Power Enhancement Path of Industrial Economy in the Free Trade Zone under the New Development Pattern of Double Cycle

Anyu Wang<sup>1</sup>, Ding Chen<sup>1,2\*</sup>

<sup>1</sup>School of Economics and Management, Xi'an Shiyu University, Xi'an, China

<sup>2</sup>Shaanxi Research Center for Oil and Gas Economics and Management, Xi'an, China

Email: \*chending1981@163.com

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## Abstract

Accelerating to formulate the new development pattern, in which the domestic cycle is the mainstay and the domestic and international cycles are mutually reinforcing, is the national-level strategy for China to achieve the first centenary goal, and then take advantage of the momentum to embark on a new journey to build a modern socialist country toward the second centenary goal. In addition, in the context of increasing domestic demand and deepening opening-up, the construction of the free trade zone (FTZ for short), as an important node connecting the international and domestic markets, will play an important role in promoting the formation of a new economic development pattern with “double cycle”. The main purpose of this paper is to study how China can realize the optimization and upgrading of economic structure and promote the sustainable development through the industrial economy reform of FTZ under the new pattern. According to the main results, we find that the main problems of the industrial economy of FTZs under the new double-cycle development pattern are inadequate planning and design, lack of endogenous impetus for reform and innovation, trade level to be upgraded, inadequate construction of project platforms, and insufficiently attractive business environment. In this regard, it is suggested that the FTZ should be led by digital reform to promote reforms in trade, transportation, capital, labor flow, and investment. At the same time, government should pay enough attention to the overlapping effect, accelerating the construction of the Belt and Road, and promoting the high-level integration of domestic and international markets. Through synergistic innovation, a new pattern of high-level opening-up and high-quality development will be formed.

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## Keywords

Industrial Economy, Free Trade Zone, Double Cycle

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### 1. Introduction

As China's economy enters a new stage of development, a new pattern of FTZ development has become an important strategy for promoting economic growth. As a testing ground for economic opening-up, FTZ has a high degree of reform autonomy and policy flexibility, which is of great significance for promoting industrial economic reform and enhancing development momentum. Studying the path of industrial economic reform and power enhancement in FTZs can provide specific policy suggestions and implementation paths for economic growth, promote the development of FTZs and economic upgrading, and enhance the competitiveness of China's economy. Therefore, the research objective of this paper is to explore the ways and methods to promote the industrial economy reform of FTZs with the double-cycle pattern and to provide scientific support for the policy formulation related to FTZs.

As for the main contribution, this study explores the effective ways and methods to promote the reform of industrial economy under the new pattern of double-cycle development in FTZ, and put forward specific policy suggestions and implementation ways. By analyzing the development status and problems of industrial economy in FTZ, it can provide guidance for industrial upgrading, technological innovation and market expansion within FTZ. At the same time, the research results need to be continuously verified and improved in practice since the data limitations, practical validation and changes in the policy environment.

This paper is organized as follows. Section 1 is the introduction, which includes the background, purpose, significance, and contribution of the study. Section 2 is the literature review. Section 3 is the overview of the new development model of double-cycle. Section 4 is the overview of the industrial economy of FTZs. Section 5 is the study of the path of reform and performance improvement with three ways, and Section 6 summarizes the study. As well this paper comprehensively utilizes the methods of literature research, qualitative analysis, and comparative research to study the issues related to the path of industrial and economic reform and power enhancement of FTZs under the new development pattern of double-cycle.

### 2. Literature Review

The new development pattern of "double-cycle" is a new conception and strategy proposed by China against the backdrop of changes in the domestic and international market. This pattern aims to satisfy domestic demand and strengthen the dominant position of the domestic cycle, while further promoting openness and enhancing the positive interaction between the domestic and foreign markets. A

number of theoretical studies and practical experiences on the “double cycle” have been proposed and published.

These papers have mainly discussed the emergence, development process and practical thinking of the “double cycle” from different perspectives. Among them, some literature has summarized the development of the “double cycle” pattern from the perspective of time, and explored its sustainable development direction in terms of expanding domestic demand, improving the industrial chain and industrial structure system, and enhancing technological innovation (Shi & Zhou, 2021; Fu, 2023). Others have analyzed how to realize the benign interaction of domestic and international markets from the perspective of FTZ, proposed that the high-quality development of China’s FTZs is the “meshing point” to realize the promotion of the domestic and international markets at the same time, and some related political measures are proposed by Cheng (2021).

In addition, other literature has analyzed the relationship between China’s FTZs and the new development pattern of double cycle, and concluded that FTZs are not only a testing ground for reform and a strong handle to promote the high-quality cycle of the domestic economy, but also an important nexus for the domestic development to participate in the international cycle, and they play an important role as key hubs (Wang & Fang, 2021). In order to promote the high-quality development of China’s FTZs, Zhou, Zhang & Wang (2023) suggest more reform autonomy should be assigned for FTZs and the development modes should be differentiated. Wang & Huang (2022) discuss the way to promote the high-quality development of China’s FTZs in the view of building a globally-oriented network of high-standard FTZs, by increasing the breadth and depth of China’s FTZs and promoting the construction of FTZs in the countries along the Belt and Road.

Overall, the existing relevant literature mainly discusses the theory and viewpoints of the new development pattern of double-cycle, but lacks empirical research to verify the validity and feasibility of this pattern of the “double cycle”. In addition, the discussion on strategies dealing with the challenges and risks is not rich enough. In this paper, we will comprehensively analyze the double-cycle development model of the FTZ and the industrial economic profile of the FTZ, examine the current problems and challenges facing the economic development of the FTZ, and propose targeted improvement paths.

### 3. Overview of the New Double-Cycle Development Pattern

Since the reform and opening up, China has actively joined into the international market, basically forming a global economic general cycle model in with Europe and United States are considered as the financial, R&D and consumption centers, while China is considered as the manufacturing center, and resources/energy import center. At present, China’s economy keeps increasing and becomes more and more important in the international value chain, which means more significant spillover effect on the global economy. The advantage of factor’s low cost is no

longer sustainable, and the complete industrial system, huge innovation potential and market advantages have become more apparent. The kinetic energy of the international circulation is obviously weakened, while the vitality of the domestic circulation is increasingly strong, prompting a change in the power system supporting economic growth. Actually, large countries will gradually change from the externally-oriented development model to endogenous circulation-oriented development model such as United States, Japan, Germany and Britain. Therefore, it becomes more difficult for China to provide a strong impetus for the sustained and healthy development just relying on being the “factory of the world” at the low end of the international value chain. A stronger endogenous impetus for the future development of the economy is urgently needed.

The mainstream view of the international economic community is that a large country’s economy depends on domestic demand-driven in order to obtain stable long-term development. Economies usually have an internal recycling economy accounting for more than 80% of GDP and an external recycling economy accounting for less than 20%. Take United States as an example, the economic growth is basically consumption-driven, with consumption accounting for 85%-90% of GDP. The economic model such as “consumption drives production, production creates income growth, and income growth drives consumption again” is a typical development model mainly depending on domestic economic cycle.

The “double cycle” could be considered as one kind of the country’s economic operation pattern. China has proposed to accelerate the formation of a major domestic cycle as the main body clearly, the domestic and international double cycle to promote each other’s new development pattern, which means China should pay more attention to the domestic cycle as the main source of sustainable development and integrate both of the domestic and international market at the same time. In short, the “double cycle” is to seek a higher quality of the domestic cycle and a higher level of international circulation.

The plan to expand and strengthen the economy’s internal circulation and improve the international circulation was proposed at the 18th Party Congress of CCP. The main components in the plan include the introduction of the new development concept, the structural reform of the supply side, deepening the “management and service” reform, the implementation of innovation-driven development strategy, promoting high-quality development, building a modern economic system and the Expansion of the domestic demand. Though globalization is faced with serious challenges since the trade protectionism, openness and cooperation are still the common topic for most countries. Taking “Belt and Road” into account, how to build the community of human being with the construction of free trade zones and the stabilization of international trade and foreign investment becomes important issue.

To sum up, building a new development pattern is a systemic and deep-seated change that concerns the strategic development of China. The to-do list for China to keep high-quality development with “double cycle” pattern in the next five

years includes promoting scientific and technological innovation since innovation can drive and accelerate the development and integration of domestic and international markets. Promoting and balancing supply and demand is another important task to do. What's more, accelerating the cultivation of a complete domestic demand system and improving the policy support system also should be done.

#### 4. Overview of China's FTZs

China has already established 21 FTZs since 2013, with a large number of high-level innovation and world-leading industrial clusters. According to the statistics of the Ministry of Commerce, all FTZs have used 213 billion Yuan of foreign investment and achieved 6.8 trillion Yuan of import and export by 2021 in total with an increasing rate of 19% and 29.5% respectively<sup>1</sup>.

At present, China's respective FTZs are to enhance the overall competitiveness and innovative ways of work, explore the development path, accelerate the opening up of the outside world and strive to build a new development pattern in order to attract the global resources. In details, China's respective FTZs try to explore the differentiated way to development. The main industries are different among different FTZs, which can avoid the competition of homogeneous production. Besides, China's respective FTZs try to take full advantage of independent innovation to keep comparative advantage in manufacturing capacity. What's more, FTZs prefer the breaking innovative approach to solve the issues in the field of decision-making, management and business-related approval process.

#### 5. The Path for Reform and Enhancement of FTZs with "Double-Cycle" Pattern

China's FTZs is faced with the uncertainty of the world, which means China has to explore new ways to keep reform and continue to enhance FTZs with "double-cycle" Pattern. In details, China should focus on five dimensions of reform. As for digital reform, an integrated and differentiated data-driven supply chain should be set up to support the sustainable development. For trade reform, China should focus on "market procurement + cross-border e-commerce" mode by managing the positive list of imported commodities. In terms of transport reform, China should focus on promoting the integrated multi-mode transport system and improving the China-European railway transportation. As for the capital freedom, China should focus on enhancing the process of RMB digitalization and inspiring the cross-border RMB business. The fifth dimension is the reform of the administrative compliance incentive system involving the freedom of investment and a new model of flexible administrative law enforcement for enterprises.

In order to improve the "double-cycle" pattern, Free Trade Zone should concentrate on the integration of comprehensive security zone and free trade zone as well as inland port and free trade zone. Additionally, the integration of service chain, innovation chain, industry chain and investment chain should be paid

<sup>1</sup>Data can be obtained from Thepaper.cn. [https://www.thepaper.cn/newsDetail\\_forward\\_16443545](https://www.thepaper.cn/newsDetail_forward_16443545).

attention to build the cross-industry and cross-regional network for economic development.

## 6. Summary

FTZ is one of the important initiatives of China's reform and opening up, and also an important platform for promoting the new pattern of double-cycle development. Under the new pattern of double-cycle development, the reform and strength of industrial economy in FTZs have become a key issue. This study conducted in-depth research on this issue and suggested that the FTZ should take the digital reform as the lead to promote the reform of trade, transportation, capital, people's entry and exit, and investment freedom. At the same time, it strengthens opening up to the outside world, gives full play to the superposition effect, accelerates the construction of the Belt and Road, promotes the deep integration of domestic and foreign markets; promotes scientific and technological innovation and technological progress through cooperative innovation, through increasing investment in R&D, enhances independent innovation capability, introduces and cultivates high-end talents, and promote industrial upgrading and transformation, thus forming a new pattern of high-level opening up and high-quality development. In the future, relevant mathematical and theoretical models can be constructed through empirical research, and the development of the new development pattern of "double cycle" can be further verified through data analysis.

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## Conflicts of Interest

The authors declare no conflicts of interest regarding the publication of this paper.

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