



Building a Unified National Market in China: What is New in the Government's Latest Guidelines?

By LI Yao, Sarah Y TONG and ZHOU Na

On 10 April 2022, the Central Committee of the Communist Party and China's State Council jointly released the "Guidelines for Accelerating the Building of a Unified National Market" (the *Guidelines* hereafter). The concept of a unified market is not new. In the last two decades, China has introduced a series of efforts devoted to break down market barriers across regions and related policy documents have also been issued. China's highly centralised political structure is also conducive for the execution of a unified market regulation, making such a guideline redundant.

However, despite the highly centralised political structure, economic decentralisation, the main force driving China's growth since the late 1970s, has led to local protectionism. The new initiative indicates that past efforts to reduce/lower market barriers have not been effective.

The questions are why now and what is new. Developments in the last few years have made a unified national market a prerequisite for China's current dual circulation strategy, in which "domestic circulation serves as the principal part while the internal and external circulations are reinforcing each other". Evidently, a unified and effective domestic market has yet to be established and great efforts are required to accelerate its construction. The measures introduced and the progress made in building a unified market have added the much-needed momentum to boost China's growth as the country faces strong headwinds and growing risks in 2022, as warned by Premier Li Keqiang in March.

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As such, answers to “what is new” seem more significant. Indeed, the Chinese government has since the early 1990s issued numerous policy directives to eliminate market barriers and nurture the development of a robust domestic market throughout the country. What, if any, distinguishes the latest initiative from the previous ones? At the level of guiding ideas, the current *Guidelines* incorporates significantly different concepts and approaches for market development. More specifically, the *Guidelines* aims to cover market development of the entire production process, while past efforts focus heavily on entry barriers for products and monopolistic behaviours of local enterprises, especially state-owned entities. An imperfect portrayal of the shifting policy objectives is the move from a free trade arrangement across regions to a common market with unified rules and regulations.

To facilitate a comprehensive and systemic rebuilding of China’s domestic market, the *Guidelines* has gone far beyond product market integration and enhancing anti-monopoly regulations to cover more areas such as factor markets, modern circulation/logistics system, intellectual property rights, related institutions and facility building. Such an approach has advantages in addressing problems more systematically and consistently with the inclusion of a more complete market process and in adjusting the roles of central and local governments in the market place, especially in reducing local government interventions.

Efforts can be made in two aspects to build a unified national market: (i) further liberalise existing markets and integrate the currently fragmented markets; and (ii) establish unified institutional and physical infrastructure, particularly for emerging new markets. Indeed, the *Guidelines* has proposed promising and urgent action plans in these aspects throughout its full text of eight parts.

FURTHER MARKET LIBERALISATION

After over 40 years of market-oriented reforms, China has established functional market institutions in various areas which greatly help facilitate the allocation of both factors and products. However, numerous obstacles to market access remain, especially at the regional levels. For production factors, such as labour and land, market fragmentation remains serious. As such, further market liberalisation is crucial to address not only issues from the past, but also new challenges, such as those in the markets for data and resource.

1. Market Access

While the issue of market access may not be a policy topic in the *Guidelines*, its significance is reflected in the priority given in its early mention in the document. China has experimented with a negative list approach to foreign investment since the early 2010s to improve market access. Although the “Special Administrative Measures for Foreign Investment Access in China (Shanghai) Pilot Free Trade Zone (Negative List)” was announced in September 2013,¹ China’s first national negative list, namely the “Market Access Negative List (2020 Version)”, was not released until 2020.

Hence, much remains to be done. The latest version, updated in early April 2022, listed two categories of sectors: the prohibited and the access sectors (which included hundreds of sectors) that require administrative licences.² Nevertheless, obtaining approval or access to sectors of the second category is often subject to conditions such as office space, production conditions

¹ The latest version of the negative list for foreign investment is the 2021 Special Administrative Measures for Foreign Investment Access in Pilot Free Trade Zones (Negative List) (2021 Version).

² By definition, there should be no entry barrier for sectors beyond the two lists.

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and personnel quality requirements, which easily become tools of local government intervention. In fact, a recently established reporting system find numerous cases of market access violations,³ including Shenzhen (Guangdong province): extra administrative licences and regulations for the transportation of sand, gravel and muck; Huaiyuan (Anhui province): extra requirement for setting up local subsidiaries; Yongnian district of Handan (Hebei province): extra conditions for business licences in the catering industry, in the name of air pollution control; and Chengdu (Sichuan province): arbitrary charges by the Chengdu Instant Delivery Association.

Such practices are the important targets of the *Guidelines*, which vow to “remove local protection and regional barriers” and “clean up and abolish regulations that impede equal access and exit in accordance with the law”.

2. Capital Market

Developing a unified capital market is another core issue in the *Guidelines* that had been discussed repeatedly in the past. Compared to other factors of production, the fragmentation of China’s capital market seems less serious. However, more efforts are needed to build a unified capital market that can better allocate financial resources and support businesses. Efforts are also required to resolve two important issues. First is to connect regional equity markets with national securities market. The regional equity market is mostly tasked with developing small and medium-sized enterprises, mainly privately owned. While the overall equity financing needs of these companies are urgent and large, the development of the regional economy and equity markets is highly uneven, resulting in a serious mismatch. Therefore, in addition to unifying standards and connecting regional markets, a unified capital market needs to take into consideration the characteristics of regional markets and industries.

Second is to set up transfer and exit systems across various trading boards (main board, ChiNext, Science and Technology Innovation Board, Beijing Stock Exchange, New Third Board and so on) given China’s multi-layer capital market. The connection between China Inter-bank Bond Market and China Exchange Bond Market also needs to be further improved.⁴

3. Markets for Land, Labour, Data and Resource

To build a unified market for production factors and resources, including land, labour, capital, technology and data, energy, carbon and water, market liberalisation is essential. Until the end of last year, the emphasis was on strengthening the role of market for the distribution of production factors.⁵ Building a unified market is now a step forward in policy efforts. China places priority on breaking administrative barriers, particularly those among provinces, to support the nationwide circulation of production factors. Efforts are also extended to energy and ecological markets, indicating China’s determination and vision to transit to a green economy.

³ In 2021, the National Development and Reform Commission established a system of recording and regularly reporting cases of market access violations. As of November 2021, a total of 18 typical cases had been registered.

⁴ In China, there are two markets for bond issue and exchange, namely the China Inter-bank Bond Market and China Exchange Bond Market. A company can issue bond in both of them, but without the ability to interchange. The pricing of bonds in these two markets is also not linked.

⁵ The document titled “The General Office of the State Council on Printing and Distributing the Notice of the Overall Plan for the Comprehensive Reform of the Market-Based Allocation of Factors” was issued in December 2021 and released in January 2022.

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Breaking provincial barriers is clearly needed in the land sector. While land and land management reforms have played a significant role in China's economic development in the past decades, market segmentation and the resultant low efficiency remain. The development of a unified land market holds great promises for generating new impetus to future growth. The government initiated new rounds of rural land reforms in the 2010s by defining types of land use rights of rural residents. It aims to provide construction land for economic development while ensuring sufficient land supply for maintaining food security. China is taking further steps to break provincial barriers in the land market. It is working on building channels for directly transferring, leasing and mortgaging rural construction land. More importantly, China is exploring ways to save rural construction land for increasing and trading the quotas of such land across provinces. A liberalised and unified market for construction land would enhance land supply for industrial use and urban construction, support financial resources for rural development and balance the interest of involved parties.

INSTITUTIONAL AND PHYSICAL INFRASTRUCTURE

For a national market to function well, a well-developed and unified institutional and physical infrastructure at the national level is necessary, a condition which China is evidently lacking. China's institutional infrastructure such as social credit system and fair competition regulation has yet to be fully established at the national level. Even physical infrastructure such as the modern circulation system for logistics at the national level is still far from "well developed" in China. There is still a long way to go for China to build up all the necessary infrastructure for the establishment of a unified national market.

1. Social Credit System

The *Guidelines* has singled out the building of "a sound and unified social credit system" as an important institutional infrastructure. China has initially established a unified data collection and publicity system based on "Credit China", which established an inquiry service for providing information on administrative licensing and penalties, punishment for dishonesty, and the red and black lists for select areas.

However, the enterprise credit comprehensive evaluation system based on basic data, economic indicators, good behaviour information and bad behaviour information of enterprises is only piloted in the construction industry in places such as Zhejiang, Fujian and Yunnan. In order to protect the privacy of citizens, information related to commercial secrets, petitions and garbage classification are not included in the national public credit information database. Information related to bus fare evasion, red light running, property fee arrears and so on is also excluded, unless the cases are serious.

In terms of the quality of credit information, the central bank's data is of the highest quality. However, the business and personal financial information data covered by the central bank's credit information centre tend to be too sensitive to use. The sharing and integration of public credit and financial information also present many cross-departmental data sharing problems.

2. Modern Circulation System

Apart from institutional infrastructure, the physical connection of markets at the national level is another important focus of the *Guidelines*, which covers networks for both logistics and information as well as the development of platforms. Logistics was seemingly given more priority as it was discussed first and covered more extensively than information and platform development. As China's railways are planned and constructed at the central level, unifying operations is easier. However, the problem lies with the local divisions in the construction and

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management of highways. China's fragmentation problems in expressway network and municipal transportation network have become more significant and urgent in the recent COVID-19 outbreak. On 11 April 2022, the State Council issued "Notice on Effectively Doing a Good Job in the Guarantee of Freight Logistics". The notice suggested (i) starting the despatching mechanism at three levels including ministry, province and railway stations, linking roads with the police, and enhancing regional coordination to ensure smooth flow of transportation; (ii) prohibiting the blockage or closing of expressways, ordinary roads and waterway locks without authorisation; and (iii) disallowing the shutting down of expressway service areas, port terminals, railway stations and airports without authorisation.

More stipulations were issued on the same day with the document "Notice on Further Coordinating the Epidemic Prevention and Control of Highway Traffic and Ensuring Traffic and Smoothness" issued by the Ministry of Transport. The document strictly forbids the setting of two or more epidemic prevention checkpoints on a carriageway of a dual carriageway or on the main lines and service areas of expressways.

3. Fair Competition System

The "Fair Competition" or "Unified Fair Market" are discussed in three (parts two, six and seven) of eight parts of the *Guidelines*, showing that special attention will continue to be paid to this issue. The year 2021 was an unprecedented year for China's antitrust regulation. On 7 February 2021, the Anti-Monopoly Committee of the State Council issued the "Platform Economy Anti-Monopoly Guidelines", which formally kicked off the anti-monopoly storm. On 18 November 2021, the State Anti-Monopoly Bureau was officially launched and the anti-monopoly law enforcement agency was upgraded from a bureau directly under the State Administration for Market Regulation to an independent deputy-ministerial-level national bureau. It even has an internal competition policy coordination department responsible for anti-monopoly policy research and international exchanges.

The *Guidelines* states that the fair competition system is an important system to ensure the formation and healthy operation of a unified national market. It also proposes to promote the development of anti-monopoly and anti-unfair competition law enforcement and judicial development from three aspects: the first is to improve the anti-monopoly legal rules system, which includes accelerating the revision of the Anti-Monopoly Law and Anti-Unfair Competition Law, improving the fair competition review system, and studying review rules for key areas and specific industries.

Second is to incorporate anti-monopoly and anti-unfair competition laws into the comprehensive law enforcement system of a unified market. A working mechanism with linked market and industry supervision departments can better coordinate law enforcement resources and promote fair and efficient law enforcement by reducing law enforcement levels and discretionary power, as well as unifying law enforcement standards and procedures.

Third is to strengthen the classification and grading of anti-monopoly review of the concentration of operators, and make specific classification suggestions for some categories such as finance, media, technology, people's livelihood, platform enterprises and natural monopoly industries.

CHALLENGES AND OPPORTUNITIES

Evidently, China still has a long way to go to further liberalise existing markets and build up necessary infrastructure for a unified national market. In 2022, China is facing extremely severe economic headwinds. In addition to the triple pressure of demand contraction, supply shocks

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and weakening expectations, the sporadic outbreak of epidemic in different regions and an unfriendly external environment have exacerbated economic recovery. In the first quarter of 2022, China had registered weaker overall economic performance. To rebuild market confidence, China would require more effective and fundamental reforms.

In the short run, a more liberalised and unified factor market would improve China's productivity, while a unified infrastructure could be a booster for investment and contribute to growth. In the long run, a well-functioning market for resource, a unified social credit system and a sound business environment with a fair competition system are crucial for China's sustainable development.

The 11th meeting of the Central Financial and Economic Commission held on 26 April 2022 emphasised the importance of people-centred development and coordinating development and security through overall planning. Getting the market to take the lead role in attaining these goals will be a big challenge.

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