

# China's High-Standard Market System Development and Institutional Reform in the New Era

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**Abstract:** China has moved into a new phase of developing a high-standard market system, one that features robust commodity and factor markets, as well as price and market regulation systems. The priority in developing a high-standard market system is to create a unified national market, establish market-based factor price and allocation, and strengthen a credit system for the market-based economy. In fostering a high-standard market system, it is essential to promote an efficient market, a capable government, and thriving businesses through institutional reforms. The government is advised to create effective incentives through property right reform, advance factor price market reform, promote institutional innovation compatible with the high-standard market system, safeguard market security, and enhance supporting systems for the high-standard market system.

**Keywords:** New development stage, high-standard market system, institutional reform, institutional innovation

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The Report to the 20<sup>th</sup> CPC National Congress called for “building a unified national market, advance reforms for the market-based allocation of production factors, and put in place a high-standard market system” (Xi, 2022). In the new stage, China is striving to promote high-quality economic development and foster a high-standard socialist market economic system, both of which require a high-standard market system. In 1992, the 14<sup>th</sup> CPC National Congress vowed to create a socialist market economic system with Chinese characteristics as the goal of China’s economic reform. After three decades of efforts to improve its socialist market economic system, China has set out to create a high-standard market system, which implies a shift from establishing to maintaining the market-based economy. The high-standard market system is essentially an operational vehicle for the socialist market economy. It is necessary, therefore, to investigate the new requirements, priorities and related institutional reform pathway in light of the characteristics of the new development stage.

## 1. High-Standard Market System: An Intrinsic Requirement of High-Quality Economic Development

After reform and opening-up in 1978, China’s development of a socialist market economic system has encountered four questions, including the necessity and method of establishing a socialist market economic system, the intended form of a socialist market economic system, as well as its operation and development. The 14<sup>th</sup> CPC National Congress has established a basic framework for the socialist market economic system, which answered the first three questions about its necessity, method and intended

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form. In the new development stage, our policy agenda is faced with a new question regarding the maintenance of socialist market economic operation and development. The shift from the establishment to the maintenance of a socialist market economic system is underpinned by the creation of a socialist market economic system at a higher level, as well as a high-standard market system.

Since the 14<sup>th</sup> CPC National Congress, three policy documents have played a crucial role in creating and advancing the socialist market economy. First, the *Decisions of the CPC Central Committee on Establishing a Socialist Market Economic System* adopted at the Third Plenum of the 14<sup>th</sup> CPC Central Committee. This document laid out a basic framework for the socialist market economy with Chinese characteristics, and identified the development of financial, labor, real estate, technology and information markets as priorities of fostering the market system. Second, the *Decisions on Matters Concerning the Improvement of the Socialist Market Economic System* adopted at the Third Plenum of the 16<sup>th</sup> CPC Central Committee outlined a strategy for improving the socialist market economy with Chinese characteristics, with an emphasis on the market system and order. Third, the *Decisions on Adhering to and Improving the Socialist System with Chinese Characteristics and Modernizing the National Governance System and Capabilities* adopted at the Fourth Plenum of the 19<sup>th</sup> CPC Central Committee for the first time incorporated the socialist market economic system into the basic socialist economic system, calling for developing a high-standard market system. The *Opinions of the CPC Central Committee and the State Council on Accelerating the Improvement of the Socialist Market Economic System for the New Era* adopted in May 2020 identified reforms in seven key areas, reaffirming the development of a high-standard market system. The priority of creating a high-standard market system as a vehicle for the market to play a decisive role in resource allocation is highlighted in the *Proposals of the CPC Central Committee for Formulating the 14<sup>th</sup> Five-Year Plan (2021-2025) for National Economic and Social Development and the Long-Range Objectives through the Year 2035* adopted at the Fifth Plenum of the 19<sup>th</sup> CPC Central Committee. At the beginning of 2021, the General Office of the CPC Central Committee and the General Office of the State Council issued the *Action Plan for Building a High-Standard Market System* as guidance for this policy initiative. The Report to the 20<sup>th</sup> CPC National Congress has called for fostering a high-standard market system, connected with building a unified national market and advancing reforms for the market-based allocation of production factors. After establishing the socialist market economic system, China has come to the new phase to maintain socialist market economic operations, as recognized in the report. Specifically, the priority of work has shifted from initiating the market-based economy to raising its level, from developing a fledgling market system to fostering a high-standard one, from improving the market economic system to improving market economic operations, and from conducting macroeconomic regulation to establishing macroeconomic management. These shifts have centered around the creation of a high-standard market system.

Since its introduction at the Fourth Plenum of the 19<sup>th</sup> CPC Central Committee, the concept of a “high-standard market system” has been intensively researched by scholars, who have arrived at divergent conclusions. According to Zhang and Wang (2021), a high-standard market system is characterized by the “decisive role of the market in resource allocation, a unified domestic market, the barrier-free cross-regional flow of products and factors, the implementation of market openness at a high level, the capacities to withstand risks and resolve contradictions; the government’s protection of the proprietary assets of market entities, and appropriate regulatory interventions against monopoly, unfair competition, and barriers to regional market access.” According to Wang and Wang (2020), “high-standard market system is a higher form of the modern market system.” Sheng (2021) contends that the establishment of a “high-standard market system” is a fundamental reform for the elimination of obstacles to the market-based allocation of production factors and the circulation of goods and services. The high-standard market system, in our view, is the vehicle and basis for the efficient operation of the socialist market economic system, thereby supporting the nation’s high-quality development. A high-

quality development combines a high-standard market system with a higher-level opening. It involves two interrelated aspects: First, establishing a market system with high standards, and second, pursuing a policy of opening-up at a higher level. Theoretically, high-quality development requires a compatible, high-standard market system that is essential to the protection of intellectual property rights, the efficient operation of market mechanisms, the dynamism of market-based economic operation, and the vitality and creativity of market entities. In practice, China has completed the basic framework of a socialist market economic system and enhanced its functioning. The market plays a decisive role in resource allocation. As China's market grows and improves structurally, its fundamental market system serves as the vehicle for China's socialist economic operations. To function effectively, China's market system still requires improvement, particularly in relation to property rights. Specifically, it is necessary to improve the factor market, eliminate obstacles to the free movement of land and labor factors, and establish a market-based economic order with fair competition. The social credit system requires further development as the operations of the market system still lack standardization and order. These issues demonstrate the significance of establishing a market system with high standards as the basis for the socialist market economy. In the new landscape of domestic and international dual circulations, substantial policy efforts are required to promote high-quality development. To do so, we must establish a high-standard market system and a unified national market, remove institutional limitations, address policy issues, and smoothen national economic circulation. China's huge market potentials should be converted into actual demand by enhancing supply-side quality and efficiency. This policy orientation includes the development of a high-standard market system and the cultivation of new market advantages to support the emergence of a new pattern of development.

## **2. New Requirements for Creating a High-Standard Market System in the New Development Stage**

The high-standard market system encompasses robust market institutions, efficient factor allocation, conducive market environment, market openness at a high level, and efficient market supervision (Ma, 2021). It is characterized by openness, standardization, sufficient competition, smooth access, complete systems and governance, world-class market standards, and distinctive features of China's market-based economy for high-quality development under a new development paradigm (Ren, 2020). The development of a high-standard market system in the new stage comprises the following components.

### **2.1 High-Standard Commodity Market System**

As a key component of the market system, the commodity market system encompasses the market of consumer goods and the market of producer goods. It is a key venue and vehicle for the transaction of physical and nonphysical goods. Over the past three decades of socialist market economic development, China's commodity market has achieved sufficient development, and the current main task is to improve the quality of development. In this development new stage, the key tasks of developing a high-standard commodity market system include the followings.

(i) Advancing digital transition. Improving digital transaction infrastructure is the key to expediting the digitalization of the commodity market. More use cases of digital technologies should be developed for the commodity market. Multiway market transactions should be fostered with the help of digital trade platforms to increase the efficiency of commodity market transactions.

(ii) Broadening commodity market openness. It is important to adopt international transaction rules and methods, establish a multitiered and open commodity market system, and broaden and raise the level of commodity market openness.

(iii) Encouraging new modes of consumption. In the era of the digital economy, new consumption modes such as online shopping and online-to-offline (O2O) integration based on mobile internet and

intelligent features have transformed the traditional commodity market. In developing a high-standard market system, we need to leverage the supporting role of digital technologies and the digital economy, develop a new consumption system, and promote the modernization and digitalization of the commodity market.

(iv) Strengthening the legal framework for the commodity market. Efforts should be made to develop the rule of law for commodity market entities, market transaction behaviors, and market supervision, and to establish a commodity market legal system that conforms to international norms and unifies domestic and foreign trade.

## **2.2 High-Standard Factor Market System**

As a symbol of the high-standard market system, the level of market-based factor allocation is central to the creation of a high-standard market system and a strategic priority for the development of a high-standard socialist market economic system in the new stage. The objective is to establish a unified, open, and robust factor market, characterized by the unrestricted flow, efficient allocation, and market-based pricing of production factors. Factor flow will be facilitated by market-based pricing, competition, and market entry-exit rules. In the new development stage, the following priorities have been designated for the development of a high-quality factor market:

(i) Development of a high-standard financial market. Financial market development should be market-oriented and centered on institutions, norms, and laws. Financial institutional reforms should be accelerated in order to “improve the monetary policy transmission mechanism and the interest rate formation mechanism”(Wang, 2020), serve key areas of high-quality development, enhance the role of financial markets in resource allocation, increase financial market efficiency, optimize financial market structure, and place the financial industry at the service of the real economy. We should expand existing financial markets and enhance their functionality and efficiency. To protect financial security, financial market risk management must be strengthened.

(ii) Creating high-standard labor market, technology market, and information markets. The key to developing a high-standard labor market is to construct a high-standard human resources market system in order to convert China’s demographic dividends into human capital dividends and to promote market-based and efficient human resource allocation and flow. When developing a high-standard technology market, we should give priority to encouraging high-quality R&D and commercializing R&D results on the basis of protecting intellectual property rights. The technology factor market should provide more efficient services to combine technology factors with other factors, thereby contributing to high-quality economic development and innovation.

(iii) High-standard data factor market. After becoming a new production factor, the data factor has spurred the development of a data market. In the current exploratory phase of data factor development in China, our top priority is to create fundamental data systems, including those governing data ownership, the use, protection, and profit distribution of data assets, as well as data asset systems, and to establish an operational mechanism of data assets with separate rights of data ownership, data use, and data operation.

## **2.3 High-Standard Market Institutional System**

High-standard market institutional system is the basis for efficient market operations. The foundational elements of a high-standard market system, with fair competition as its central goal, are established through the implementation of institutional frameworks that govern property ownership, corporate competitiveness, and fair competition. These pillars serve as the bedrock for high-standard market institutions, which prioritize the following objectives:

(i) A complete property right system. The establishment of a complete property right system is imperative for effectively governing market dynamics, enabling the smooth movement of capital, and

promoting economic restructuring. The efficacy of the high-quality market system is contingent upon improvements to the property rights system, which exhibits clear-cut ownership rights and obligations, robust safeguards, and smooth transactions. A complete property right system encompasses the delineation of property rights across diverse ownership systems, the protection of property rights under the principle of equality, and the facilitation of property transactions.

(ii) A competitive enterprise system. Competitive corporations are bolstered by a modern corporate system, and a high-quality market system necessitates robust market entities operating inside that system. A modern corporate governance system is central to corporate competitiveness. Companies should be encouraged to upgrade their corporate governance in order to function as effective market participants..

(iii) A robust system for fair competition. Fair competition system provides the assurance that market competition and vitality will increase. The two components of fair competition are the protection of property rights under the principle of equality, together with the improvement of fair competition review system and consistent market access for market entities. The fair competition review system should aim to level the playing field in terms of market-based factor pricing, rules of factor flow, and factor allocation mechanism. Various market entities should have equitable and efficient access to production factors on an equal basis. In the meantime, efforts should be made to address administrative monopoly, unfair competition, local protectionism, and new forms of monopoly in the domain of the digital economy.

(iv) An authoritative negative list system for market access. This system guarantees equal market access for all market participants. On this premise, we should improve the market exit mechanism, the delisting system for listed companies, and the system for corporate insolvencies, while making institutional arrangements for the implementation of the market access negative list.

## 2.4 High-Standard Macro-Regulation System

The market system cannot function effectively without a robust macro-regulation system that meets the following requirements:

(i) Respecting the laws of market economic operation. Macroeconomic regulation with high standards must follow the laws concerning the value, supply and demand, and competition, and the laws governing market economic operations. In conducting macroeconomic regulation, policymakers must follow the market-based rules of value, supply and demand, and competition, and conduct macroeconomic regulation by means of policy instruments such as price, wage, tax rates, interest rates, and exchange rates. Macroeconomic regulation policies should be forward-looking, innovative and coordinated to combine the roles of market and government and effectively meet policy targets.

(ii) Modernizing macroeconomic governance. Macroeconomic regulation should be performed with an array of policy initiatives to enhance regulatory capabilities and systems, shifting the focus of work from management to governance. Macroeconomic regulation should be made more forward-looking and targeted to bring about synergy for developing a high-standard market system and promoting high-quality market economic development.

(iii) Ingenuity. The high-standard macroeconomic regulation system should adopt innovative instruments and methods to increase efficiency, steer market economic operations toward the right direction, and maintain market economic order. Efficient macroeconomic regulation is conducive to effective allocation of economic resources, the socialist nature of the market economy, and the development of market economic systems with high standards and quality.

(iv) Policy coordination. The high-standard macroeconomic regulation system should improve policy supply according to the requirements of building a robust market economic system with more targeted and effective policymaking. The stability of socialist market economic operations should be maintained. We should coordinate macroeconomic policies, including fiscal and monetary policies, as well as industrial, regional and human capital policies, in order to bring about macroeconomic policy synergy.

## 2.5 High-level Market Openness

A higher level of openness is integral to high-quality economic development and high-standard market system. It needs to be supported by domestic market openness and harmonization between domestic and international markets.

(i) Raising the quality and level of openness. A higher level of market openness should be pursued through institutional openness to improve the quality and level of market openness and create an efficient and open economic system. According to the new trends of global industrial relocation, we should transform the pattern of trade development, and broaden foreign economic cooperation and market openness by innovatively utilizing foreign capital and promoting business attraction.

(ii) Steadily expanding financial market openness. We should take coordinated steps in opening financial markets and reforming the renminbi exchange rate formation mechanism, connecting domestic and foreign capital markets, and improving the qualified overseas investors system. Regulatory rules for financial market openness should be perfected in line with international practices. In the meantime, financial regulation should be enhanced to support financial openness and risk control.

(iii) Further market opening of the service sector. Service sector openness is a key aspect of economic openness and high-quality service sector development. We should open up the service sector to private and foreign capital, remove barriers to service sector openness, increase competition in the service sector, and align domestic and international service market practices.

(iv) Fostering a business environment with higher level of openness. A conducive business environment is vital for creating an open economy and raising the level of external openness. We should create institutional arrangements for the unimpeded cross-border flow of factors, products and services.

## 2.6 High-Standard Market Environment

The quality of market environment is a key symbol of a high-standard market system. Creating a market environment with fair competition and regulating market order provide an important assurance for the high-standard market system.

(i) Standardizing market order and improving market environment. We should improve market environment to balance supply with consumption and improve the rule of law and business environment. It is important to address dilemmas facing market entities and encourage small and micro businesses to become more competitive by modernizing their corporate governance and seeking business upgrades. All market entities should be entitled to a level playing field and satisfactory market services. While inducing quality upgrades on the supply side, we should strengthen consumer protection on the demand side and develop a more conducive market environment.

(ii) High-standard market infrastructure. Reliable market infrastructure serves as a pillar for developing a high-standard market system. The development and interconnectivity of traditional and new types of market infrastructure will give rise to smart devices and the platform economy, helping to foster a nationally unified and competitive domestic market. Interconnectivity of transportation and transaction infrastructures will connect logistical systems across regions. Priority should be given to developing high-standard infrastructure in key markets.

(iii) High-standard modern market supervision system. In developing a market system with high standards, it is essential to enhance market supervision. We should attach importance to security in developing a high-standard market system and devise precautionary safeguards against major market risks. As parts of modern market supervision systems, risk monitoring, prevention and early warning should be put into place according to the new situation and stage of economic globalization.

## 3. Priorities for Developing a High-Standard Market System in the New Development Stage

High-quality development is a combination of high-standard market system at home and high-level

opening-up abroad. Priorities for establishing a high-standard market system in a new development stage include the followings.

### **3.1 Constructing an Efficient, Standard and Fully Open Unified Domestic Market with Fair Competition**

A unified national market should be characterized by sufficient competition and division of labor on the basis of unified policymaking, consistent rules and coordinated policy implementation (Liu, 2022). The unified national market enables the smooth circulation and optimal allocation of commodities and factor resources according to market economic laws and rules. As stated in the *Opinions of the CPC Central Committee and the State Council on Accelerating the Development of a Unified National Market*, the unified national market needs to have consistent market rules, high standards of infrastructure, unified commodity and service markets, fair and consistent market supervision, and standardized regulatory practices against unfair market competition and market interventions. The following priorities are entailed for the creation of a unified national market with high standards in the new stage.

(i) Creating a nationally unified ultra-large market. With a large population and market, China should foster a robust domestic market and increase aggregate market demand from the production side. Disequilibrium in the development of the commodity market and the factor market should be addressed to optimize market structure. In particular, priority should be given to fostering technology and human capital markets related to innovation-driven economic development, as well as the data factor market related to the digital economy. Meanwhile, market functions and mechanisms should be perfected to optimize the market environment.

(ii) Creating a unified, open and competitive market system. We should remove market, sectoral and regional barriers to allow the market to play a decisive role in resource allocation, strive to address the issues of market segmentation, monopoly and local protectionism, and strengthen the fundamental role of competition policy. The equality of rights, opportunities and rules should be realized to create conditions for market mechanisms to function effectively and support the new development paradigm of domestic and international dual circulations.

(iii) Forging nationally unified commodities and factor distribution policies and trade systems. In establishing a unified national market, we should strive to remove market segmentation and local trade protectionism, develop a nationally unified commodity and factor flow policies and trade systems, and clear barriers to the flow of commodities and factor resources on a broader scale.

(iv) Establishing a market-based price mechanism. As an essential aspect of the unified national market, the market-based price mechanism encompasses market-based price formation and price regulation mechanisms. Market-based price formation functions as a pivotal mechanism of resource allocation, underpinning the high-standard price system. The market-based price formation mechanism enables reasonable resource allocation through the response of supply and demand to price change, thereby regulating economic activity across the board.

### **3.2 Advancing Market-Based Efficient Allocation of Factor Resource**

The market-based reform of factor allocation is a priority and a challenge in building a high-standard market system (Wang, 2021). Market-based factor allocation is a critical step in increasing efficiency and developing a market system with high standards. It also serves as the premise for bringing together premium factors and giving play to the decisive role of market in resource allocation. Over the past three decades, China has established a basic market economic framework. However, the slow progress of factor market development compared with commodity and service markets has, to some extent, restricted the efficient allocation and reasonable flow of resources, impeding the fair and orderly competition of market entities. In the new development stage, a key entry point in developing a high-standard market system lies in the efficient allocation of factor resources.

(i) Improving financial operations and advancing healthy financial market development. We should enhance investor protection and capital market supervision, and increase regulatory transparency and the rule of law. Efforts should be made to improve company listing and delisting systems and foster institutional investors in the capital market. A multitiered capital market system should be put into place to promote healthy capital market development and perfect the market-based interest rate formation and transmission mechanism to lower the cost of financing for the real economy.

(ii) Improving the labor market and facilitating the orderly flow of labor factor. We should establish an employment policy system for the digital economy era and remove labor market segmentation and barriers to the free flow of workers to increase labor market flows. Labor flow should be facilitated by perfecting a nationally unified social insurance public service platform and developing a medical insurance information system.

(iii) Improving the land market and promoting market-based land allocation. We should deepen land management reforms, activate land stock and underutilized land plots through market-based means, and improve the land price formation mechanism for urban construction land. Urban and rural divide should be bridged by establishing an urban and rural construction land market and price formation mechanism to optimize land resource allocation through market-based means. Market-based industrial land allocation reforms should contribute to the real economy's development

(iv) Perfecting the technology factor market and integrating technology factor with other factors. We should develop a high-standard technology factor market to promote innovation and market-based technology factor allocation. It is important to construct a high-standard technology transaction market to integrate the technology factor with other factors, encourage the commercialization of R&D results, and promote the orderly flow and reasonable allocation of the technology factor.

### **3.3 Vigorously Fostering the Data Factor Market**

The data market is the premise for the digital economy and other new economic modes to thrive. It is also a key aspect of building a high-standard market system. In cultivating the digital factor market, we should fully explore data potentials, give play to the multiplier effect from the combination of the data factor and other factors, and fashion domestic and international circulations with positive interactions.

(i) Protecting data ownership rights. It is suggested to realize the smooth flow and efficient allocation of data factor, define the rights and responsibilities of data factor market entities for the protection of data transaction parties, and improve the price determination mechanism of the data factor, including the appraisal of data value and data transaction rules. Priority should be given to improving the distribution of data revenues, promote the openness and sharing of data, establish basic systems for the property rights, transaction, distribution, transmission and security of data resources, and perfect the data security system.

(ii) Creating a high-standard data factor market system. We should raise standards for fostering a data factor market compatible with the digital economy and safeguard fair competition in the data market. Efforts must be made to facilitate access for market entities, maintain orderly competition, and optimize the business climate. Data sharing and transaction platform development will increase the supply of high-quality data factor and match supply of high-quality data factor with the actual needs of economic development. It is also imperative to establish an open and transparent data pricing mechanism and step up antimonopoly management of data factor platforms.

(iii) Forging dynamic equilibrium of data factor supply and demand at a higher level. The cross-regional flow and efficient allocation of data should be realized by integrating the data market, removing market barriers and segmentation, and increasing data openness and sharing. It is advised to create a data evaluation system, develop data application use cases, and foster a multitiered data market ecosystem to balance data market supply and demand on a dynamic basis.



### 3.4 Innovating Market-Based Allocation of High-End Factors

As high-end factors account for a rising share in the new development stage, policymakers must attach great importance to the market-based allocation of high-end factors such as innovative technology, modern finance, highly qualified professionals, and high-end services. As an essential aspect of the high-standard market system, market-based factor allocation must adopt innovative practices to be more effective and efficient. In developing the market system with high standards in a new development stage, policymakers must encourage innovations in the market-based allocation of high-end production factors.

(i) Fostering the high-end factor market. This requires the development of a high-standard technology market. The high-end factor market should bring together the best R&D forces to bring about major technological breakthroughs for technological independence and the implementation of an innovation-driven strategy.

(ii) Fostering a modern financial factor market. It is advised to perfect systems of the factors, organization, rule of law, regulatory supervision, business environment and infrastructure of the financial market, focusing on the perfection of the financial factor market and regulatory systems to encourage financial product innovation. Proactive efforts must be made to match financial institutions with real economy enterprises in need of capital, and guide financial institutions and the capital market to support technology innovation, green development and other priority areas in order to place the financial industry at the service of the real economy.

(iii) Fostering the talent market. It is a key component of a high-standard market system. In the new stage, we should attach importance to developing the talent market, let the market play a fundamental role in resource allocation, and encourage the reasonable flow of talent. The talent market should be developed sufficiently to make full use of China's human resources and implement a human capital priority strategy to address the shortage of highly skilled people. The government should enhance policies and regulations for the human resource market, and develop social service and protection systems. In particular, it is important to foster a talent market of entrepreneurs. Entrepreneurs are the most vibrant human capital, and the market of entrepreneurs is an important symbol of the high-standard market system and should be steadily improved in accordance with the law and the nature of a highly qualified talent market.

### 3.5 Improving Governance System of High-standard Market System

The high-standard market system should be characterized by orderly competition, complete systems, and sound governance. It should be a market system with governance assurance and needs to be supported by more mature and complete market governance. Specifically, a complete market governance system includes the followings.

(i) Institutional governance. The property rights system should be designed to unleash market dynamism, promote competition, and standardize market order. The property rights system should follow the principle of equality and create effective incentives through property right protection, underpinning the property ownership system of the market economy. The government should promote fair competition, strengthen the fundamental status of competition policy, and implement a fair competition review system, giving more prominence to the competition policy. It should ensure the equal status of market entities with respect to market entry, competition and property right protection.

(ii) Governance. Reforms should be carried out to streamline the government, delegate power, and improve government services with the aim to enhance market economic governance. Administrative review and approval systems should be reformed to reduce institutional transaction cost. The government should maintain a market economic order of fair competition, remove market segmentation, and establish a unified national market. Market rules should be adopted for the positive interactions between the government and market, forming a landscape of co-governance between the government and various market entities.

(iii) The rule of law. The government should improve laws and regulations governing market economy, protect the interests of businesses, workers, consumers and investors, and develop a high-standard market system under the rule of law. All market entities must have equal access to the factors of production and compete on an equal footing under the principles of property protection, market unification, equal exchange and fair competition, establishing a legal governance system for the high-standard market system.

### **3.6 Improving the Credit System of High-Standard Market Economy**

The credit system undergirds the well-functioning of modern market economy. It is a prerequisite for constructing a high-standard market system.

(i) Constructing a nationwide credit information platform. The government should improve the national credit information sharing platform, develop corporate and personal credit information databases, and integrate corporate and personal credit information according to the credit data exchange standards and rules. Complete and dynamic national corporate and personal credit information databases should be developed as part of a nationwide credit information platform.

(ii) Advancing credit information market applications. In a market economy, market transaction relations and behaviors are primarily manifested in credit relations. The scope of credit information that can be lawfully and reasonably made available to the market should be designated to ensure the lawful access of market entities to public credit information. Credit service institutions should be guided to offer innovative credit products and a broad range of professional credit services.

(iii) Expediting fundamental legal development for the social credit system. The government should accelerate local legislation of social credit system and strengthen the mandatory nature and standardization of social credit. Priority should be given to developing laws and regulatory rules for the social credit system and improve the channels and procedures for incorporating the social credit system into local legislation.

(iv) Establishing a credit rewards and punishment system. In developing high-standard market system, the government should standardize credit rewards and punishment.

## **4. Institutional Reform for Developing a High-Standard Market System in the New Development Stage**

China's market system development has made some important progresses. The role of market mechanism has been increasingly brought into full play. Market expansion, structural improvement and establishment of market rules and systems have turbocharged economic growth. In the new development stage, the priority is to raise the standards of China's market system by overcoming the barriers of institutional systems. Deepening institutional reform is a priority and also a difficulty in establishing a high-standard market system. Institutional reforms should be carried out to facilitate the flow of production factors from inefficient sectors to those with better efficiency and higher quality. In developing a high-standard market system, the government must strive to remove institutional barriers to the market-based allocation of production factors. The development of a high-standard market system is a systematic project. Policymakers must follow a target and problem-oriented approach, deepening institutional reforms, and construct a market system with high standards for the new development stage.

### **4.1 Forging an Institutional System of an Effective Market, Capable Government, and Vibrant Enterprises**

The high-standard market system should delineate the boundary of functions between the government, market and enterprises.

(i) Effective market. An effective market should allow the role of market to be brought into full

play, making price responsive to changes in supply and demand relationship. Price mechanism should regulate resource allocation, economic activity and commercial exchanges in order to raise efficiency. An effective market is characterized by sufficient competition, the rule of law, and sound social credibility.

(ii) Capable government. A capable government should respect market economic laws, follow the rules of the market economy, maintain economic order and steady growth, effectively allocate resources, and promote fair competition. A capable government should effectively perform the functions of strategic economic planning, macroeconomic regulation, and market supervision, overcome market failures, and level the playing field. A capable government must formulate plans and standards and create platforms for the independent choice of market entities. It should perform macroeconomic regulation to maintain stable economic operation. It must also enhance market supervision, maintain fair competition, improve social governance, and promote social harmony and all-round progress.

(iii) Vibrant enterprises. Vibrant enterprises are competitive and capable of sustainable development with core technologies, well-known brands and innovativeness. Corporate vibrancy is a reflection of economic dynamism, underpinning the operation of the socialist market economy. Specifically, corporate vibrancy comprises product competitiveness, technology development, asset value appreciation, market adaptability, and employee cohesiveness.

#### **4.2 Formation of Property Rights System with Effective Incentives with System Reforms**

A high-standard market system necessitates the formation of property rights system with effective incentives, including the economic property rights of various ownership systems and the property right protection system under the principle of equality. A competitive corporate system is reflected in the modernization of corporate governance to increase competitiveness. A sound factor market system is reflected in the unified market-based factor price determination mechanism, consistent rules on factor flow, factor allocation mechanism, and complete market systems for the equal access of market entities to factors of production to ensure orderly flow and fair and efficient allocation. An authoritative market system should be adopted for the equal access of various market entities (Ren, 2020). In developing a high-standard market system in the new development stage, the government should reform the property rights system to offer effective incentives as follows.

(i) Improving the definition and allocation of property rights with effective incentives. We should establish a modern property rights system with explicit ownership, clear rights and responsibilities, and smooth operations, and make clear definitions of the ownership and operation rights of enterprises with different ownership systems. The government should optimize the layout and structure of the state sector of the economy, and encourage strategic corporate restructuring for cross-shareholding, and promote the mixed-ownership economy to increase the efficiency of resource allocation.

(ii) Improving the property right transaction system with effective incentives. The government should establish an efficient, transparent and multitiered property transaction platform for the smooth operation of property right transfer. Priority should be given to addressing the problems of inaccurate pre-transaction asset appraisal, opaque transaction process, unreasonable transaction price, and default of payment.

(iii) Improving the property rights protection system with effective incentives. The government should improve the property right protection system, enhance equal and comprehensive protection of property rights, ensure that property rights are equally inviolable no matter they are in the public or non-public sectors of the economy, develop the rule of law for the protection of property rights, and unswervingly promote both the public and private sectors of the economy. It is important to increase the protection of intellectual property rights, lawfully protect the assets and innovation gains of entrepreneurs, and increase the dynamism of economic development and innovation across the country.

### 4.3 Advancing Market-Based Reform of Factor Price

Market-based resource allocation will become a reality only when all factors have access to and freely flow in the market (Hong, 2014). Market-based factor price is of great significance to China's factor market development, factor allocation efficiency, and high-quality economic development.

First, it is advised to speed up market-based factor price reform, expand the scope of market-based factor pricing, promote the orderly flow of production factors, and improve the market-based factor operation. Second, the government should minimize direct involvement in resource allocation and refrain from intervening in market activities. Non-intervention is important for efficient and fair resource allocation and the vitality of market entities. Third, institutional barriers to the free flow of factors need to be removed to achieve market-based pricing, orderly flow and efficient allocation of production factors. The government should properly approach its relationship with the market and avoid intervention in competitive market-based pricing, which is essential to regulating the supply-demand relationship and optimizing resource allocation (Ren, 2020). Fourth, it is suggested to improve the factor market transaction platform and increase its functions, enhance factor transaction rules and services, and develop robust regulatory systems for factor transactions. Fifth, deepening reforms of major market segments is also essential. Financial reforms will be deepened and financial innovation carried out in fostering a multitiered capital market that provides enterprises with diverse investment values and instruments and encourages financial institutions to support the real economy and high-tech industries by such means as setting up a business start-up fund. Steps should be taken to further open up the financial service market and grant financial service licenses to eligible private capital and encourage financial innovation. Reform of social services should be deepened to expand market openness. The government should lower market access restrictions in such areas as healthcare, education and sports, give play to the role of market mechanisms, and introduce diverse market entities to increase dynamism.

### 4.4 Advancing Institutional Innovation Compatible with High-Standard Market System

The market system undergirds the high-standard market system. Improvement in the quality of institutional supply, therefore, entails institutional innovation and improvement. In creating a high-standard market system in the new development stage, the government should establish a high-standard market system with the participation of diverse entities.

(i) Accelerating developing a complete negative list system for market entry. The negative list is an important instrument for balancing the relationship between government and market in building a high-standard market system. It can reduce the implicit and explicit barriers that confront businesses in market entry, operation and exit, and incentivize technology innovation, information sharing and data development to inspire the dynamism of market entities.

(ii) Delineating the boundary between market and government. The government should strengthen the fundamental role of competition policy, revise antimonopoly laws and regulations to improve fair competition review, and tighten market supervision to root out market and administrative monopolies.

(iii) Improving institutionalized and law-based government macro-regulatory system. The government should explore internet-based government services and other new modes of digitalization and optimize the supply structure of public goods in the market economy, maintaining a reasonable market impact of regulatory policies.

(iv) Perfecting informal systems such as industry norms and ethics in the new economy. Informal systems serve as an effective supplement to formal market systems. By allowing all entities to contribute to creating a high-standard market system, informal systems will reduce negative externalities and help foster compatible market incentives and benign competition.

(v) Advancing institutional innovation for opening-up at a high level. It is advised to improve the negative list system for the market access of foreign capital, improve the foreign investment

administration system, implement the foreign investment information reporting system, and adopt innovative regulatory practices. Efforts must be made to promote integration with international markets and rules, increase openness and cooperation on competition rules, and facilitate institutional openness. Businesses should be encouraged to certify for domestic high standards and adopt international standards.

#### **4.5 Improving Institutional Systems for the Maintenance of Market Security**

A high-standard market system must maintain the market security, including the security of market entities, customers and transactions, in order for various transactions to be carried out smoothly. In developing a high-standard market system, it is important to improve institutional systems for the maintenance of market security.

(i) Attaching great importance to the security of market systems. The government should enhance domestic market security management according to changing situations of domestic and international commodity, service and factor markets, and strengthen cross-departmental supervision over major markets and market infrastructures. It should improve security review mechanism, apply international rules to safeguard domestic market security, and prevent and resolve major market risks.

(ii) Strengthening security management for key markets and sectors. The government should enhance security management for major market transactions of bulk commodities, capital, technology and data, enhance monitoring and early warning for those sectors and key markets, and formulate major market risk response plans. It is important to ameliorate supervision over financial services, including internet finance, bolster financial stability assurance, and perfect financial risk prevention, early warning and disposal. Efforts must be made to promote food safety, pharmaceutical safety, equipment safety, industrial product safety, and consumption safety in order to maintain the safety of market operations.

(iii) Establishing a security regulatory system for new industries, new forms and new modes. With the rapid development of digital economy, its various new industries and business forms continue to emerge. It is essential for the regulatory system to keep up with those developments in order to maintain market economic order and security, ensure orderly competition among innovative industries and market entities, and protect consumer rights and interests. Online market risk monitoring and early warning capabilities should be increased to monitor the internet-based service market order.

#### **4.6 Improving the Supporting System for High-standard Market System**

The high-standard market system is an organic, integrated and complete system that is supported by the following pillars.

(i) Market infrastructure. Efforts should be made to develop logistical infrastructure and digital and smart logistics, focusing on modern logistics. The government should improve commodity market infrastructure and upgrade traditional market infrastructure, improve smart market infrastructure and develop smart shops, smart neighborhoods and smart shopping districts, and perfect quality management infrastructure. Market infrastructure connectivity should be increased via the internet of things (IoT) and industrial internet.

(ii) Modern market governance. The security, standardization and orderly operations of a high-standard market system necessitate a modern market governance system. It is advised to create a modern market governance system to comprehensively advance governance, maintain market security and stability, establish a modern market governance system, optimize the market governance environment, and increase the scientificity and effectiveness of market governance. Regulators should enhance internet-based governance and further standardize governance behaviors. They should modernize the system, capabilities and means of market governance.

(iii) Basic public services. A high-standard market system requires a high level of public services,

including education, healthcare, cultural services, and social welfare. Standardization of basic public services will make up for the shortfalls and improve equal access to public services. Desirable public services will meet people’s needs and encourage consumption. ■

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