

Perfecting the Foundational Institutions for Market Economy: Reform Achievements and Path to Chinese Modernization

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Abstract: *This paper defines the core connotations of the foundational institutions for market economy and briefly reviews the establishment and improvement of China's market economy system. It highlights the significant achievements China has made in this regard since reform and opening-up in 1978, including the development of relatively complete systems of the market economy, the orderly and stable operation of the market economy, the sustained and steady growth of the national economy, and the deep-rooted recognition of the foundational institutions for market economy. Furthermore, it discusses the importance and necessity of further improving these foundational systems for China to build a high-standard socialist market economy, achieve the ambitious goal of becoming a modern and powerful nation on schedule, and gain a strategic advantage in international competition. Based on an analysis of the key challenges currently present in China's market economy systems, this paper outlines major tasks and policy measures for further improvements, including enhancing the property rights system, market access regulations, fair competition mechanisms, and improving the regulatory framework for the social credit system.*

Keywords: *Foundational institutions for market economy; reform and opening up; property rights system; fair competition system; social credit system*

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The *Report to the 20th National Congress of the Communist Party of China (CPC)* in 2022 emphasized: “We will refine the systems underpinning the market economy, such as those for property rights protection, market access, fair competition, and social credit, in order to improve the business environment” (Xi Jinping, 2022: 29). This vision was further elaborated in the *Resolution of the CPC Central Committee on Further Deepening Reform Comprehensively to Advance Chinese Modernization*, adopted at the Third Plenary Session of the 20th CPC Central Committee in 2024, which laid out the key tasks for improving these foundational systems both at the current stage and in the future. This paper aims to explore the fundamental essence of these market economy systems, highlight their critical importance and necessity, review the significant progress China has made in enhancing them, and propose strategies for further improvement. Through this discussion, we invite your valuable insights to enrich the discourse.

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1. Basic Connotations of Foundational Institutions for Market Economy

With the emergence of commodities, human societies have employed two main approaches to resource allocation. One is the highly centralized planned economy, where resources are allocated through a planned mechanism. The other is the market economy, where supply and demand, competition, and pricing determine resource distribution. In the realm of market economies, capitalist nations adopt a capitalist market economy, whereas China follows a socialist market economy—the two systems share similarities but differ fundamentally. Before the Third Plenary Session of the 11th CPC Central Committee in 1978, China adhered to a highly centralized planned economy, and the national economy was on the verge of collapse. Following that landmark session, China introduced market-oriented reforms, achieving a successful transition from a planned economy to a socialist market economy.

The *Report to the 14th National Congress of the CPC in 1992* solidified this shift, declaring: “The goal of China’s economic system reform is to establish a socialist market economy system” and “to enable the market to play a basic role in resource allocation under the macroeconomic regulation of the socialist country” (Jiang Zemin, 1992). This vision evolved further with the *Resolution of the CPC Central Committee on Comprehensively Deepening Reform*, adopted at the Third Plenary Session of the 18th CPC Central Committee in 2013. It proclaimed: “We must enable the market to play a decisive role in resource allocation and to better leverage the role of the government. Market-determined resource allocation is a universal principle of the market economy, and building a robust socialist market economy system must adhere to this principle” (Academic Affairs Department of the Party School of the CPC Central Committee, 2015: 202). From the market playing a “basic” role to a “decisive” one, it marks a significant innovation and a major advancement, whether viewed from the cognitive, theoretical, or the practical perspective.

The *Resolution of the CPC Central Committee on Further Deepening Reform Comprehensively to Advance Chinese Modernization*, adopted at the Third Plenary Session of the 20th Central Committee in 2024, emphasizes the importance of enhancing market mechanisms. It states: “We must better leverage the role of market mechanisms, create a fairer and more dynamic market environment, and achieve optimal efficiency and maximization of benefits in resource allocation.”

A market economy, as a system for distributing resources, is remarkably intricate, blending broad macroeconomic trends with the specific behavior of individual entities. It encompasses both government decision-making and everyday people, while linking consumer goods markets with production factor markets, and domestic economies with global trade. In today’s interconnected world—shaped by advancing globalization and the internet—vast flows of production factors and goods move swiftly across borders. No market participant can exist in isolation from the market. To maintain the sustained and healthy development of the national economy, it is essential to fully harness the invisible hand of the market, allowing it to play a decisive role in resource allocation. At the same time, the visible hand of the government must function effectively. Where there is a market, there must also be regulations to ensure its orderly and efficient operation—just as traffic rules are essential for safe driving. The role of the government is to establish and refine a legal and regulatory framework that incentivizes and constrains the behaviors of market participants, government agencies, society, and individuals. At the same time, it provides essential services to market players, reducing their transaction costs.

Globally, market economies operate within a layered regulatory framework. At the international level, there are universal trade and financial rules, such as those established by the World Trade Organization (WTO), alongside regional agreements like the Comprehensive and Progressive Agreement

for Trans-Pacific Partnership (CPTPP) and the United States-Mexico-Canada Agreement (USMCA). Additionally, each country and region maintain its own legal and regulatory systems to govern market operations. China, despite its late start in developing a market economy, has built a comprehensive and well-structured legal framework for the market economy through decades of effort. The Constitution of the People's Republic of China explicitly states: "*The state practices a socialist market economy*", providing the foundation for a vast network of market regulations. Laws such as the Company Law, and Negotiable Instruments Law govern market entities. Macroeconomic regulation is guided by the *Budget Law*, *Audit Law*, and *State-Owned Assets Law*, while market order is maintained through statutes like the *Anti-Unfair Competition Law*, *Consumer Rights Protection Law*, and *Anti-Monopoly Law*. Additional laws, such as the *Foreign Trade Law* and *Commercial Arbitration Law*, further reinforce the system.

Beyond national legislation, a wide array of administrative and local regulations—issued at both central and regional levels—fine-tune market governance. Together, these legal instruments form a vast and intricate regulatory ecosystem, with each law and regulation serving a distinct role in maintaining order and efficiency. However, to further develop a high-standard socialist market economy, continuous refinement of these foundational systems remains essential.

The foundational systems of a market economy refer to a collection of interrelated yet distinct legal frameworks and rules that play a fundamental role in ensuring the orderly and efficient operation of a market economy. These primarily include the property rights system, the market access system, the fair competition system, and the social credit system.

Property rights are the legal expression of economic ownership relations. Described as "the legal conception specific to a particular ownership relation" (Marx & Engels, 1975: 608), property rights constitute a bundle of rights centered on ownership, encompassing possession, use, profit (usufruct), and disposition. The primary function of the property rights system is to reduce transaction costs and enhance the efficiency of resource allocation. The market access system refers to the legal framework through which the state establishes, reviews, and confirms the qualifications of market participants. It serves as both the entry point for market entities and the starting point for government regulation of the market. Its purpose is to maintain fair competition and protect consumer rights. By implementing this system, market participant behavior can be effectively regulated, preventing unfair competition and market disorder. The fair competition system is a core principle of a market economy and a prerequisite for the orderly and efficient functioning of market mechanisms. It is an intrinsic requirement for refining the socialist market economy system and an urgent necessity for advancing a unified national market. This system fosters an environment conducive to innovation, efficiency, and economic dynamism by curbing monopolistic practices and anti-competitive behavior. The social credit system pertains to the state in which natural persons, legal entities, and unincorporated organizations with full legal capacity comply with statutory obligations, perform their duties in accordance with the law, or fulfill contractual commitments. A well-developed social credit system is an important sign of the maturation of China's socialist market economy. Its fundamental role is to promote integrity and penalize dishonesty, thereby reducing developmental risks and facilitating sustainable growth.

These systems are deemed foundational because, compared to other systems, they perform a bedrock function in constructing a high-standard socialist market economy. Like the foundation of a grand edifice, they determine the nature of the market economy, its developmental direction, and the full realization of its resource allocation capabilities.

2. Progress in China's Foundational Institutions for Market Economy

The Third Plenary Session of the 11th Central Committee of the Communist Party of China (CPC) in 1978 marked the beginning of China's reform and opening-up era, and initiated the process of establishing and improving the socialist market economy system. The *Communiqué of the Third Plenary Session* outlined policies granting local governments and industrial and agricultural enterprises greater autonomy in management under the guidance of the state unified planning. It also called for reforms in production relations and the superstructure to better align with the rapid development of productive forces. The Sixth Plenary Session of the 11th CPC Central Committee in 1981 further affirmed that the planned economy, based on public ownership, should remain the foundation, while the market should play a supplementary role in regulation. Additionally, it emphasized the necessity of expanding socialist commodity production and exchange.

The 12th CPC National Congress in 1982 established the principle of prioritizing planned economy with market regulation as a supplementary mechanism. The Third Plenary Session of the 12th CPC Central Committee in 1984 further clarified that the socialist economy is planned commodity economy based on public ownership. It emphasized that implementing planned economy does not equate to relying primarily on mandatory planning. Instead, it advocated for gradually reducing the scope of mandatory plans while appropriately expanding the scope of guidance-oriented plans.

The 13th National Congress of the CPC in 1987 declared that the state's management of enterprises must progressively shift toward indirect management as the primary approach. It asserted that both planning and the market should function across the entire economy, with the new economic operating mechanism featuring state regulation of the market, while the market, in turn, guides enterprises.

The 14th National Congress of the CPC in 1992 set forth the goal of China's economic reform: to establish a socialist market economy system. This system aims to make the market play a fundamental role in resource allocation under the macroeconomic regulation of the socialist state, ensuring that economic activities conform to the law of value and adapt to changes in supply and demand. Through price leverage and competition, resources would be directed toward more efficient sectors, forcing enterprises to achieve survival of the fittest. By leveraging the market's sensitivity to various economic signals, production and demand could be promptly aligned. At the same time, the state would strengthen and improve its macroeconomic regulation. The defining features of a socialist market economy are as follows: in terms of ownership structure, public ownership serves as the main pillar, while multiple economic sectors coexist and develop sustainably over the long term. In terms of distribution, distribution based on labor remains the primary method, supplemented by other forms, striking a balance between efficiency and fairness. In terms of macroeconomic regulation, it harmonizes short-term and long-term interests while aligning local interests with national development goals.

The Third Plenary Session of the 14th CPC Central Committee in 1993 put forward the basic framework of a socialist market economy, which includes a modern enterprise system, a unified and open national market system, a sound macro-control system mainly based on indirect means, an income distribution system that gives priority to efficiency while taking fairness into account, and a multi-tiered social security system.

The 15th CPC National Congress in 1997 affirmed the dominant position of public ownership, highlighting two key aspects: public assets accounting for the dominant position in the total social assets and the state-owned economy maintaining control over the lifeline of the national economy, thereby playing a leading role in economic development, which is mainly reflected in its control power. It was further emphasized that the forms of realizing public ownership could and should be diversified, while

the non-public sector should be actively encouraged and guided to develop healthily. The reform of state-owned enterprises (SOEs) was to follow a “grasp the large, release the small” strategy, meaning prioritizing the development of large-scale SOEs while granting smaller ones greater operational autonomy.

The CPC advocated a system that combines distribution according to labor and distribution according to production factors. This system would protect legitimate income in accordance with the law, ban illegal income, rectify unreasonable income disparities, and regulate excessively high incomes. The main tasks of macroeconomic regulation were defined as maintaining the overall balance of the economy, curbing inflation, promoting the optimization of major economic structures, and achieving stable economic growth.

The 16th CPC National Congress in 2002 stressed the need to unwaveringly strengthen and develop the public sector while unwaveringly encouraging, supporting, and guiding the growth of the non-public sector. Then, in 2003, the Third Plenary Session of the 16th CPC Central Committee designated the shareholding system as the primary means of realizing public ownership. It further allowed non-public capital to enter industries and sectors not explicitly restricted by law, introduced a modern property rights system with clear ownership, well-defined rights and responsibilities, strict protection, and easy transferability, and called for improvements in the market system, regulation of market order, enhancement of macro-control, and acceleration of government function reforms.

The 17th CPC National Congress in 2007 highlighted the equal protection of property rights, aiming to create a competitive and mutually reinforcing environment for all types of ownership economies. It emphasized the need to enhance the vitality, control, and influence of the state-owned economy, accelerate the establishment of a state-owned capital operation budget system, develop various factor markets, and improve pricing mechanisms for production factors and resources to better reflect supply and demand, resource scarcity, and environmental costs. Additionally, it underscored the importance of strengthening the social credit system.

The 18th CPC National Congress in 2012 pointed out that the core issue of economic reform is to properly handle the relationship between the government and the market. It stressed the need to respect market laws more deeply while giving full play to the government’s role. The Congress reaffirmed an unwavering commitment to strengthening and developing the public sector while unwaveringly encouraging, supporting, and guiding the development of the non-public sector. It also emphasized the importance of improving the modern market system and strengthening the institutionalization of macroeconomic regulation objectives and policy means.

Furthermore, the Third Plenary Session of the 18th CPC Central Committee in 2013 stressed that economic system reform is the key point of comprehensive deepening of reforms. It identified the core issue as effectively handling the relationship between the government and the market, ensuring that the market plays a decisive role in resource allocation while the government enhances its governance capabilities. The session called for a proactive yet steady advancement of market-oriented reforms in both breadth and depth, a substantial reduction in direct government intervention in resource allocation, and the promotion of market-driven resource distribution based on market rules, pricing mechanisms, and competition to achieve the highest efficiency and maximum benefits.

The government’s primary responsibilities were outlined as maintaining macroeconomic stability, strengthening and improving public services, ensuring fair competition, enhancing market supervision, upholding market order, promoting sustainable development, fostering common prosperity, and addressing market failures. The session also underscored the necessity of upholding and refining the

basic economic system, accelerating the establishment of a modern market system, and expediting the transformation of government functions.

The 19th CPC National Congress in 2017 called for accelerating improvements to the socialist market economy system. It emphasized that economic reforms should focus on perfecting the property rights system and promoting market-driven allocation of production factors. This approach aims to establish effective property rights incentives, ensure the free flow of production factors, make prices respond flexibly, foster fair and orderly competition, and enable enterprises to survive the fittest.

Moreover, the 20th CPC National Congress in 2022 proposed to build a high-standard socialist market economy system. It reaffirmed the commitment to upholding and refining the basic socialist economic system, fully leveraging the market's decisive role in resource allocation, and better playing the government's role. Key reform priorities included deepening state-owned asset and enterprise reforms, improving the development environment for private businesses, and improving a modern enterprise system with distinct Chinese characteristics. The Congress also emphasized support for small and medium-sized enterprises, further streamlining administration, delegating power, integrating regulation with deregulation, and enhancing public services. Additional strategic objectives included establishing a unified national market, perfecting the foundational systems of the market economy, and improving the macroeconomic governance framework. This entailed modernizing the budget system, deepening financial system reforms, improving the functions of the capital market, strengthening anti-monopoly and anti-unfair competition efforts, dismantling local protectionism and administrative monopolies, and ensuring the lawful regulation and healthy development of capital.

The Third Plenary Session of the 20th CPC Central Committee affirmed that a high-standard socialist market economy system is a crucial safeguard for Chinese modernization. It emphasized the necessity of giving full play to market mechanisms, creating a fairer and more vibrant market environment, and optimizing the allocation of resources to achieve the highest efficiency and maximum benefits. This requires enabling the market to operate more freely while maintaining effective regulation, so as to better maintain market order, remedy market failures, ensure the smooth circulation of the national economy, and stimulate the endogenous motivation and innovative vitality of the whole society. We should adhere to the principle of the “Two Unwaverings”¹, foster a unified national market and improve the foundational institutions for market economy.

As previously stated, since the Third Plenary Session of the 11th CPC Central Committee in 1978, China has progressively deepened its market-oriented reforms through a gradual approach, initiating the most prolonged, populous, and profoundly impactful monumental transformation in human history. This grand reform has achieved remarkable accomplishments, propelling China's historic leap from “standing up” to “becoming prosperous.” Concurrently, a comprehensive institutional system compatible with market economy mechanisms has been progressively established and refined.

China has achieved remarkable progress in developing its foundational institutions for market economy, as evidenced by the following key aspects:

First, China has established a relatively comprehensive framework of foundational institutions for market economy. In terms of property rights protection, a robust legal framework has been put in place, including the *Civil Code*, *Land Administration Law*, *Urban Real Estate Administration Law*, *Law on the Administration of the Use of Sea Areas*, *Forest Law*, *Copyright Law*, *Patent Law*, and *Trademark*

¹ “Two unwavering principles” are stressed in the report to the 20th CPC National Congress: Improve the core competitiveness of state-owned enterprises, and optimize the development environment for private enterprises.

Law. Regarding market access, the General Office of the CPC Central Committee and the General Office of the State Council issued the *Opinions on Improving the Market Access System*. Additionally, in 2015, the State Council introduced and later revised the *Opinions on Implementing the Negative List System for Market Access*. To safeguard fair competition, the 21st meeting of the Central Committee for Comprehensively Deepening Reform under the 19th CPC Central Committee reviewed and adopted the *Opinions on Strengthening Anti-Monopoly and Deepening the Implementation of Fair Competition Policy*, marking the establishment of China's first top-level policy framework for fair competition. The newly revised *Anti-Monopoly Law* further enshrines fair competition as a legal principle, and the fair competition review system has been implemented nationwide, covering governments at the central, provincial, municipal, and county levels.

In the domain of the social credit system, China has introduced the *Outline of the Social Credit System Construction Plan (2014-2020)* and the *Action Plan for Social Credit System Construction (2024-2025)*. The development and refinement of China's foundational market economy systems reflect distinct Chinese characteristics. This process has progressed from local pilot programs to national policies, from administrative regulations to statutory laws, and ultimately to constitutional provisions. By leveraging laws, regulations, and institutional mechanisms, the country has established an adaptive framework that both incentivizes and regulates the behavior of governments and market participants.

Second, China has prioritized the orderly and stable operation of its market economy. A defining feature of its development has been an iterative approach—reforming, advancing, summarizing experiences, and institutionalizing them, with these systems in turn ensuring market stability. By continuously addressing emerging challenges and refining its institutional framework, China has smoothly transitioned from a traditional planned economy to a socialist market economy, despite being the world's most populous nation. This process has allowed China to avoid the severe inequalities seen in the early stages of capitalist market economies, such as those caused by the enclosure movement, where land privatization displaced peasants on a massive scale. It has also steered clear of the economic and social turmoil brought about by the “shock therapy” transitions in the former Soviet Union and Eastern European countries. Moreover, China has not only overcome the stagflation crises that once afflicted developed economies but has also escaped the “low-income trap” and “middle-income trap” that have hindered many developing nations. This has resulted in more than four decades of sustained, stable, and rapid growth—a feat that stands as a historic milestone in the global economic development.

The development of China's market economy vividly demonstrates the fundamental principles of Marxism: productive forces determine production relations, and the economic base shapes the superstructure. As Marx and Engels observed, “*With the acquisition of new productive forces, men change their mode of production, and with the change in the mode of production—the way they earn their living—they transform all their social relations. The hand-mill gives you a society with the feudal lord; the steam-engine, a society with the industrial capitalist*” (Marx & Engels, 2009: 602). In China, production relations have continuously evolved and adapted in response to the advancement of productive forces. President Xi Jinping has emphasized the ongoing nature of reform, stating, “Reform and opening-up is a process that never ends” (Xi, 2014: 69). Institutions are born from practice and, in turn, propel practice forward, embodying the dialectical materialist principle that practice determines knowledge.

Chairman Mao Zedong also articulated this perspective, stating, “*Marxists believe that human society's productive activities develop step by step, from lower to higher stages. Consequently, human*

knowledge—whether about nature or society—also advances step by step, from the superficial to the profound, from one-sided to more comprehensive understanding” (Mao, 1991: 283). The ongoing refinement of China’s market economy systems reflects the Communist Party of China’s progressively deepening understanding of the internal contradictions within the market economy, honed through both theoretical insight and practical experience.

Third, China has maintained the sustained, stable, and healthy development of its national economy. Laws, regulations, and rules are fundamental components of production relations, and the key criterion for evaluating a system of production relations is whether it promotes the advancement of productive forces. The quality of a production relationship cannot be judged in isolation—productive forces serve as the objective benchmark for assessment. Aristotle vividly illustrated this principle: *“A house is something that can be understood not only by its builder but also by others. In fact, the one who lives in the house—the owner—can judge it better than the builder, just as a pilot is better equipped than a carpenter to evaluate a rudder, and a guest is better suited than the cook to judge a feast”* (Aristotle, 2009: 120).

Similarly, in *On Coalition Government* Chairman Mao Zedong emphasized: *“The final test of any political party’s policies and practices in China ultimately depends on whether they help or hinder the development of the Chinese people’s productive forces, and to what extent they contribute to that development”* (Mao, 1991: 1079). Deng Xiaoping further refined this principle, stating that the success or failure of reform and opening-up should be judged by three key criteria: *“Whether it is conducive to the development of socialist productive forces, whether it strengthens the comprehensive national power of the socialist country, and whether it improves the living standards of the people”* (Deng, 1993: 372). President Xi Jinping expanded on this idea with a powerful analogy: *“Whether a pair of shoes fits, only the wearer knows. The Chinese people are the most qualified to judge—and have the greatest say in determining—whether the socialist system with Chinese characteristics is effective and superior”* (Xi, 2020: 124). He further stressed: *“The fundamental interests of the broadest masses of the people must be the starting point and ultimate goal of all our work. We must base our policymaking on whether the people support it, approve of it, and feel satisfied with it”* (Xi, 2020: 182).

Since the launch of reform and opening-up, China has made remarkable strides in productive forces, comprehensive national strength, and living standards. The country’s gross domestic product (GDP) surged from 367.87 billion yuan in 1978 to 134.91 trillion yuan in 2024—a staggering 367-fold increase. China’s global economic ranking rose from 10th to a solid 2nd place, with its contribution to world economic growth exceeding 30% for many years. The quality of growth has also improved significantly, driven by technological progress, breakthroughs in strategic industries, and a shift from merely following to competing and even leading in select fields—securing China’s place among innovation-driven nations. Meanwhile, per capita disposable income for urban and rural residents soared from 343 yuan and 134 yuan in 1978 to 54,188 yuan and 23,119 yuan in 2024, marking 160-fold and 173-fold increases, respectively².

These extraordinary achievements stem fundamentally from reform and opening-up and the establishment and continuous refinement of the socialist market economy. Practice has proven that China’s production relations have not only adapted to but actively propelled the development of productive forces. As President Xi Jinping has underscored: *“Practice has fully demonstrated that China’s rapid progress in the era of reform, opening-up, and socialist modernization has relied on reform and opening-up. Since the 18th National Congress of the Communist Party of China, the historic*

² China Statistical Yearbooks for various years.

achievements and profound transformations in the Party and the country have also been driven by reform and opening-up. On the new journey ahead, forging new milestones in Chinese modernization will still depend on reform and opening-up” (Xi, 2024). At the heart of a stable and well-functioning socialist market economy is a robust institutional framework—particularly the foundational systems that sustain and support market-oriented development.

Fourth, the concept of adhering to the foundational systems of a market economy has taken deep root in public consciousness. Decades of dedicated effort have fostered an increasingly favorable environment where market participants rely on laws, regulations, and systems to resolve disputes. This shift is vividly illustrated by statistical trends: in 1978, Chinese People’s Courts handled 300,787 civil cases; by 2012, that number had soared to 7,316,463, and in 2023, it reached a significant 17,530,542. Breaking down the 2023 first-instance civil cases, we observe 192,977 disputes over personal rights, 349,681 involving property rights, a substantial 11,936,754 tied to contracts, unjust enrichment, and negotiorum gestio, 462,176 concerning intellectual property and competition, 599,395 related to companies, securities, insurance, and bills, and 1,091,165 stemming from tort liability. In addition, beyond the courtroom, 17.2 million civil disputes were settled through mediation in 2023 (*China Statistical Yearbook*, 2024: 769, 771, 773). These figures reveal a dual reality. On one hand, the deepening of the market economy has led to a sharp rise in market-related disputes; on the other, they reflect a growing trust among market participants in legal mechanisms to address a wide array of conflicts.

3. Recognizing the Importance and Necessity of Strengthening the Foundational Institutions for Market Economy

First, we must refine the foundational institutions for market economy, which are essential to building a high-standard socialist market economy system. Different modes of production require corresponding institutional frameworks. A historical review of the emergence and evolution of market economies demonstrates this point. In primitive societies, productive forces were extremely low, and clans produced no surplus goods, meaning there was no foundation for a market. Instead, people relied on conventions and a basic gender-based division of labor to sustain simple production and daily life—adults hunted or gathered, while the elderly cared for children. As archaeologist Ma Shili notes, *“Based on variations in stone tool types, it is speculated that a division of labor existed as early as the Middle Paleolithic Age, with men engaged in hunting and women in gathering”* (Ma, 1999: 23). As society evolved toward the late primitive era, the gradual advancement of productive forces gave rise to surpluses, sparking rudimentary and occasional barter exchanges between clans. At this stage, the market existed only in embryonic form, lacking formalized trading rules. The fundamental conditions for commodity production and exchange are twofold: first, the division of labor—“the division of labor is the prerequisite for commodity production”—and second, the existence of independent private labor, where “only the products of mutually independent private labors confront each other as commodities” (Marx & Engels, 2009: 55).

Throughout the long agrarian era, economic activities remained highly localized. The range of traded goods was limited, market transactions were scarce, and exchange methods were simple, requiring only basic rules to maintain order. Following the Industrial Revolution, the scope of economic activities expanded dramatically. The number of market participants and traded goods surged exponentially, while the methods of exchange grew increasingly sophisticated. Multinational corporations emerged as new powerful players. This transformation is clearly illustrated by production figures: British coal output climbed from 6 million tons in 1770 to 12 million tons in 1800, soaring to 57 million tons by 1861.

Likewise, British iron production leaped from 50,000 tons in 1770 to 250,000 tons in 1800, reaching 3.8 million tons by 1861 (Stavrianos, 2005: 493). In France, by the early 1870s, “hundreds of thousands of small businesses, each employing one or two people,” dotted the economic landscape (Ma, 1999: 240). Marx captured this great change with profound understanding: “*The bourgeoisie, in its barely century-long reign, has unleashed productive forces more vast and colossal than all previous generations combined*” (Marx & Engels, 1995: 277). As the market economy has taken shape and evolved, so too have its governing rules. In 1846, the British Parliament repealed the *Corn Laws*, removing barriers to free trade. Nearly a century later, in 1941, the United Kingdom and the United States signed the *Atlantic Charter*, which affirmed equal access to trade and raw materials for all nations—laying the groundwork for global economic cooperation.

Today, in the information age, economic globalization is advancing at an unprecedented pace. The nature of market participants, traded goods, transaction scope, and trading methods has undergone profound transformations. At every moment, vast flows of capital, labor, and technology cross borders, underscoring the urgent need for market institutions to evolve accordingly. This imperative is reflected in China’s historical experience and ongoing market economy reforms. The country is transitioning from a relatively well-developed socialist market economy to a more advanced system, requiring accelerated improvements in market-related institutions—especially their foundational structures. Institutional development is the most fundamental infrastructure project of all. Strengthening the core systems of the market economy is both a defining feature and a necessary condition for achieving a high-standard socialist market economy system. Only by refining these systems can China more effectively uphold the “Two Unwaverings” principle—supporting both public and private sectors—and establish a unified national market.

Second, we must achieve the ambitious goal of a modern, powerful nation on schedule, which requires refinement of the foundational institutions for market economy. President Xi Jinping has emphasized: “To transform the blueprint of Chinese modernization into reality, the key lies in comprehensively deepening reform and improving institutional mechanisms across all domains, providing the structural support necessary to advance Chinese modernization” (Xi, 2024). The core of further deepening reform lies in transforming the economic system, with a critical task being the establishment of a high-standard socialist market economy system. To achieve this, we must strengthen the foundational institutions for market economy, ensuring fair competition. Property rights, as the essence of ownership, serve as the bedrock of both the market economy’s functioning and its institutional framework. Clearly defined and effectively protected property rights are essential for upholding fairness, stabilizing social expectations, and boosting the motivation of market entities for innovation and entrepreneurship. A well-functioning market economy depends on the seamless alignment of ownership, possession, control, and usage rights with the right to income. This alignment creates incentives for market entities to actively engage in economic activities.

Another critical pillar of the foundational institutions for market economy is the market access system, which plays a key role in integrating an efficient market with an enabling government. Building an open, transparent, standardized, and well-regulated market access system—one that ensures fair competition, clear accountability, and strong oversight—is essential for fostering a world-class business environment that is market-driven, law-based, and globally competitive. A well-designed system fully mobilizes market participants, stimulates market vitality, and strengthens economic momentum. Fair competition is the cornerstone of the market economy. A sound fair competition system is essential for maximizing resource allocation efficiency and optimizing economic returns, ensuring that businesses

compete on a level playing field. Likewise, the social credit system serves as a fundamental pillar for the healthy, standardized, efficient, and orderly functioning of the market economy. It is a crucial mechanism for cultivating high-quality market participants and establishing a credit-based regulatory framework. By reducing institutional transaction costs and mitigating market risks, it enhances economic stability and resilience.

Third, we must improve the foundational institutions for market economy to gain the strategic initiative in fierce international competition. The world today is undergoing unprecedented changes, with global competition—especially among major powers—reaching intense levels. On the surface, this competition appears to be a race in products, services, technological innovations, and talent. However, beneath this lies a deeper contest over comprehensive systems, including political, economic, cultural, social, and ecological systems. Within the economic domain, the foundational institutions for market economy play a crucial role, directly determining how government and market functions interact. Any nation or region that can better balance this relationship will achieve more efficient resource allocation, particularly in innovation. It will also attract the world's most scarce and valuable production factors—especially those driving innovation—securing a commanding position in market competition. For China to gain the strategic initiative in this intense global rivalry, we must further deepen reforms, refining various systems across the board, with a particular focus on strengthening the foundational institutions for market economy. By enhancing institutional effectiveness, we can drive high-quality development, and through high-quality development, we can bolster China's overall national strength and secure a competitive edge in the global arena.

4. Key Approaches to Strengthening the Foundational Systems of the Market Economy

After decades of exploration and development, China has successfully established the foundational institutions for market economy. However, achieving a high-standard socialist market economy system requires further refinement of these systems.

First, we must improve the property rights system. The fundamental principle of improving the property rights system is to ensure equal legal protection for all forms of ownership while upholding the principles of equal rights, equal opportunities, and equal rules. This principle is enshrined in Article 13 of China's Constitution, which states: *"The lawful private property of citizens shall be inviolable. The state protects citizens' rights to private property and inheritance in accordance with the law."* Similarly, Article 207 of the *Civil Code of the People's Republic of China* reinforces this principle: *"The property rights of the state, collectives, individuals, and other rights holders shall be equally protected by law, and no organization or individual may infringe upon them."* The ultimate goal of refining the property rights system is to establish a modern framework characterized by clear ownership, well-defined rights and responsibilities, strong legal protections, and efficient transfer mechanisms.

Additionally, the transfer of property rights remains inefficient and faces institutional obstacles. Given the diverse ownership and characteristics of different assets, it is essential to develop tailored property rights frameworks. For state-owned capital, efforts should focus on refining the management system for operational state-owned assets, prioritizing capital oversight, and accelerating the transformation of regulatory functions and supervisory approaches. Violations of property rights and legal interests across all forms of ownership should be subject to consistent liability and punishment. Moreover, the punitive compensation system should be strengthened. Unjustified restrictions on the non-public sector must be abolished and hidden barriers removed to ensure a level playing field. The property

rights system for natural resources must also be improved to enhance protection and management mechanisms, enabling sustainable resource use and a balanced approach to environmental conservation and economic development.

In rural areas, the basic management system should be strengthened by advancing the “separation of three rights” framework, which distinguishes ownership rights, contract rights, and management rights for contracted farmland. Deepening reforms of the rural collective property rights system, enhancing property rights protections, and implementing the policy to extend the second round of rural land contracts for an additional 30 years pilot program upon expiration are critical steps. Intellectual property rights (IPR)—which grant creators exclusive rights over their intellectual achievements for a defined period—must be safeguarded through a highly efficient and integrated IPR management system. This requires streamlining legislation and regulation in key areas, enforcing high-standard intellectual property protections, and accelerating the establishment of a comprehensive IPR protection system.

Second, we must improve the market access system. Additional challenges include information asymmetry, excessively high or vaguely defined entry standards, and cases where businesses are granted market access but face operational restrictions. To address these issues, China must implement a “national unified list” management model, dynamically updating the negative list for market access and ensuring full transparency to the public. Market entry restrictions should be broadly eased while still maintaining strict oversight, ensuring that businesses can not only enter the market but also operate effectively. Overcoming the excessive dominance of state-owned capital in finance, transportation, telecommunications, and public utilities is crucial, alongside deepening market-oriented reforms in social services and lowering barriers for private sector participation in these industries.

Further reforms are needed in the registered capital subscription system, including legally compliant and timely capital subscriptions, mandatory disclosure of actual paid-in capital, stronger legal obligations for genuine contributions, and stricter accountability for false disclosures or non-compliance. Additionally, China must accelerate the development of regulatory frameworks that align with new productive forces, providing institutional support for emerging industries and innovation-driven sectors. This includes optimizing market access policies for new business models, accelerating entry regulations for industries such as green energy, and expanding digital product market access. Finally, the enterprise exit system needs enhancement. A unified and standardized market exit process should be established, alongside reforms to simplify business deregistration, strengthen the corporate bankruptcy framework, and explore the introduction of a personal bankruptcy system to ensure an orderly and efficient market exit mechanism.

Third, we must strengthen the fair competition system. To enhance the fair competition system, deepening reforms in monopolistic industries is crucial, particularly by advancing market-oriented restructuring of competitive segments in key sectors such as energy, railways, telecommunications, and public utilities. This requires reinforcing the legal framework for anti-monopoly enforcement, tightening the binding constraints of the fair competition review system, and refining institutional rules to curb monopolies and unfair practices.

Fully implementing the fair competition review system, strengthening its enforcement, and enacting relevant regulations will help dismantle both explicit and hidden barriers to fair competition. Establishing a robust third-party review and evaluation mechanism is also essential to ensure independent oversight. Moreover, regulatory enforcement must be enhanced and refined by creating a cross-regional mechanism for case referrals, enforcement assistance, and coordinated action in anti-monopoly and anti-unfair

competition investigations. A coordinated framework that aligns competition policies with broader economic policies is needed to foster a stable, open, transparent, and predictable market environment. Institutional openness in competition rules should also be advanced, with improvements in cross-border data governance, personal data protection, and digital economy regulations. Strengthening fair competition governance in the digital economy requires the establishment of a competitive review and evaluation system for internet platform rules and algorithms, ensuring a fair and well-regulated digital market. Finally, upgrading the market information disclosure and trade secret protection system is essential to safeguarding fair competition and ensuring a level playing field.

Fourth, we must enhance the regulatory framework of social credit. To address these issues, a credit-based regulatory approach should be refined, and a comprehensive, full-cycle credit oversight system should be established. It is essential to continuously improve laws, regulations, and institutional structures to advance the legal and standardized development of the social credit system. Efforts should be made to enhance credit information sharing and lawful application, expand public access to credit data in compliance with legal requirements, and fully implement the measures outlined in the national basic directory of public credit and the national basic list of penalties for untrustworthy behavior. Additionally, the government should strengthen and standardize mechanisms for joint incentives that reward trustworthiness and coordinated penalties that deter dishonesty. It is also recommended to foster internationally competitive credit rating agencies to enhance China's credit service industry. Furthermore, it is necessary to expand the credit commitment and notification commitment systems, with a focus on strengthening credit development in areas closely tied to public welfare. ■

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