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Establishing an efficient, rule-based,
fair and open unified market in China



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Establishing an efficient, rule-based, fair and open unified market in China

At the end of March 2022, the Central Committee of the Communist Party of China (CPC) and the State Council jointly released a guideline on accelerating the construction of a unified national market. It is an important guideline aiming to comprehensively deepen the reform and opening-up of the country.

The key measures of the guideline include breaking down local protectionism and market segmentation, lifting the barriers restricting the economic cycle, and promoting the smooth flow of commodity, production factors and resources on a larger scale. The guidelines give full play to the rule of law to build a regulated, unified national market system.

So, what does a national unified market mean? How can China establish such a market? Why did China release this guideline? What are its implications?

■ What are the key measures of the guideline?

Under the guideline, China will adhere to the principles of marketisation and the rule of law, strengthen the competition policy and accelerate the transformation of government functions, giving full play to the market's role in resource allocation. The country will channel resources to promote economic growth, encourage innovation, optimise the division of labour and promote competition in the domestic market. The key policy measures of the guideline include the six major aspects listed below:

1. Strengthen the coherence of basic market systems and rules across the country.
2. Promote a high standard of connectivity between market facilities.
3. Create a unified market for production factors and resources.
4. Promote the high-level integration of the goods and services markets.
5. Promote fair and unified market regulations.
6. Regulate unfair market competition and market intervention.

Figure 1: Summary of the key systems and measures to establish a unified market in China

Market systems and rules	Market facilities	Unified production factors and resource market	Integrated markets for goods and services	Market regulations	Market competition and market intervention
Property rights protection system	Distribution network	Land and labour market	Quality management system	Rules of governing	Anti-monopoly review system
Market access system	Information exchange channels	Capital market	Standards & measurement system	Market oversight and law enforcement	Unfair competition penalties
Fair competition system	Optimisation and upgrade of trading platforms	Technology & data market	Quality of consumer services	Market oversight capacity	Breaking down local protectionism and regional barriers
Social credit system		Energy market			Equal access and exit
		Ecological and environmental market			Fair competition for bidding and procurement

1**Strengthen the coherence of basic market systems and rules across the country.**

This requires improved coherence of the property rights protection system, market access system, system of fair competition and social credit system. For example, the unified property rights protection system will demand an enhanced system for the equal protection of economic property rights for all forms of ownership.

2**Promote a high standard of connectivity between market facilities.**

This includes building a modern distribution network and improving market information exchange channels by unifying the mechanism for releasing property rights transaction information and connecting the national property rights trading market. This section of the guideline also includes optimising and upgrading trading platforms. Improved trading platforms will enable China to deepen the integration of public resources trading platforms and clarify standards and methods to integrate the trading activities of various types of public resources into a unified system.

3**Create a unified market for production factors and resources**

This entails building sound, unified land and labour market in urban and rural areas while accelerating the development of a unified capital market, technology and data market, energy market, and ecological and environmental market. Building a unified

technology and data market implies that China will establish a national technology trading market, improving the mechanism for assessing and trading intellectual property rights and promote the connectivity of technology trading markets in different regions.

4**Promote the high-level integration of the goods and services markets.**

This calls for improving the quality management system, standards and measurement system, and the quality of consumer services. For example, to improve the quality management system, China will reform the quality certification system and support non-governmental sectors in carrying out inspection and testing by exploring ways to build regional metrology centres, and national product quality inspection and testing centres. The country will also promote cross-industry and cross-regional interoperability with national recognition of certification results.

5**Promote fair and unified market regulations.**

This involves improving the rules governing the unified market by strengthening its oversight and law enforcement and improving market oversight capacity comprehensively. More specifically, China will implement the strictest possible standards, oversight, penalties, and accountability for food and drug safety, among other major areas that have a direct impact on people's health and safety. Integrated online and offline regulations will also be promoted for telemedicine, online education and training, online entertainment and other forms of businesses.

6**Regulate unfair market competition and market intervention.**

This includes strengthening anti-monopoly review systems, investigating and penalising acts of unfair competition, and breaking down local protectionism and regional barriers. Other measures in the guideline include abolishing existing practices that hinder equal access and exit, and reforming regulations and practices in the field of bidding and procurement that hinder the establishment of a unified market.

What are the major goals of the guideline?

The guideline lists the five major goals of a unified national market.

1. Continue to boost the efficiency, connectivity and growth of the domestic market.
2. Accelerate the building of a stable, fair, transparent and predictable business environment.
3. Further reduce market transaction costs by removing institutional obstacles that hinder the market's allocation of various production factors and the circulation of goods and services.
4. Promote scientific and technological innovation and industrial upgrade.
5. Cultivate new advantages to enable international competition and cooperation.

The market transaction costs mostly relate to institutional transaction costs, i.e., costs incurred from various institutional tools of the government, including taxes, financing costs and transaction costs.

The goals of establishing a unified market in China:

Boost market efficiency and scale

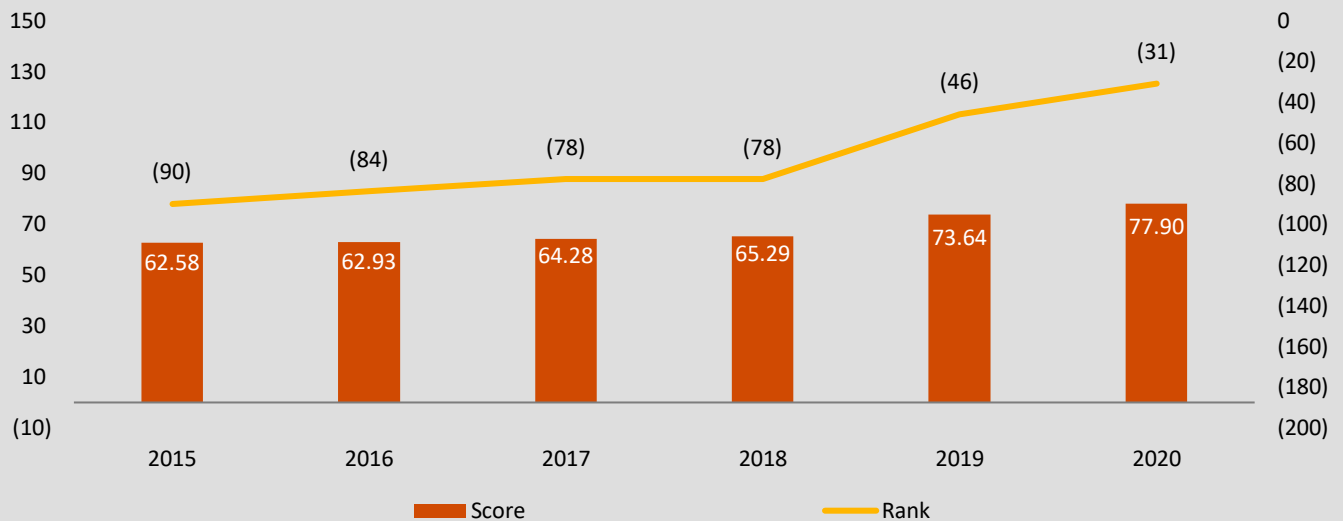
Accelerate the improvement of business environment

Reduce transaction costs, promote innovation and industrial upgrading

Enhance international cooperation

■ Continuously increasing the scale and efficiency of the domestic market

Figure 2: Ease of doing business in China since 2015



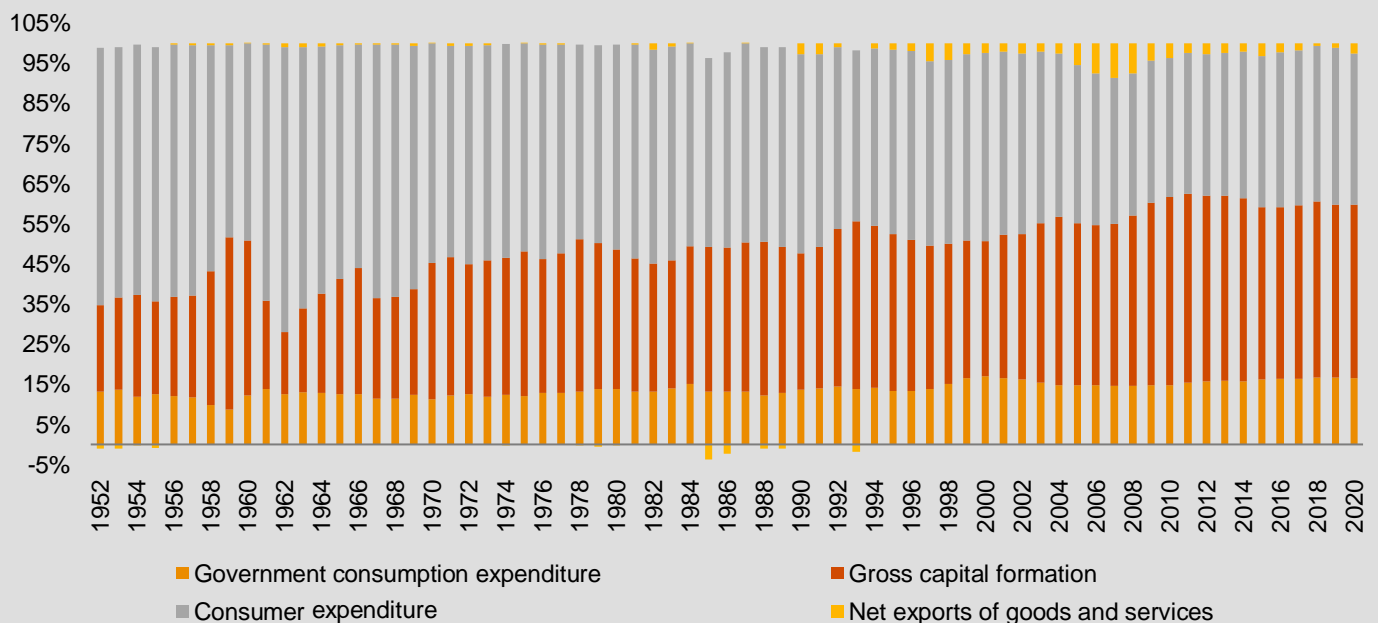
Source: World Bank

Consider consumption as an example; it has become the biggest contributor to China's GDP growth over the past few years. Meanwhile investments still account for a large proportion of GDP.

However, since 2016, the contribution of consumer expenditure to GDP has remained stagnant in China. The figure grew to approximately 38% of total GDP five years ago. Comparatively, in the US,

personal consumption expenditure accounted for around 68% of the GDP in the last 20 years.

Figure 3: Changes in China's GDP accounting by expenditure, 1952-2021



Source: Wind

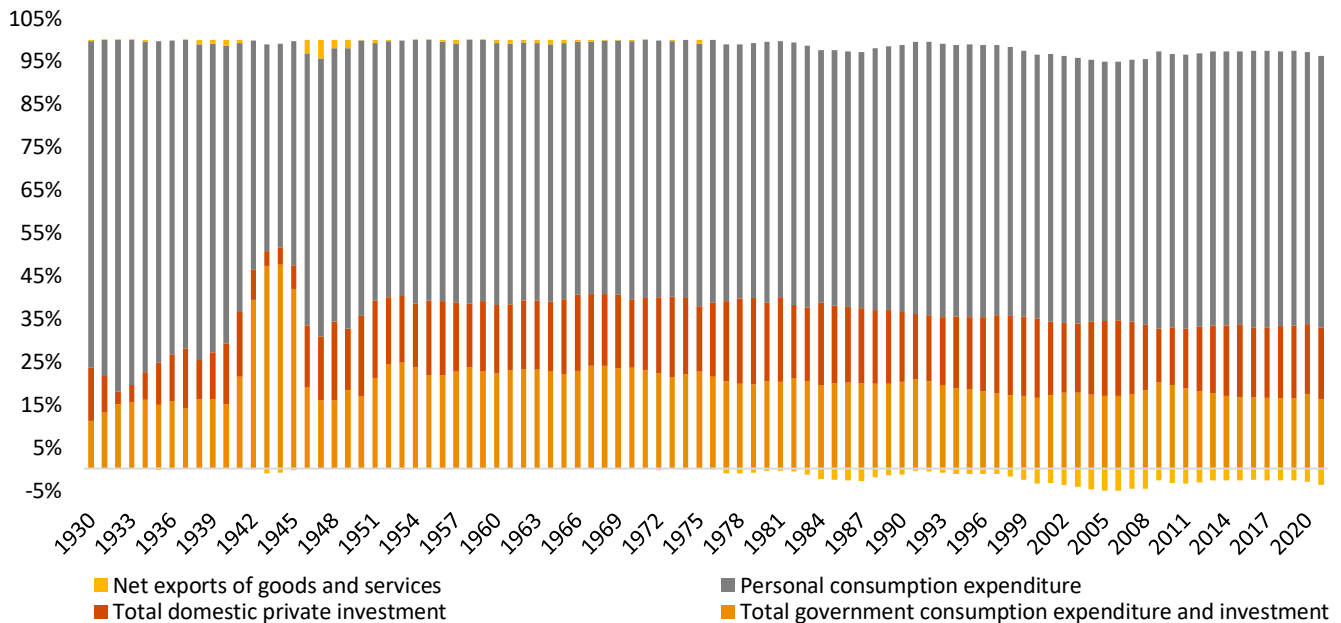
Even compared to countries at a similar stage of economic development, China's household consumption rate is significantly lower. For instance, in 2017, the average household consumption rate of BRICS countries

(excluding China) was 64%, 26 percentage points higher than that of China in the same year.

Hence, continuously increasing the efficiency and scale of the domestic

market is the primary goal of building a unified market. The key to achieving this goal is to increase both household income and the supply of high-quality products and services.

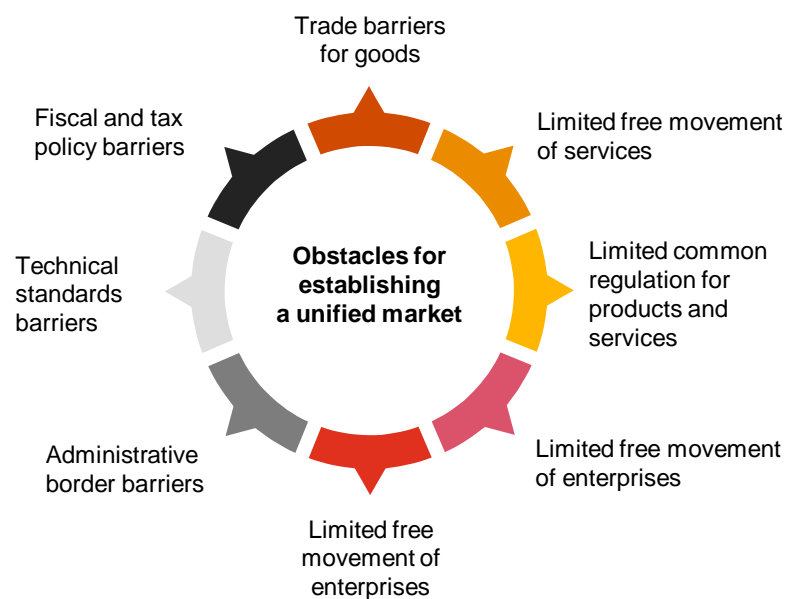
Figure 4: Changes in the US' GDP accounting by expenditure, 1930-2021



Source: Wind

■ Breaking down local protectionism and regional barriers

The guideline officially acknowledges that China's domestic market is currently not a single or common market. It indicates that between Chinese provinces, there are still barriers to the mobility of the four production factors, namely goods, capital, services and workers. More specifically, there might be:



Besides the aforementioned obstacles, which more or less exist between provinces and occasionally even within a province, China also lacks nationwide-applicable standards for some public services. For instance, while the country continues to fight the COVID-19 pandemic, every province has its own Health Code (jiankangma). The Health Code is a mobile application providing inspectors with easy access to data like nucleic acid test results, vaccination status, among other information at tollgates, airports, rail stations and hotels. Tourists and residents alike need to download and show different Health Codes when travelling between provinces.

In extreme cases, truck drivers have been held at highway exits due to

different provincial COVID-19 control policies. This has slowed down the national transportation and logistics flow, significantly impacting the domestic economic growth and global supply chains. China's Vice Premier, Liu He, recently urged local governments to improve the working conditions of logistics personnel and refrain from restricting the flow of freight due to the long waiting time for COVID-19 test results.

Furthermore, there are many protective barriers in the raw mineral materials industry, according to Gangming Yuan, a professor of economics from Tsinghua University. The degree of marketisation in the production and circulation of raw materials in China is low. Moreover, the industry faces some long-standing

challenges such as local protectionism, segmentation, and poor supply and demand.

Some markets that encountered these barriers last year include battery-related minerals such as nickel, cobalt and manganese. These delimited markets ensured that the interests remained in the local area. The market segmentation of mineral resources has raised prominent challenges, seriously hindering the development of a unified market.

Therefore, breaking down local protectionism and regional barriers are important steps in building a unified market.

■ An institutional improvement to increase efficiency and productivity

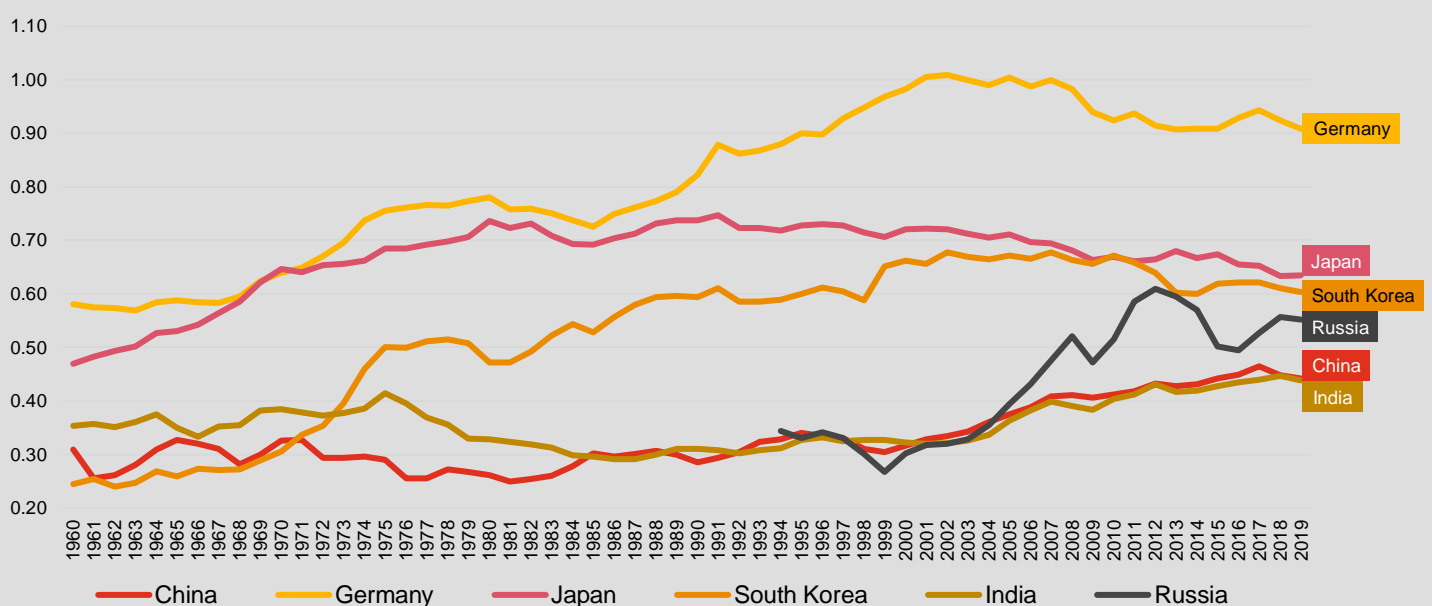
Establishing an efficient and growing unified market would further improve market efficiency, labour productivity and income. Compared to developed economies with relatively mature market economies, developing countries, including China, are in the process of continuous reform to improve their

systems, as pointed out by Professor Harry X. Wu from the National School of Economics at Peking University.

The earlier the stage of development, the greater the "institutional dividend" brought by institutional reform. Hence, the growth rate of total factor

productivity (TFP) is higher in developing economies. The more thorough the institutional reform of a developing economy, the faster it can approach the technological frontier and become an innovation and technology-driven economy

Figure 5: Comparison of TFP by countries, 1960-2019



Source: Wind

Note: The United States was the benchmark when TFP was calculated

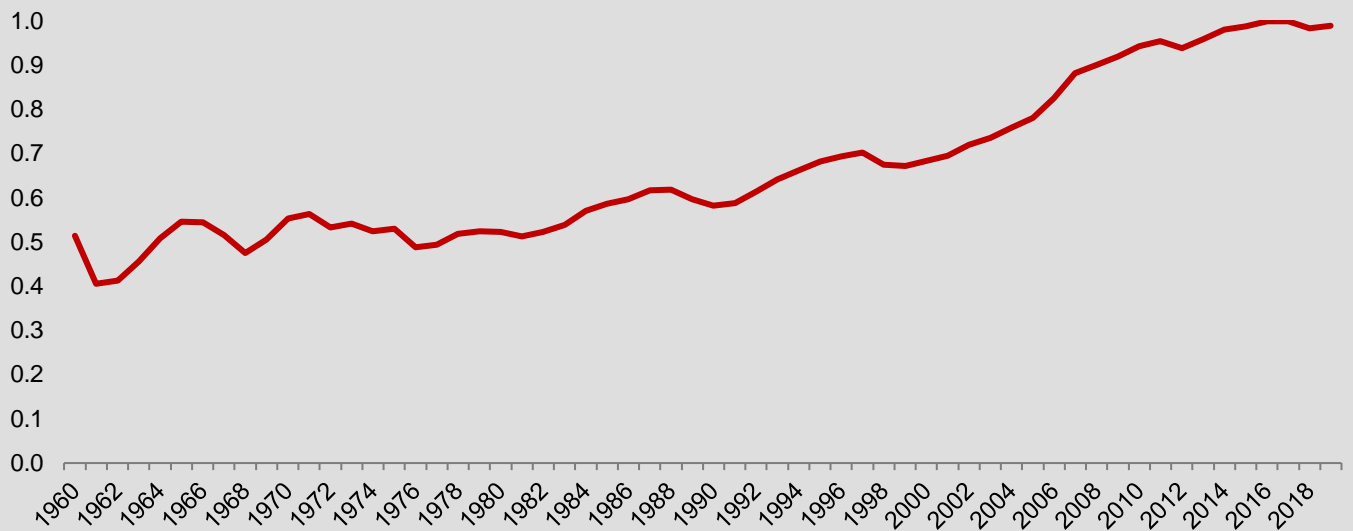
China's TFP has dramatically increased in the past four decades since the country began its reform and opening-up. However, it was still only 43% of the US' TFP in 2021, and much lower than the TFP of other developed countries. This is because as a developing

economy, China is yet to complete a thorough institutional reform.

As Professor Wu further explained, the lags in institutional reform will not only cause a decline in efficiency, but also breed new interest groups while

consolidating old interest groups. The new interest groups will create obstacles for reform and lead to the further loss of efficiency, which manifests in a contracted TFP growth rate.

Figure 6: China's TFP, 1960-2019



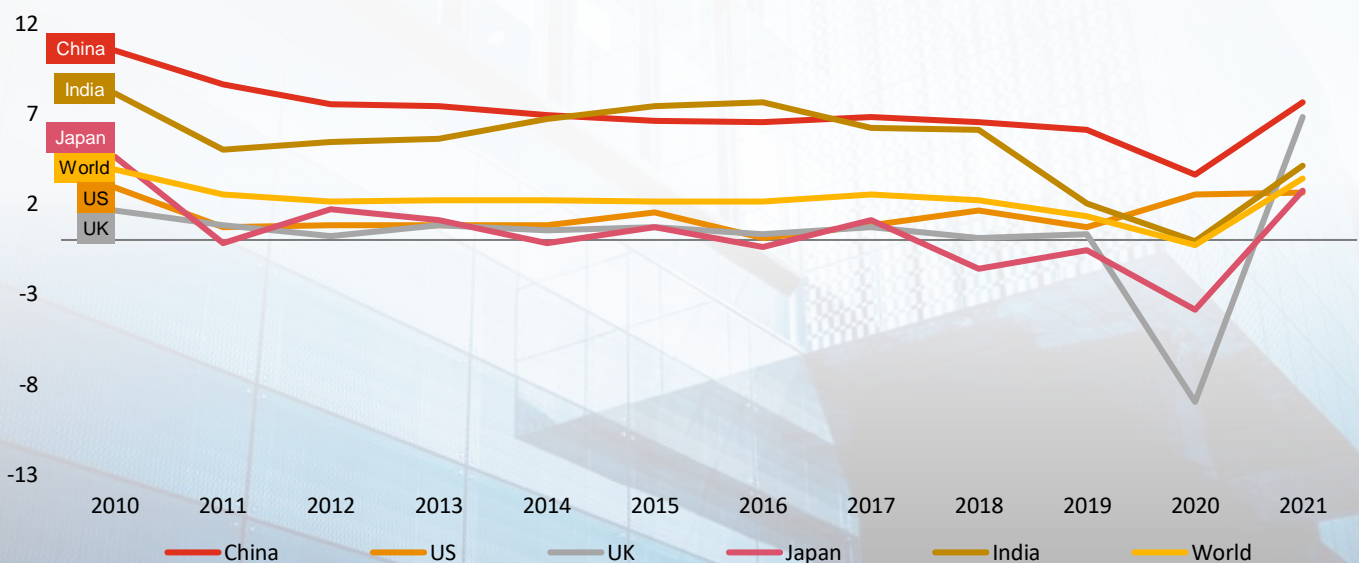
Source: Wind

In fact, there are concerns that China's institutional reform has been too slow or even moved backwards in recent years, as the TFP growth rate has not

improved since 2016. It increased to 1.00 in 2016 and remained the same in 2017, but slightly decreased to 0.98 in 2018 and 0.99 in 2019. As such,

establishing a unified market has become a major focus of China's institutional reform.

Figure 7: Annual growth rate of real GDP per employed person, 2010-2021 (%)



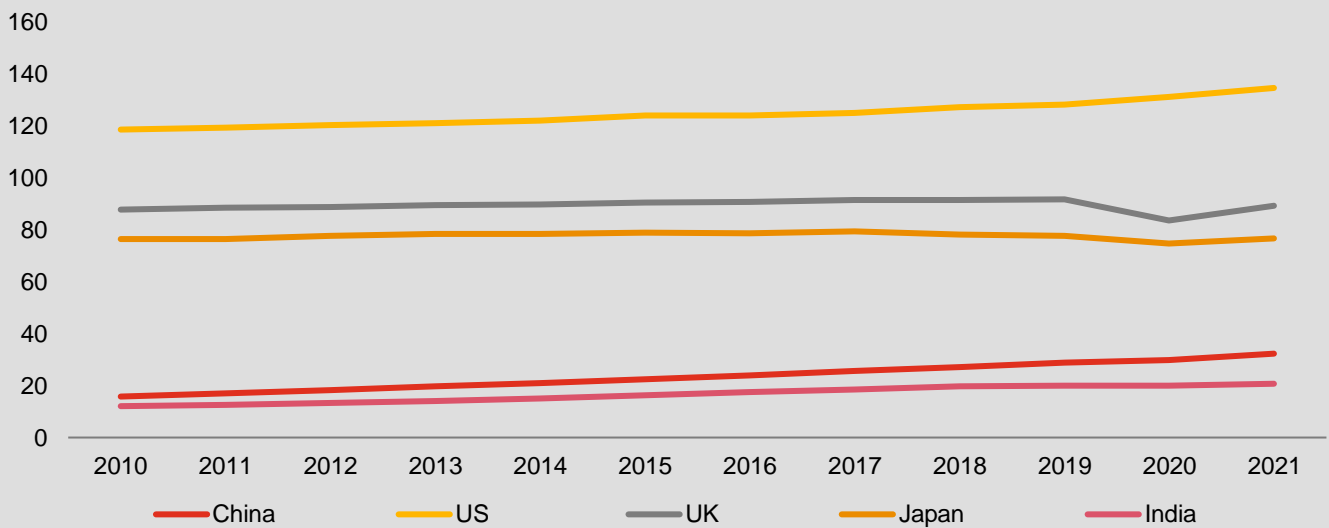
Source: International Labour Organisation

In terms of labour productivity, which measures the hourly output of a country's economy, while China has maintained one of world's highest

growth rates in the recent years, the gap is still relatively big compared to the developed countries. According to data from the International Labour

Organisation of United Nations, in 2021, China's output per worker was approximately 24% of that in the US.

Figure 8: Output per worker, 2010-2021 (Unit: thousand dollars)



Source: International Labour Organisation, ILO modelled estimates, Nov. 2021

Our analysis above clearly demonstrates China's relatively high growth potential compared to developed economies. Deepening the institutional reform in the country will enhance TFP and economic efficiency, ultimately driving economic growth. Therefore,

there is no doubt that accelerating the construction of a unified national market is the right approach.

An efficient, rule-based, fair and open unified market would create more value and benefits not only for Chinese residents, but also for various domestic

and global business sectors. It is expected that the Chinese market will be more integrated with the global market. As a result, it would improve the country's competitiveness and promote a greater degree of reform and opening-up.



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