

Building a Unified National Market Is Not a Return to Planned Economy¹

LU Ming

CF40 guest member

Distinguished Professor of Economics,

Director, Shanghai Institute for National Economy, Shanghai Jiao Tong University

Abstract: China's plan to build a unified national market is not a return to planned economy. Instead, the plan is market-oriented and aims to promote the development of China's domestic market by addressing some key bottlenecks that restrain the free flow of goods and factors of production.

To phase out the old and bring in the new, China put forward the plan to build a unified national market. On April 10, *the Opinions on Accelerating the Establishment of the National Unified Market* (the “opinions”) was officially released, which has drawn a lot of attention.

The opinions state at the outset that “building a unified national market is essential to foster the new development pattern.” In July, 2020, a meeting of the Political Bureau of the CPC Central Committee proposed that China should accelerate the establishment of a new development pattern with domestic circulation as the main body and domestic and international markets reinforcing each other. Immediately, the concept of “new development pattern” entered the public eye.

Since then, steady progress has been made in fostering the new development pattern. However, economic circulation is still constrained by some key bottlenecks. Thus we need to step up efforts to establish rules for a unified national market system that includes unified markets of factors and resources.

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According to the *Opinions on Improving the Institutional Mechanism for Market-based Allocation of Factors* released in April, 2020, factors of production include 5 items: land, labor, capital, technology, and data. Of them, the opinions put land and labor first, and propose improving the unified and standardized human resources market to facilitate the free flow of labor and talent across regions.

“One of the major bottlenecks that restrain domestic circulation exists in the factors market.” Lu Ming, CF40 guest member, invited expert at the Symposium of Experts in Economic and Social Fields, and director of Shanghai Institute for National Economy at Shanghai Jiao Tong University, shared his views. He believed that among all factors, the free and unhindered flow of labor across regions is the most critical.

In addition, Lu said that some people completely misinterpreted the opinions as China’s return to planned economy. As the free flow of goods and factors is the universal characteristics of market economy, measures proposed in the opinions are market-oriented to promote the development of China’s domestic market.

Q: Why is the free flow of labor essential to the building of a unified national market?

Lu Ming: As China now faces the problems of aging population and low birth rates, the total labor supply is slowly declining. Therefore, it is particularly important to better utilize labor resources. Facilitating the free flow of labor across regions is one way to do so.

The reason can be explained by the laws underlying modern economic development which is called the effect of economies of scale. It means that productivity is much higher when factors of production are concentrated in a few places than evenly distributed in different places.

Drawn by the effect of economies of scale, if labor force can flow freely, it will naturally concentrate in areas with better economic development such as China’s

coastal areas, thereby realizing higher productivity. For other areas that experience a population outflow, industries in these areas will gradually focus on agriculture, tourism, natural resources, etc., which will not need too much labor force.

In this sense, the free flow of labor is also promoting the division of labor among regions, enabling each region to develop local industries based on its own features. “Each region playing its own role” is one dimension of the unified national market.

Q: Will the free flow of labor exacerbate the “hollowing out” of areas with population outflow?

Lu Ming: The “Hollowing out” of areas with population outflow is an emotionally charged expression. Would we call it “hollowing out” when the per capita farmland in developed countries covers over a hundred or even hundreds of acres?

If we look at the phenomenon objectively, population outflow means higher per capita possession of resources, which can help increase per capita income. The circulation process of factors will even out resource distribution among regions in a per capita sense. So we don’t need to worry too much about the hollowing out issue.

Current data shows that China has seen a simultaneous concentration of economy and population in a few regions and a narrowing gap of per capita GDP among different regions. Of course, we still have a long way to go.

It should be noted that even if labor force can flow freely in the end, the per capita GDP gap will not be narrowed to zero, which means absolute equalization is not possible. **At this point, central and provincial governments need to strengthen transfer payments to regions with population outflow so as to promote relative equalization of public services and quality of life among different regions.**

Therefore, we need to enable the free flow of labor. For those who want to migrate to other regions, the measures proposed in the opinions are to reduce the institutional barriers and give them the choice to leave or not. For those who do not leave, the government should ensure that these people can also live a good life through measures like equalization of public services and institutional reforms. This is what we should do.

However, China is still a country in transition. In this process, many features of transition will emerge. For example, of those who stay in their regions, a large number of elderly people and women face the real-life challenges of separation from their spouse and lack of care for the elderly, which should be paid attention to and addressed by the government.

Q: Is increased per capita possession of resources a way to realize common prosperity?

Lu Ming: We can understand common prosperity from the perspective of three groups of people.

The first group of people now lives and works in places with robust economic development opportunities. So they can directly achieve prosperity through developing the economy.

The second group of people lives in places that are short of economic development opportunities. Thus they can migrate to places with better economic performance to realize prosperity.

The third group of people is not willing or able to move out of the places that lack development opportunities. With the outflow of other people, they actually possess more resources, especially for those who work in agricultural, mineral and other natural resource-based industries. Meanwhile, the government can adopt supportive policies such as transfer payments for these regions. In this way, we can eventually realize common prosperity for all types of people.

Q: What are the challenges in promoting the free flow of labor across regions?

Lu Ming: Based on the current situation, the household registration system still hinders the free flow of labor to some extent. China has been pushing forward the reform of the household registration system. In recent years, China has put forward the shift from household registration to a permanent residence registration system to decouple the household registration system from public services. This means that in the future the public services people enjoy are only related to where they live, regardless of their registered status.

But it takes a gradual process to achieve that goal. Now cities with less than 3 million permanent residents have lifted the restrictions on household registration. Megacities with over 5 million population still need a gradualist reform and the transitional solution is point-based household registration that sets the actual years of residence and social insurance payment as the main indicators for granting points.

In my view, **to further promote the point-based household registration system, cities within the same city cluster can first realize mutual accumulation and recognition of points, which can break the bottleneck to the free flow of labor across the country.**

For example, if a person lived in city A for 3 years and in city B for 2 years, when he/she applies for pointed-based household registration in city C, the past five years of residence in other places can be added up to the points.

Q: What is the direction of the household registration system reform to realize free labor flow across regions?

Lu Ming: The ultimate goal is very clear now, which is to transform the household registration system into a permanent residence registration system. But before we get there, the household registration system is still important.

Will the household registration system be abolished in the future? The answer is no. The system will always be there because everyone needs a registered location. What it means by the so-called “abolishment” is that the household registration system will be decoupled from people’s status or the public services they enjoy; its influence will be gradually waning and eventually the system will be transformed into a permanent residence registration system.

Q: What are your suggestions for building a unified national market?

Lu Ming: I think there are three important measures.

First, eliminate some institutional barriers that hinder the cross-regional flow of factors. Most importantly, the restriction of the household registration system should be gradually lifted.

Second, unify some policies across the country, such as tax policy. Apart from free trade zones and free trade ports, some places adopt different preferential tax policies like tax breaks, making it difficult to achieve maximum efficiency in the allocation of factors.

Third, unify standards on market access, which is also emphasized in the opinions. The whole country must set up “the same list” for market access instead of each region having its own list.

China has a huge market. It is China’s unique advantage. Realizing the domestic circulation of goods and factors can better unleash the potential of China’s “huge market” and achieve high-quality development.

Q: Is building a unified national market a return to planned economy?

Lu Ming: I’ve heard some of these voices. **These are complete misinterpretations.**

The universal features of market economy include the free flow of goods and factors of production. Domestically speaking, promoting market economy entails unblocked domestic circulation that involves the free flow of goods and production factors. The theme of the opinions is exactly to push forward the development of the socialist market economy and domestic market.

Some people interpret the opinions as a return to planned economy. I think they do not fully understand the role of government. Government should set the rules for market economy but it doesn't mean that there is no government intervention at all.

For example, in a large country like China, if each province and city have its own regulations and market access rules, the country is not a market economy, because it is not a unified market. If the government introduces unified standards, the market can play a decisive role in resource allocation and the government can play its role better, as has been proposed since the 3rd plenary session of the 18th Central Committee of the Communist Party of China.

Planned economy refers to the system where prices that used to be decided by the market are intervened by the government and production factors that used to flow based on market demand are blocked by the government. The household registration system is the product of planned economy. Now we are reforming it.

I think the government should pay attention to these misinterpretations and make people feel that we are heading towards market-oriented reform in practice so as to dispel people's concerns.