

Build proper relationship

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Goal of reform is to establish an open and unified market with orderly competition and a service-oriented government

The communique on comprehensively deepening reforms, which was released after the Third Plenum of the 18th Central Committee of the Communist Party of China, has historical significance for China. It pointed out the need to speed up establishment of a modern market system, to build a new open economic system and to innovate the social management system, so as to promote the efficiency, fairness and sustainable development of the Chinese economy.

The most important point was the country's leaders pledged to let the market play a "decisive role" instead of just a "basic role" in the economy, which will improve the market's status in the economic system.

The communique said the core solution is establishing "the proper relationship between the government and the market". To establish the proper relationship between the government and the market and let the market play the decisive role in the allocation of resources, there are two areas that need to be focused on.

On the one hand, a modern market system needs to be established, which means building "an open and unified market with orderly competition", as the official document said. Unified refers to "an integral market" rather than a fragmented one, so obstacles among various factor markets, including the land market and financial market, need to be removed.

Moreover, an open market contains both opening-up to the outside world and to the domestic market. In particular, the openness of different industries to domestic private capital needs to be increased.

Besides, competition means there should be enough market participants to break the State-owned enterprise monopoly and it is necessary to lower the standards for market access. More importantly, the market price mechanism should be improved with full competition. Orderly means that the economy should operate according to the law,

and the government should stick to the principle of "transparency, fairness, and justice", and be impartial toward all market players.

To be more specific, it is necessary to speed up improvement of the modern market system with enterprises of independent management and fair competition, and by providing consumers with freedom of choice and consumption initiatives. A modern market, where all the goods and factors can freely flow and are exchanged on an equal basis, will eliminate market barriers and improve the efficiency and fairness of resources allocation.

On the other hand, the function of government should be transformed. In order to let the government play a suitable and better role in the economy, the primary issue is to correctly define the boundary between the government and market. Since the reform goal is to leave the market to play the decisive role in the allocation of resources, the government can only play a supporting and serving role. Only when the market fails does the government need to respond; otherwise, if the market plays its own role well, the government should not interfere too much. Therefore, the government should further streamline administration and delegate power, "escorting" the building of an open and unified market with orderly competition.

According to the communique, the aim is to build a "law-based and service-oriented government". However, at present, there are still too many administrative examinations and approvals with governments directly interfering in the micro-economy. This has seriously hindered the healthy development of the market economy. So it is important to establish a scientific macro regulatory mechanism to improve governing efficiency. Specifically, we need to practically transform government functions, deepen administrative reform, innovate the public administration mode, and strengthen government credibility and executive force.

A group is being set up to lead reform, and apart from economic reform, its duties will be to plan and carry out reforms to modernize China's "governance system" and "governance capability", which will not work without reform of the fiscal and tax systems, as finance is an important foundation of national governance. A scientific financial and tax system is the institutional guarantee for optimizing the allocation of

resources, maintaining a unified market, promoting social equity and realizing lasting national stability. Deepening such reform and building a modern fiscal system means improving related legislation, ascertaining the responsibilities of government bodies, reform of the taxation system, and ensuring that budgets are transparent and efficiently used.

Both the central and local governments should tap their initiatives for finance reforms. In order to arouse the enthusiasm of local governments, the first thing is to solve the imbalance between property rights and responsibilities, which means the central government should be responsible for those social security issues concerning peoples' basic needs, such as pensions, medical care, unemployment and compulsory education, and increase the central government's duties in these areas. Meanwhile, local government revenues should be increased and be made stable, which would help end local governments' dependence on land finance and help build a transparent and efficient local government financing system. And public resources should be fairly managed, distributed and used.

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