

Study on China's National Unified Market

Zitang Zhou

Suzhou North America High School, Suzhou 215000, Jiangsu, China

Abstract

This thesis examines the logic behind the Chinese government's implementation of a unified big market in China, which mainly involves breaking down local trade barriers caused by local governments and giving full play to the advantages of China's huge population size; optimizing the domestic financial system to optimize the allocation of resources; and promoting cross-border settlement of the RMB, which laterally promotes international trade flows while enhancing the value of the RMB.

Keywords

Market China; Financial System; Market Supervision.

1. National Unified Market

Under the situation of the pandemic and the world-wide wave of anti-globalization, China now is seeking for a solution to the relatively less active international trade. In 2020, Chinese government proposed the concept of dual circular economy at home and abroad. It has since been revised to an economic system based on domestic circulation by Chinese president. This can be the beginning of the building of the so called national unified market. The inactive international trade is not the only reason why Chinese government want to build the National Unified Market. Firstly, China's domestic market has great potential. This is because China's population of 1.48 billion people can bring great dynamism and consumption to this market. The other is that the local protectionism in China is a big obstacle to the development of domestic trade in China. Local protectionism has emerged in China because local governments in China are obsessed with local GDP orientation, thus neglecting economic coherence on a large scale and even nationwide. In order to protect local economic or political interests, they use their administrative power to interfere with the market, manipulate the market, set up market barriers, undermine the market mechanism, and restrict the participation of non-local enterprises in fair competition for goods or services produced or provided by them, in violation of national laws and regulations. One of the most import uses of national unified market is to break the barriers between areas and make holistic development possible in China. In short term, this might cause the China's economy to be too closed. This can be reminiscent of a closed-door policy, since the main body of the policy is the development of domestic trade instead of international trade. The effectiveness of this policy will not be very obvious in the short term because it will take some time to overcome local protectionism. Without overcoming this obstacle, the effectiveness of the unified market will not be visible. But in long term, after the barriers between domestic production and consumption are gradually removed, the consumption power and productivity will be released. Domestic production and consumption will constitute a strong domestic demand market, laying the foundation for China's recovery after the epidemic. At the same time, the strong domestic market can also push the international trade. After the completion of the establishment of the domestic market, the domestic industry and manufacturing industry will be subject to less geographical influence and can be supported by policies for greater innovation and development. These stronger industries can lay the foundation for the development of international trade.

2. Promote the Issuance of Local Bonds

Firstly, the most basic local currency bond markets support economic growth by forming the basis for the sound functioning of the financial system; at the same time, they can facilitate the efficient use and allocation of savings funds. They help finance budget deficits in a non-inflationary manner. They can also facilitate lower tax revenues in difficult economic times and support the use of other countercyclical fiscal policy measures. Local currency bond markets can also enhance the ability of a country's economy to withstand sudden changes in foreign capital flows.

We know that all the countries now are suffering from a relatively high inflation rate according to the pandemic and some political and military conflicts. One of the roles of local currency bonds is to provide financing to the government within a certain limit that does not raise the inflation rate. The role of local currency bonds in providing a more flexible and adequate source of funding for the government is even more pronounced as China deals with high inflation resulting in a high government deficit. Local special bonds are now the focus of Chinese local currency bonds. Chinese local currency bond issuance at this stage is mainly focused on infrastructure development and economic recovery after the epidemic. According to the official information disclosed by the Chinese government, it is 3.7% in 2020, dropping to 3.1% in 2021 and further down to about 2.8% in 2022. The government work report proposed to arrange 3.65 trillion yuan of special bonds for local governments in 2022. Strengthen the performance-oriented, adhere to the "funds follow the project", reasonably expand the scope of use, to support the follow-up financing of projects under construction. In short term, this can provide local governments with sufficient funds and freedom to spend on infrastructure and livelihood protection work. This can also relieve the funding pressure of traditional loans from local governments. In the long run, local special bonds can bring some income to bondholders while bringing financing to the government. This is a benefit to both parties and a non-cash benefit to the public, including the bondholders.

3. Promoting Fair and Unified Market Supervision

Previously, regulation of government-controlled monopolies in the domestic market was very unclear. The industrial sector is dominated by State-owned enterprises (SOEs), a key element of economic monopoly due to their exclusive control over natural resources. A survey in Guangdong Province, China, showed that State-owned enterprises had access to more than 80 industries, while foreign firms had access to only 60 and private firms to only 40. In the case of energy, the use of concessions is important to ensure monopoly control in the energy sector, as stipulated in the Mineral Resources Law (Mineral Resources Law). In the petroleum sector, China National Petroleum Corporation (CNPC), China Petrochemical Corporation (Sinopec) and China National Offshore Oil Corporation (CNOOC) concession onshore and offshore oil and gas development and exploitation. Any company without a concession is prohibited from engaging in this work. These restrictions also limit competition among the major players in the energy sector. However, in July 2004, the State Council decided to open up all oil and gas exploration fields to major domestic firms and to allow CNPC and Sinopec Group to engage in offshore oil and gas exploitation and CNOOC to engage in onshore oil and gas exploitation. In recent years, the number of enterprises with oil and gas exploitation concessions has gradually increased. As of December 31, 2006, those legal entities with oil, gas, and mineral rights included CNPC, Yancheng Petroleum Company, and China Coal Group Company Limited. At the same time, there are strict restrictions on foreign involvement. A second factor limiting foreign involvement is the vetting and procedural process. Any foreign company wishing to enter the oil industry must establish a contractual relationship with a company authorized by the The Chinese government, the State Council, authorizes CNPC and Sinopec to negotiate, sign and execute all contracts with

foreign countries for the development of onshore oil resources. They also enjoy concessions in areas approved for development by the State Council. They also enjoy concessions in areas that the State Council has approved for development. However, the Ministry of Commerce must first approve all contracts. In the wake of China's readiness to begin building a unified national overmarket, the Chinese government and the State Council began implementing a fair competition review system in 2018 to review major operator concentrations involving market competition. The system aims to prevent market monopolization and unfair competition and ensure fair competition in the market. Under the system, transactions involving major operator concentrations need to be submitted for fair competition review to ensure that they do not harm market competition and consumer interests. The same year saw the promulgation of the Law of the People's Republic of China on Market Regulation, which consolidated a number of previous laws in the area of regulation and aimed to strengthen market regulation and combat unfair competition, targeting local governments. For foreign investors, the Law of the People's Republic of China on Foreign Investment was enacted in 2020, aiming to promote fair competition and market access for foreign investment. The law abolished the previous "negative list" system for foreign investment access and encouraged foreign investment to participate in more areas of market competition. It establishes the legal status of foreign investment on a par with that of Chinese enterprises, protects the legitimate rights and interests of foreign investment and provides a fair and just business environment.

4. Promote Cross-border Settlement of CNY

Since 2009, China has been implementing cross-border settlement in CNY. The People's Bank of China has signed bilateral local currency swap agreements with the central banks or monetary authorities of more than 30 countries and regions up to now, covering the world's major developed and emerging economies and the locations of major offshore CNY markets. At that time (2009), the scope of the pilot was not large, focusing on the Guangdong, Hong Kong, Macao and the Greater Bay Area and some companies in the region, including Shanghai, for some cross-border business. In total, no more than 100 companies participated in this earliest test. And the cross-border business referred to here is only the "cross-border settlement" between mainland China and Hong Kong. This is not the real cross-border to some extent. But starting in 2022, the Chinese central bank began to change its original unclear strategy and began to issue clear documents specifying the need to implement cross-border settlement of CNY. The introduction of cross-border CNY settlement in 2022 is a response to the international situation that developed under the epidemic. The relative resilience of the Chinese economy during the epidemic has supported the blow from the epidemic and the international situation to a certain extent. The real economy and foreign trade achieved positive growth earlier and played a driving role in international trade. Compared to other currencies, the CNY exchange rate appeared stronger and less volatile under the impact on the currency market brought about by the epidemic.

Because of these, foreign companies in China can have a lot of benefits. For example, trading directly in CNY can avoid the exchange rate difference problem of converting CNY to other currencies and saving exchange costs. Foreign companies investing in China can also choose cross-border CNY loans as an alternative financing method to win over other currencies in terms of exchange rates. For the CNY, cross-border settlement of CNY can drive the process of CNY to the world. In other words, it is making the CNY higher in the currency market. On this basis the CNY and the Chinese market will become more open. The CNY will assume part of the capacity of the US dollar-based settlement system. At the same time, it will promote the development and opening of China's financial sector and help to enhance China's ability to allocate financial resources in the international market.

5. Conclusion

Since 2020, the Chinese government has been leading the construction of a large unified national market centered on a double cycle between domestic and foreign countries. Its main objectives are to facilitate the issuance of local bonds to help economic recovery in the aftermath of the epidemic; to promote the improvement of regulatory mechanisms in the domestic market, to avoid unfair behavior in the domestic market led by local governments, to promote competition in the domestic market, and to promote product innovation in enterprises on the side; and to promote cross-border settlement of the renminbi (RMB), to strengthen the stability of the RMB in the face of economic fluctuations, to increase the RMB's share of the international currency market, to increase China's local currency settlement international trade volume, help economic recovery. After these analyses, we can generally understand the purpose and impact of the Chinese government's construction of a unified domestic market.

References

- [1] Bond Market Analysis 2020: Why we remain bullish on China's bond market: UBS Asset Management. UBS Asset Management in China. (2019, December). Retrieved July 22, 2022, from <https://www.ubs.com/cn/sc/asset-management/insights/fixed-income/2019/bullish-on-china-bond-market-in-2020.html>.
- [2] Bank Of China Hong Kong. (n.d.). Cross-border CNY business opportunities: CNY services: Bochk. CNY Services | Bank of China (Hong Kong) Limited. Retrieved July 22, 2022, from <https://www.bochk.com/en/CNY/corporate/crossborderCNY.html>.
- [3] Cai, E. (2022, April 11). Building a unified national market with a big-picture stance, breaking down local protection and regional barriers. Retrieved July 22, 2022, from https://www.sohu.com/a/536895222_114988.
- [4] Dong, B. (2019, December 6). Accelerated release of local bonds to stabilize investment. Local bonds to stabilize investment role accelerated release_Rolling News_China.gov.cn. Retrieved July 22, 2022, from http://www.gov.cn/xinwen/2019-12/06/content_5458919.htm.
- [5] How to settle cross-border transactions in Renminbi. PNC Insights. (2021, January 7). Retrieved July 23, 2022, from <https://www.pnc.com/insights/corporate-institutional/go-international/how-to-settle-cross-border-transactions-in-renminbi.html>.
- [6] Le, X. (2022, April 26). China's unified National Market will benefit ASEAN in the Long Run. ThinkChina. Retrieved July 22, 2022, from <https://www.thinkchina.sg/chinas-unified-national-market-will-benefit-asean-long-run>.
- [7] Li, S., Hou, Y., Liu, Y., & Chen, B. (2004). Investigation and Analysis of Local Protection Problems within China . Economic Research.
- [8] Lian, P. (2011, November 9). The Impact of Cross-border RMB Business on China's Financial Liberalization and Countermeasures. The Impact of Cross-border RMB Business on China's Financial Liberalization and Countermeasures_Shanghai Institute for New Financial Research_The Impact of Cross-border RMB Business on China's Financial Liberalization. Retrieved July 22, 2022, from http://www.sfi.org.cn/news_detail/376.html.
- [9] Liu, W., & Wang, E. (2022, March 10). Why did China's available financial resources increase significantly as the deficit rate fell? <http://finance.people.com.cn>. Retrieved July 22, 2022, from <http://finance.people.com.cn/n1/2022/0310/c1004-32371508.html>.
- [10] Ma, S. (2022, May 23). Unified domestic market is the world's delight. Unified Domestic Market is the world's delight. Retrieved July 22, 2022, from https://english.www.gov.cn/policies/policywatch/202205/23/content_WS628ae0eac6d02e533532b296.html.
- [11] Ren, Z. (2022, May 7). China New Infrastructure Study 2022. Retrieved July 22, 2022, from https://finance.sina.cn/zl/2022-05-07/zl-imcwiwst5971722.d.html?vt=4&cid=79615&node_id=79615.

- [12] Shen, C. (2022, March 9). What is a tax credit? The Ministry of Finance answers this question. What is the tax rebate? The Ministry of Finance answered this way - Xinhua. Retrieved July 22, 2022, from http://www.news.cn/2022-03/09/c_1128452734.htm.
- [13] Song, K. (2021, August 30). The internationalization of the RMB is an inevitable part of China's economic development. <http://finance.people.com.cn/>. Retrieved July 23, 2022, from <http://finance.people.com.cn/n1/2021/0830/c1004-32211569.html>.
- [14] Tobias, A., Thor, J., Ayhan, K., & Anderson, S. (2021, March 15). Social Impact Bonds: Investing in Social Change. Social Impact Bonds: Investing in Social Change | British Council. Retrieved July 22, 2022, from <https://www.britishcouncil.cn/programmes/society/news/sib-overview>.
- [15] Xie, D. (2011, March 21). pbc.gov.cn. Retrieved July 22, 2022, from Optimize the allocation of market resources to better serve the real economy and continue to promote the overall coordinated and sustainable development of the bond market. <http://www.pbc.gov.cn/redianzhuanti/118742/118693/119241/2890050/index.html>.
- [16] Yang, Z. (2022, March 16). How will the local debt structure be adjusted with a record low share of general obligation bonds in 2022? ICBC mobile site. Retrieved July 22, 2022, from <https://m.icbc.com.cn/Icbc/%E5%B0%8E%E8%B5%84%E8%AE%AF/%E5%B0%8E%E8%A1%8C%E5%AE%B6/%E6%9D%A8%E5%BF%97%E9%94%A6/%E8%A7%86%E7%82%B9/2022%E5%B9%B4%E4%B8%80%E8%88%AC%E5%80%BA%E9%A2%9D%E5%BA%A6%E5%8D%A0%E6%AF%94%E5%88%9B%E6%96%B0%E4%BD%8E%E5%9C%B0%E6%96%B9%E5%80%BA%E7%BB%93%E6%9E%84%E5%A6%82%E4%BD%95%E8%B0%83%E6%95%B4.htm>.
- [17] Yu, S. (2022, March 5). The deficit rate is proposed to be adjusted downward to around 2.8%, and fiscal spending will not be reduced. The deficit rate is proposed to be adjusted downward to about 2.8%, and the strength of fiscal expenditure is not reduced_Scrolling News_China.gov.cn. Retrieved July 22, 2022, from http://www.gov.cn/xinwen/2022-03/05/content_5677343.htm#:~:text=%E8%B5%A4%E5%AD%97%E7%8E%87%E6%98%AF%E8%B4%A2%E6%94%BF%E8%B5%A4%E5%AD%97,%E8%BF%9B%E4%B8%80%E6%AD%A5%E4%B8%8B%E8%B0%83%E8%87%B32.8%25%E5%B7%A6%E5%8F%B3%E3%80%82.
- [18] Zhang, D. (2022, April 11). China to build unified National Market to deepen reform. China News Service Website - Headlines, stories, photos and videos. Retrieved July 22, 2022, from <https://www.ecns.cn/cns-wire/2022-04-11/detail-ihaxmmpe0428446.shtml>.
- [19] The Central People's Government of the People's Republic of China. (2009, July 7). From Currency of Denomination to Currency of Settlement - What Cross-Border RMB Settlement Brings. Vice Governor of the Central Bank: Cross-border RMB Settlement is Significant for Domestic Enterprises. Retrieved July 22, 2022, from http://www.gov.cn/zxft/ft185/content_1398101.htm.
- [20] China Development and Reform Newspaper. (2022, April 22). Accelerating the Construction of a National Unified Market and Smoothing the National Circulation. Accelerating the Construction of a National Unified Market and Smoothing the National Circulation] - National Development and Reform Commission. Retrieved July 22, 2022, from https://www.ndrc.gov.cn/wsdwhfz/202204/t20220422_1322696.html?code=&state=123.
- [21] Xinhua News Agency Beijing. (2022, April 24). China's economy in 2022: A look at seven major policies. China's economy in 2022: seven major policies to be "forward-motivated" - Xinhua. Retrieved July 22, 2022, from http://www.news.cn/fortune/2022-04/24/c_1128591056.htm.
- [22] What does cross-border trade settlement in RMB mean? What does it mean? HiShop. (2022, July 9). Retrieved July 22, 2022, from https://www.hishop.com.cn/kuajing/show_108478.html.