Three dimensions of transforming the advantages of the basic socialist economic system into governance efficacy

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Abstract

Purpose – The purpose of this paper is further leveraging the advantages of the basic socialist economic system and exploring the realistic way of transforming the advantages of the socialist economic system with Chinese characteristics into governance efficacy. At its Fourth Plenary Session, the 19th Central Committee of the Communist Party of China (CPC) elevated the socialist market economy system to China’s basic economic system, further affirming the significant advantages embedded in the socialist market economy from an institutional perspective.

Design/methodology/approach – The essence of the basic socialist economic system consists of the ownership structure with public ownership as the mainstay, the income distribution system with distribution according to work as the mainstay and the socialist market economy, which are interrelated, supportive and reinforcing mutually, forming an organic whole.

Findings – Over the past 40 years of reform and opening-up, it has been proven through practice that the basic socialist economic system has played a fundamental role in guaranteeing rapid economic development and social stability. The system not only corresponds to the development level of the productive forces in the primary stage of socialism in China but also demonstrates its strengths in eliminating polarization between the poor and the rich and achieving common prosperity.

Originality/value – It is necessary to make the basic economic system more coordinated and consistent and be committed to the philosophy that the whole is greater than the sum of its parts to form a systemic synergy, so as to achieve synergistic enhancement of institutional advantages and governance efficacy.

Keywords Basic socialist economic system, Ownership structure, System advantage, Governance efficacy

Paper type Research paper

At its Fourth Plenary Session, the 19th CPC Central Committee expounded on the essence and advantages of the basic socialist economic system, realizing another major theoretical innovation in socialist political economy with Chinese characteristics. In the new stage of development, further leveraging the advantages of the basic socialist economic system and exploring the realistic way of transforming the advantages of the socialist economic system with Chinese characteristics into governance efficacy is both a major theoretical topic and an important topic regarding practice.
1. The socialist ownership system
Since the Third Plenary Session of the 11th CPC Central Committee, the Party continuously
deepened its understanding of socialist ownership with Chinese characteristics. At first, the
Party put forward a system whereby public ownership plays a dominant role and non-
public ownership serves as a supplement; then the Party improved the system into the
current one whereby public ownership plays a dominant role and economic entities under
diverse forms of ownership develop side by side. Socialist ownership with Chinese
characteristics has the significant advantages of mobilizing the positive factors of all
parties, leveraging the role of economic entities under diverse forms of ownership,
promoting market competition and safeguarding the people’s fundamental interests. Still,
these advantages have not yet fully translated into governance efficacy. Therefore, how to
transform institutional advantages into governance efficacy has become a key task in the
current economic system reform.

1.1 Institutional advantages of the basic economic system whereby public ownership plays a
dominant role and economic entities under diverse forms of ownership develop side by side
The practice of reform and opening-up over the past 40 years has proven the significant
advantages of the ownership structure, with public ownership playing a dominant role and
economic entities under diverse forms of ownership developing side by side.
First, it inspires the enthusiasm of all economic entities and pools resources to develop
the national economy. The state-owned sector, serving as a “ballast,” plays a dominant role
in the fields and industries that are the lifeblood of the national economy; the private sector,
serving as a “propeller,” fully adapts to market demand and combines capital, technology,
management and other factors. Over the past 40 years of reform and opening-up, “the
private sector has contributed more than 50% of tax revenue, 60% of GDP, 70% of
technological innovations, 80% of urban employment, and 90% of enterprises” (Peng and
Kang, 2019).
Second, the comparative advantages of the public and non-public sectors can be leveraged
to optimize the economic structure and layout. With the dominance in total social assets,
public assets can play a key role in areas such as infrastructure construction, the exploitation
of natural monopoly resources and basic scientific research, where the volume of investment
is large, the payback period is long and social benefits are emphasized. The non-public sector
is featured by flexible operation and management, rapid technological renewal and high labor
efficiency, making it more adaptable to free competition in the market. Given their different
characteristics and comparative advantages, allocating them to different fields is conducive
to optimizing China’s economic structure and layout.
Third, competition among various economic entities is promoted, and hence market
entities are energized. Compared to the planned economy with a single kind of economic
entity, resulting in low production efficiency, the common development of economic entities
under diverse forms of ownership is conducive to forming pluralistic economic agents,
providing institutional safeguards for the market competition mechanism. Incentivized by
market competition and elimination mechanisms, each market entity underscores self-
reflection and adjusts its business policies on time for the sake of its market
competitiveness.
Fourth, this ownership structure ensures that the fruits of development are shared by all
people, consolidating and developing the strengths of the socialist system. The common
development of economic entities under diverse forms of ownership is conducive to inspiring
the enthusiasm of all people and concentrating on making the “pie” bigger. Adhering to the
system whereby public ownership plays a dominant role is conducive to dividing the “pie”
properly to ensure that the fruits of development are shared by all.
1.2 The main factors that hinder the socialist ownership system with Chinese characteristics from leveraging its advantages in the new era

At the new stage of development, to realize the objectives of developing China into a great modern socialist country and achieve rejuvenation of the Chinese nation, it is necessary to maintain the ownership structure whereby “public ownership plays a dominant role and diverse forms of ownership develop together,” transform the inherent institutional advantages into governance efficacy and enhance the country’s ability to leverage institutional advantages to cope with the impact of the global economic crisis, so as to consolidate the economic fundamentals of stable and long-term economic growth and further promote high-quality economic development. However, after summarizing the experience and lessons learned from more than 40 years of progressive reform of China’s ownership structure, some problems to be solved have been found in terms of China’s leveraging the advantages of the ownership system and promoting high-quality development of the national economy. For one thing, the layout and structure of the state-owned economy need rational adjustment since the distribution of China’s state-owned economy in essential areas and key industries is still not concentrated enough. In addition, state-owned enterprises (SOEs) need to be more innovative, competitive, risk-resilient and capable of exerting greater influence and control over the economy. Particularly in competitive fields, the managerial and innovation capabilities of SOEs do not fully adapt to the needs of market competition, and their production efficiency, as well as the rate of return on state-owned assets, is relatively low. During the reform, SOEs have to consider local finance, taxation, employment and other aspects, which make the reform proceed slowly and even make SOEs miss good development opportunities. For another, the progress of the mixed-ownership reform of SOEs is relatively slow. During the mixed-ownership reform, problems with SOEs, including the failures of de-administration and the separation of government and enterprise and the lagging behind of the property rights system, still exist, and the incentive and restraint mechanisms are unsound, which results in low efficiency in innovation and brain drains in mixed-ownership enterprises. As the reform of SOEs progresses, the asset supervision of SOEs has changed from “supervising enterprises” to “supervising capital,” which has put forward higher-level requirements for the management system and the supervisory body of state-owned assets. At present, private enterprises are unable, to a certain extent, to compete on a level playing field. Private capital is often hindered by visible or hidden barriers when entering areas unrelated to national strategic security, economic development and people’s well-being. Such hindrance makes small and medium-sized enterprises (SMEs) cost more and profit less in general competitive fields. Moreover, the difficulties and high costs of the non-public sector for financing hinder the normal operation of SMEs. Affected by traditional operation philosophy, some non-public enterprises have adopted a highly centralized family business model for a long time. This model can reduce costs and enhance internal cohesion in the early stage of operation. However, with the expansion of enterprise scale, the family business model may hinder enterprises from profiting from large-scale production and promoting the modern enterprise system, thus making the enterprise’s innovative and managerial capacity out of step with the times.

1.3 Realistic ways of facilitating the transformation of the advantages of the ownership system whereby public ownership plays a dominant role and economic entities under diverse forms of ownership develop together into governance efficacy

First of all, optimizing the layout of SOEs to shore up weak links in their development. Upholding the principles of increasing state capital investment in some sectors while reducing it in others and doing something without doing everything, SOEs should strengthen their competitiveness, innovation capabilities, control, influence and risk resistance capacity in key areas and vital sectors. For SOEs in competitive industries, their status quo of having
long fronts and scattered layouts should be broken down to form a scale effect, helping increase the rate of return on state-owned assets.

Second, advancing the reform of SOEs to introduce the mixed ownership system proactively and prudently. The leadership of the Party should be strengthened and integrated into the management of SOEs organically. The mixed-ownership system reform should be advanced in key areas, including accelerating the legislation on mixed ownership property rights and improving the corporate governance structure and market-oriented operating mechanism. The business operation and management system of mixed-ownership enterprises should be optimized, and an oversight and management mechanism with clearly-defined powers and responsibilities should be formed. The board of directors of mixed-ownership enterprises should be developed. The mechanisms for constraints and management should be improved, and the mechanisms for incentives should be innovated to underscore the supervision of the board of directors.

Third, establishing a sound oversight mechanism for state-owned assets to prevent asset loss. An improved oversight mechanism for state-owned assets can help plug the loopholes in the regulation and supervision of state-owned assets. At the same time, an oversight mechanism for overseas state-owned assets should be optimized to strengthen the supervision and regulation of overseas state-owned assets.

Fourth, creating an environment where the non-public sector can better help advance high-quality economic development to provide safeguards and prerequisites for the equal protection of entrepreneurs’ rights and interests and the property rights of private enterprises in accordance with law. To this end, it is necessary to guarantee the equal rights and interests of enterprises of all types of ownership, in terms of access to resources as production factors, market access and licenses and business operations and competitions following the Civil Code and relevant laws. Moreover, based on the establishment of a negative list system for market access, policy tools financially supporting SMEs should be further innovated to increase credit support and tax concessions. Hidden barriers to the participation of non-public enterprises in the market competition should be removed continuously to reduce the overall financing costs of enterprises. In addition, a cordial and clean relationship between government and business should be constantly improved to establish standardized communication channels between government and enterprises. As China’s non-public sector grows stronger, the intrinsic conflicts of the sector between socialized production and traditional small-farmer consciousness are growing. To fully comprehensively invigorate the development of non-public enterprises, it is necessary to modernize the management system of private enterprises deeply and support the private sector in participating in national key industries and core projects of technology research and development through building enterprise innovation platforms for the private sector and constructing a synergistic innovation mechanism between the state-owned economy and the private economy.

2. The socialist income distribution system
The socialist income distribution system with Chinese characteristics is gradually formed alongside the socialist ownership system with Chinese characteristics and the reform of the market-oriented economic system, where the planned economy is replaced with a socialist market economy. From the emphasis on adhering to the socialist principle of distribution according to work at the early stage of reform and opening-up to the establishment of the basic income distribution system at the 15th National Congress of the CPC and the further establishment of the basic principle that labor, capital, technology, management expertise and other production factors participate in the distribution of income according to their respective contributions at the 16th National Congress of the CPC, the income distribution system has been continuously improved in practice and demonstrated prominent advantages.
2.1 The institutional advantages of the income distribution system under which distribution according to work is the mainstay while multiple forms of distribution exist alongside it

According to Marxian political economics, distribution relations and production relations are unified in nature. China’s ownership system of the means of production in the primary stage of socialism determines its income distribution system in which distribution according to work is the mainstay while multiple forms of distribution exist alongside it. This distribution system has significant strengths, mainly manifested in three aspects:

First, distribution according to work is conducive to motivating workers to improve work efficiency. It is a socialist principle of distribution and a manifestation of socialist fairness and justice. In essence, distribution according to work means more pay for more work, less pay for less work and no pay for no work. By directly linking individual income to the quantity and quality of their work, workers can be motivated to improve their production efficiency and further prompted to increase their attainment of scientific knowledge.

Second, the coexistence of multiple forms of income distribution is conducive to stimulating the factor inputs from various factor owners, forming a pluralistic force to create social wealth and advance economic development. In the primary stage of socialism, adhering to the coexistence of multiple distribution forms and guaranteeing the participation of various production factors, including labor, capital, technology, management and data, in income distribution contribute to inspiring workers’ production enthusiasm and stimulating their innovation vigor and further making full use of all production factors to advance economic development.

Third, this distribution system is conducive to the unity of efficiency and fairness. The proper handling of the relationship between efficiency and fairness is of great significance to sustain and healthy economic growth and the steady advancement of socialist modernization. Distribution according to work as the mainstay reflects the essential requirements of socialism and can effectively avoid wealth disparity, which is a significant institutional guarantee for the gradual realization of common prosperity. The coexistence of multiple means of income distribution is conducive to stimulating factor input from different factor owners and forming a pluralistic force for creating social wealth. Therefore, the basic distribution system reflects that China aims to “make the pie bigger” and to “divide the pie properly,” which facilitates the unity of efficiency and fairness.

2.2 Limitations of China’s distribution system in the new era

The socialist income distribution system with Chinese characteristics in the new era has shown remarkable advantages in improving people’s livelihood and advancing economic development, but it also has some limitations:

First, the income gap remains relatively large. According to data from the Household Survey of the National Bureau of Statistics, the Gini coefficient, which reflects the income situation of the nation’s residents, rose from around 0.3 to 0.491 from the mid-1980s until 2008 and then trended downward generally. In recent years, China has taken strong measures to narrow the income gap and curb its further widening. However, due to factors including the increasing diversification of income sources and the imperfect market for production factors, the income gap between Chinese residents remains relatively large. For example, China’s Gini coefficient in 2019 was 0.465.

Second, the share of work remuneration in the initial or primary distribution of income is relatively low, and the mechanisms for distribution based on production factors need to be improved. According to the flow of funds accounts in the China Statistical Yearbooks from 1999 to 2020, the share of work remuneration in primary distribution was relatively low. In the 1990s, the share of work remuneration in primary distribution was 59% on average, upholding the principal position. However, the share of work remuneration in primary distribution began to decline after 2004, reaching a historic low of 47.49% in 2011, and then was on a general upward
trend. In 2018, work remuneration accounted for 52% of primary distribution, still lower than that in the 1990s. In addition, there are also some problems with China’s mechanisms for distribution based on production factors. For instance, the free flow of land and capital factors face obstacles, the system of knowledge and technology markets is not well-developed, the data markets grow slowly and the property rights system needs further improvement.

Third, the adjustment effect of the government’s secondary distribution of income needs to be strengthened. Currently, nearly 70% of China’s tax revenue comes from indirect taxes. Although the high proportion of indirect taxes facilitates the realization of the national objectives of taxation, the tax pressure on the middle and lower earners increases because the indirect taxes are passed on to consumers in the form of the price of goods and services, which will affect the adjustment effect of secondary distribution. The social security level can also reflect the adjustment effect of the government’s secondary distribution. At present, the social security system of China requires further improvement, as social security in areas such as medical care needs to be improved, and in particular, the social security in poor rural areas needs to be more sustainable.

Fourth, the tertiary distribution system in China is not mature yet. “The tertiary distribution is the voluntary act of social forces under the influence of morality, culture and custom to help the vulnerable through private donations, charity and voluntary actions, which is a beneficial supplement to secondary distribution,” indicates Liu (2019). At the fourth plenary session of the 19th CPC Central Committee, the tertiary distribution was included in the official documents of the Party and the country for the first time. However, there are still problems to be solved with the tertiary distribution in China, including the scarcity of charities, the low-level, unstandardized operation of the charities and the lack of charity laws and regulations.

2.3 The practical direction for transforming the institutional advantages of the distribution system in which distribution according to work is the mainstay and multiple distribution forms co-exist into governance efficacy

Upholding and improving the income distribution system in which distribution according to work is the mainstay and multiple forms of distribution exist alongside it is integral to consolidating the socialist economic system with Chinese characteristics. It determines the extent to which common prosperity for all can be achieved. To fully leverage the advantages of this system, it is required to follow the basic requirements of unlocking and developing productivity while bearing in mind the fundamental goal of achieving common prosperity.

First, integrating the principle of distribution according to work with distribution according to production factors. Such integration represents an underlying trend and is determined by the role of labor and other production factors in commodity production. Moreover, the integration can stimulate the initiative and enthusiasm of owners of production factors to participate in social production, reflecting the unity of fairness and efficiency. Such integration offers an important means to achieve common prosperity gradually. Therefore, it is necessary to seek multiple forms of distribution on the basis of the public ownership economy, which means “more pay for more work and income earned through work should be protected in particular; increase the remuneration of laborers, especially frontline laborers, and raise the share of work remuneration in primary distribution.” In addition, the distribution system to allow factors of production to have their due share of income according to their respective contribution should also be optimized. It is necessary to ensure access to employment and enable people to get what they deserve. The vitality of “soft” factors closely linked to labor, such as knowledge, technology, management and data, should be stimulated. The income distribution system based on the contribution of factors should be implemented to ensure that workers share the fruits of reform and development through multiple channels and in all aspects. It is necessary to stimulate the enthusiasm of owners of capital, land,
technology, management, data and other factors and improve the income distribution system according to their contribution. To this end, it is necessary to establish sound systems for sharing the earnings of state-owned capital and distributing the earnings of public resources such as land, as well as the incentive system for technological and management innovations and improve the system for market-oriented evaluation and distribution, as well as the income distribution system with the participation of data factors based on their contribution.

Second, improving the secondary income distribution system for adjustment and strengthening the secondary distribution function of the government. The structure of the tax system should be optimized to increase the proportion of direct taxes and gradually transform the current tax system, which is dominated by indirect taxes, into one dominated by direct taxes. It is necessary to distinguish between corporate income tax and individual income tax, increase property tax, inheritance tax, gift tax and other taxes, optimize the comprehensive individual income taxation and appropriately increase the individual exemptions. Additionally, it is necessary to increase the proportion of expenditure on people's livelihood in fiscal expenditure, consolidate and expand the results of poverty eradication through rural revitalization, increase the transfer payment in relatively poor areas and gradually improve public services in underdeveloped rural areas. Moreover, a multi-level social security system should be established to leverage the advantages of different levels of security programs for satisfying people's differentiated needs.

Third, making full use of the tertiary distribution of income, which aims to facilitate the third flow of social wealth and resources following the primary and secondary distribution. Transforming the beneficial complement of the tertiary distribution into an effective complement to the secondary distribution is an important path that leads toward the transformation of the advantages of the distribution system into governance efficacy. The government should allow tax relief on charitable donations, improve the charity laws and regulations and establish a sound regulatory system for charities and other social welfare undertakings, including financial supervision and auditing, the administrative accountability system and rules for organizational self-regulation, so as to enhance the credibility and transparency of non-governmental commonweal organizations. In addition, various kinds of paired assistance should be implemented actively to make relatively affluent regions boost the development of underdeveloped regions. New technologies and media, including the Internet and big data, should be leveraged to increase social attention and assistance to vulnerable and poor groups. Moreover, efforts should be made to promote the culture of charity, enhance public awareness of public welfare and strive to develop socialist public welfare undertakings with Chinese characteristics, leveraging the leading role of social organizations, public institutions and private enterprises in publicity and promoting the development of social charity and public welfare undertakings, so as to create a positive social effect of charity and common welfare practices.

3. The socialist market economic system
The socialist market economic system provides an institutional prerequisite for China to make the unprecedentedly rapid economic development miracle in the new era. The socialist market economic system overcomes the shortcomings of the capitalist market economy and integrates the advantages of the socialist system with the development of the market economy, demonstrating the strengths of the socialist system. At its Fourth Plenary Session, the 19th CPC Central Committee elevated the socialist market economic system to China’s basic economic system, further affirming the remarkable advantages embedded in the socialist market economic system from an institutional perspective. In the new stage of high-quality development, effectively responding to the problems with the socialist market economic system and facilitating the transformation of advantages of the socialist market
economic system into governance efficacy should be a focus for further improving and implementing the basic economic system.

3.1 The advantages of the socialist market economic system

One of the most successful experiences of reform and opening-up is that the socialist economic system and the market economy are combined to create the socialist market economic system. Such an economic system combines the strengths of both an efficient market and a responsive government that are focused on serving the socialist market economy, which is conducive to the decisive role of the market in the allocation of resources, leveraging the advantages of a market economy, including information transparency, high efficiency, equality and openness, as well as the guiding role of the government in macroeconomic regulation and control, overcoming market failures and ensuring fairness and justice.

Developing a market economy under the socialist condition is a groundbreaking initiative of China. Elevating the socialist market economic system to China’s basic economic system reflects the transcendence of the socialist market economy over the capitalist market economy. The combination of the market economy and the socialist system not only breaks the dogma that socialism and the market economy are opposed while following the general laws of the market economy but also helps leverage the advantages of the socialist system and the market economy. The socialist market economy is essentially different from the capitalist market economy, as it underscores the government’s guiding role of macroeconomic regulation besides spontaneous market regulation, aiming to use both the “invisible hand” and the “visible hand” properly. In essence, the socialist market economic system of China is to build both an efficient market and a responsive government, which forms a landscape where the government and the market are combined organically and complementary to make various production factors be allocated efficiently.

Developing a market economy under the socialist condition provides an institutional guarantee for achieving common prosperity. Common prosperity is both the fundamental principle and the essential requirement of socialism and is also the fundamental sign of the superiority of the socialist system over the capitalist system. Compared to a capitalist market economy that focuses only on efficiency and ignores fairness and justice, causing a widening wealth gap, the socialist market economy with Chinese characteristics follows the principle of “people-centered” development with public ownership and distribution according to work as the mainstay and takes common prosperity as the ultimate development goal, keeping to the direction of socialist development. Under the Party’s leadership, the socialist market economy leverages the combination of the government and the market, gradually eliminating the imbalance problem of development between urban and rural areas and various regions in China through practical measures, in addition to effectively addressing “market failures,” such as the polarization between the rich and the poor, negative externalities, and macroeconomic imbalances.

Developing the socialist market economy reflects the institutional advantage of socialism in pooling resources to accomplish major initiatives, which has been a fine tradition that the Party underscores. “One way in which socialism is superior to capitalism is that under socialism, the people of the whole country can work as one and concentrate their strength on key projects,” stresses Deng (1993, pp. 16–17), and Xi (2016) emphasizes that “Our greatest advantage is that our socialist system is able to pool resources to accomplish major tasks. This is an important way to score our achievements.” “Pooling resources to accomplish major initiatives” does not mean that the government will do everything but rather that based on the integration of the socialist system and the market economy, it can concentrate on leveraging the role of the fast, efficient market economy, as well as the government that
safeguards fairness and justice, so as to make sure that the major strategic objectives are well fulfilled.

3.2 Problems with the socialist market economic system

Although China’s socialist market economy has been developing over the past two decades and played an important role in socialist modernization, regulating the relationships between the market and the government, efficiency and fairness, vitality and order properly and facilitating major infrastructure projects in China greatly, there are still some problems with it.

First, China’s market system is immature and still falls far short of a high-standard market system. From the perspective of the actual needs for the innovative development of the whole society, the modern property rights system for enterprises is not well-developed, with inadequate equity-based incentives. The market lacks the rigid constraints of fair competition review, and the third-party review rules and evaluation system need to be established. A mature market should be unified, open, competitive and orderly. Though China has implemented a negative list system for the market system in recent years, hidden barriers to entry still exist outside the list. For example, some local governments take excessive policy steps under the banner of streamlining administration and delegating power. Therefore, hidden market barriers need to be broken down urgently. Currently, the structural conflict between supply and demand in the market of China is prominent, and the quality of products and services needs to be improved. In particular, the innovation and competitive powers of market players are weak overall, and the development divide between urban and rural areas and various regions increases.

Second, the relationship between the government and the market has not yet been straightened out. The relationship between the government and the market is not only the focus of economic theory research but also a challenge in the economic development practices of all countries. The market economy has its own insurmountable defects, such as spontaneity, lag and blindness, which often result in distortion of resource allocation and poor flow of production factors, and what is worse, the structural imbalances of the economy and even economic crises. China’s market economy system has been in place for no more than 30 years, and the phenomena of government overstepping, lacking, misplacing and losing its position still exist. Due to the frequent appearance of the “visible hand,” the market has not dominated the resource allocation yet. The division of administrative power and financial power among government agencies is unclear, and the government’s administrative power is relatively weak in intellectual property protection, pension insurance, cross-regional ecological protection, etc. A stable system that matches the government’s administrative authority, spending responsibility and financial resources has yet to be formed. The macroeconomic regulation and control system that reflects the new development philosophy is not sound, which should be more forward-looking, targeted and coordinated.

Third, production factors do not flow smoothly, and resources are allocated inefficiently. China has not yet formed a unified and open market for factors of production. There are still deficiencies in China’s factor market reform, such as temporal and spatial imbalances of factors, factor allocation inefficiency and insufficiency of serving the real economy. For example, labor flows are constrained by the household registration system, a gap exists between the allocation of factors such as capital and the needs for the real economy, and the market rules for new factors such as technology and data are lagging. Moreover, since the market price mechanism has not yet been formed, the governments tend to have improper intervention in prices. For example, the price mechanism for urban construction land is not sound, and inefficient urban lands lack redevelopment; the rate of composite development and utilization of land is low, and the conversion of land use is unreasonable; no nationwide
technology trading platform has been established, and services to evaluate assets such as scientific and technological achievements and patents are not in place, and factors such as technology and talents cannot flow efficiently. The lack of rules for market operation and regulation, the absence of the modern service market system and insufficient protection of consumer rights and interests hinder the enhancement of resource allocation efficiency. Therefore, the competitive market environment still requires maintenance and regulation.

3.3 The realistic ways of transforming the advantages of the socialist market economy into governance efficacy

The elevation of the socialist market economic system to the basic economic system institutionalizes the great strengths of the socialist market economy. In pursuit of high-quality economic development in this new development stage, it is urgent to consider how to address the problems existing in the socialist market economy and explore a realistic way to promote the transformation of the advantages of the socialist market economic system into governance efficacy.

First, building a high-standard market system to advance high-quality economic development. Establishing a high-standard market system must be preceded by the overall improvement of the property rights system. The improvement of the property rights system must be based on the core principle of fairness, protecting the property rights and legitimate interests of all kinds of ownership and of natural persons and economic organizations under all forms of ownership in accordance with the law. Access limits should be further loosened, and a negative list system for market access should be fully implemented. Currently, China should further advance trials to loosen access limits with a focus on the service sector, establish a code system for the negative list for market access, an information disclosure system, a dynamic adjustment system and a third-party evaluation system and implement a comprehensive list system nationwide. Additionally, it is necessary to fully implement the review system for fair competition, in other words, to strengthen the rigid constraints of the fair competition review by establishing a review, sampling, assessment and announcement system for fair competition and a third-party review and evaluation mechanism and further revising and improving the detailed rules for the implementation of fair competition review. China shall persist in advancing the supply-side structural reform as the main task, innovating institutional supply, adapting to and triggering effective demand, so as to promote a higher level of dynamic balance between supply and demand.

Second, enhancing the government’s capacity for economic governance and improving the governance efficacy to make full use of the government’s role better. The establishment of a high-standard market system requires continuously improving macroeconomic governance. For this purpose, it is necessary to adhere to the strategic guidance of national development plans, improve the macroeconomic governance system featuring target optimization, reasonable division of labor and efficient coordination, enhance the guidance of national development planning policies on the macroeconomy and reasonably set targets for regulating economic growth, employment, etc. The government should further streamline administration and delegate power, optimize the government list of powers and responsibilities and continue to improve the market- and law-based and internationalized business environment; streamline administrative matters, standardize enterprise inspections and improve work efficiency; establish a new system for the withdrawal of market entities and improve the bankruptcy system for natural persons and enterprises; and adopt new approaches of government services and make procedures for gaining government approval more efficient and convenient. In addition, further promoting the modernization of government regulatory capacity, adhere to the random selection of both inspectors and inspection targets and the prompt release of results and “Internet plus supervision” as the
basic regulatory approaches, the credit supervision and management as the groundwork and the key supervision and management as a supplementary means so as to optimize the new regulatory mechanism. Furthermore, strict supervision should be imposed on factor market transactions, and an inclusive and prudent attitude should be taken for the implementation supervision of new industries and new business models.

Third, pushing forward with the reforms to ensure that production factors are allocated by the market and factors flow freely. To this end, it is necessary to make reforms to the restrictions on urban household registration, explore the system for the transfer of household registration and mutual recognition of residence permits within urban clusters and promote the social mobility of labor and talent. Moreover, it is necessary to speed up the establishment of a regulated, transparent, open, dynamic and resilient capital market, strengthen the construction of the capital market’s basic system and accelerate fostering data markets to facilitate the orderly sharing of data. On this basis, it is necessary to improve the price mechanism for urban construction land and the policies for putting idle land into good use so as to promote the composite development and utilization of land and the reasonable conversion of land use; accelerate the establishment of a national technology trading platform and actively carry out assessment services for scientific and technological achievements, patents and other assets to promote the orderly flow of technologies and the formation of reasonable prices. Since the rule of law is the intrinsic requirement of the socialist market economy, the legal systems for markets of production factors such as talent, land, finance, technology and data should be established and improved as soon as possible while supervision should be strengthened so as to meet the needs of building a high-standard market system, advancing high-quality development and building a modern economic system.

To sum up, the essence of the basic socialist economic system consists of the ownership structure with public ownership as the mainstay, the income distribution system with distribution according to work as the mainstay and the socialist market economy. As an organic whole, the three aspects are interrelated, mutually supportive and reinforcing each other. These three basic economic systems correspond to the relations of ownership of the means of production, the relations of distribution of products and the status and interrelationship of people in production, respectively, which underpin the basic economic system according to the basic tenets of Marxism (Hong, 2020). For more than 40 years of reform and opening-up, it has been proven through practice that the basic socialist economic system has played a fundamental role in guaranteeing rapid economic development and social stability. This system not just corresponds to the development level of the productive forces in the primary stage of socialism in China but also demonstrates its strengths in eliminating polarization of the haves and have-nots and achieving common prosperity. Promoting the transformation of the strengths of the basic socialist economic system into governance efficacy will further leverage our institutional advantages and also optimize the governance structure so as to promote the modernization of the national governance system and governance capacity. Therefore, for one thing, it is necessary to effectively give full play to the institutional advantages of the structure and realization of ownership, consolidating the development basis of the socialist system; fully leverage the advantages of the distribution system that distribution according to work is the mainstay and multiple forms of distribution exist together, enabling all people to share the fruits of reform and development; fully leverage the advantages of the socialist market economic system, energizing high-quality economic development. For another, it is necessary to strengthen the overall construction of China’s basic socialist economic system. The ownership structure, the distribution structure and the resource allocation approaches constitute a structured and systematic system, where the ownership system establishes the dominance of production organizations, the distribution system determines the ways of claiming surplus value and the
Resource allocation approaches influence the vitality and efficiency of economic activities. It is necessary to make all parts of the basic economic system more coordinated and consistent and be committed to the philosophy that the whole is greater than the sum of its parts to form a systemic synergy so as to achieve synergistic enhancement of institutional advantages and governance efficacy.

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