CHAPTER FIVE
GOVERNMENT TRANSFORMATION
AND PUBLIC FINANCE

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I. Introduction

The thirty years of reform and opening has been a historical era, one that has witnessed China’s drive toward modernization. During these thirty years, China’s economy and society have undergone a “once in a thousand years” period of change, achieving unprecedented success from its development. In the period from 1978 to 2007, China’s per-capita GDP increased from 217 US dollars per person to 2,360 US dollars per person, increasing annually by an average of 8.6 percent, thus resulting in China’s historical leap from a low-income country to a moderate-income country.2 China’s human development index (HDI) has increased from 0.56 to 0.78, approaching the “high level” of development (an HDI higher than 0.8); already, over 30 percent of the total population in China has reached this “high level” of development.3 The speed and scale of China’s development are not only far higher than those of other countries during the same period, but even in historical terms, are an example of something few and far

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2 At the beginning of the reform and opening, China’s per-capita GDP ranked as one of the lowest in the world. In the database of the World Bank, the author has analyzed statistics that show that in 1980 China’s per-capita GDP ranked 134th out of 140 countries and regions, and that in 2005, China ranked 93rd out of 169 countries and regions.

The “China Miracle” has turned from a dream into a reality, and the “Chinese Model” has gone from being merely a topic of interest to winning widespread recognition.

In analyzing China’s reform and transformation, we find that it is, in truth, a combination of transformations of the largest scale in the history. We also find that these transformations are interrelated, intertwined, and interactive, including not only the transformation of the economic and political system, but also social transformation, the transformation of the style of governance, and opening to the world.

But what has counted most in this multiplex of transformations has been the transformation of government functions, which is what provided the political and social basis for China to successfully realize its “market transformation,” “political transformation,” “social transformation,” and “opening to the world.” The force behind China’s economic wonder that has emerged over past thirty years has been the Chinese government; on one hand, it has acted as the guide, designer, and propeller of reform, while also taking the initiative in undertaking self-reform, self-adjustment, and self-adaptation; on the other hand, however, the government, as an integral part of the traditional system itself, has inevitably been the main subject of reform, and has created barriers to the deepening of reform and sided with vested interests against reform. Although this governmental transition and multifaceted transformation has had only thirty years for these competing forces to interact and adapt to each other, there have nonetheless been revolutionary and radical changes, changes that have been realized through gradual reform; it has been a process that has seen rational cooperation and power sharing between the government and the market and between the government and society, thus forming a model of social transformation and development with Chinese characteristics.

4 According to the World Development Indicator database, published by the World Bank, the author found that during the period from 1980 to 2005, of China’s 31 provinces (municipalities and autonomous regions), Zhejiang Province saw the fastest growth of its per-capita GDP, with the growth rate reaching 12.1 percent; Qinghai Province saw the slowest growth of its per-capita GDP, with the growth rate reaching 6.98 percent, exceeding the growth rates of all other countries other than China (South Korea’s per-capita GDP grew by 5.81 percent during this period).

5 Zou Zhizhuang is of the opinion that the economic transformation in China is, to a large extent, aimed at realizing China’s economic modernization. He views this as an action taken by the government, though profit-seeking behavior by private individuals and enterprises also plays a role. (Zou Zhizhuang 鄒至庄, Zhongguo jingji zhuanxing 中国经济转型 [China’s Economic Transformation], 2005.)