China & World Economy / 94–106, Vol. 26, No. 2, 2018

China's 40 Years of Fiscal and Tax Reform: A Basic Trajectory

*Peiyong Gao**

Abstract

The present paper describes the trajectory of China's fiscal and tax reform in the past 40 years, which can be summarized in five phases. The reform commenced with "decentralizing power and transferring benefits." Then, under great fiscal pressure, institutional reform was instigated, which aimed to establish a new fiscal and tax system. To regulate the government revenue and expenditure beyond the fiscal and tax system, reforms were put in place to build an institutional framework for public finance. As the fiscal and tax reform had gradually entered the more sophisticated phases, China took a series of measures to further improve the public finance system. Since 2012, based on the overall plan of comprehensively deepening reform, China has embarked on establishing a modern public finance system. The present paper characterizes China's fiscal and tax reform as gradually moving toward a system that aligns with the overall reform and complements the goal of marketization and modernization of state governance.

Key words: China, fiscal and tax reform, public finance
JEL codes: H70, O53, P30

I. Introduction

Forty years have passed since China started its fiscal and tax reform, which has closely accompanied the steps of the country's overall reform and opening up. The complexity of the problems, the tortuousness of the road, the gravity of the mission, the profoundness of the changes, and the greatness of the accomplishments involved in China's fiscal and tax reform have rarely been seen in global history. It is of great importance to systematically summarize the practices of China's reform and opening up, including its fiscal and tax reform, by highlighting the right moves it has taken and clarifying the basic trajectory, in order to relay China's economic stories. Furthermore, the generalization is, in itself, a theoretical innovation and contributes to economic theory.

Based on reform targets in different periods, the process of China's fiscal and tax

*Peiyong Gao, Senior Fellow, Institute of Economics, Chinese Academy of Social Sciences, China. Email: gaopy@cass.org.cn.

reform over the past 40 years can be largely divided into five separate but interconnected phases. Sections II–V summarize the background, the reform strategy and the outcomes of each phase, and Section VI concludes.

II. Paving the Way for Overall Reforms (1978–1994)

China's economic reform started with the distribution system in the national economy. The initial focus of the reform was to "decentralize power and transfer benefits" to boost the enthusiasm for change of relevant parties and to revitalize the national economy, which had been suffocated under the traditional economic system. In the initial stages of reform, the government began to decentralize fiscal management power and make changes to the way national income was distributed. Incorporating the philosophy of overall reform with fiscal system reform, that is, shifting from the traditional system featuring "excessive concentration of fiscal power, centralized fiscal revenue collection and distribution, and limited types of taxes," China initiated the following reform measures (Gao and Wen, 2001):

First, fiscal resources were distributed between central and local governments; namely, establishing a system of "eating from different pots." From 1980, the central government initiated several types of fiscal resource distribution reforms, such as the "division of revenue and expenditure plus fiscal self-responsible mechanism for governments at different levels," the "division of taxes, fixation of revenue and expenditure, and fiscal self-responsible mechanism for governments at different levels" and the "progressive revenue increase and self-responsible mechanism, division of overall revenue, division of overall revenue plus division of increased revenue, the progressive submission self-responsible mechanism, fixed self-responsible mechanism and fixed subsidy."

Second, regarding the relationship between the state and enterprises, the "tax reduction and benefit transfer" model was adopted. From 1978, China launched multiple reforms, such as establishing a corporate fund, profit preservation, profit-to-tax reform, various self-responsibility systems for profits and losses, and various contracted managerial responsibility systems.

Third, a multi-tax system was launched. From 1980, China started to change its tax regime, which featured relatively limited types of taxes, and established a multi-tax system that was mainly based on circulation and income taxes while complemented by other types of taxes. The tax system featured multiple taxes, multiple taxation procedures and multi-layer tax collection. During that process, China established a tax system for foreign entities and income taxes for domestic enterprises, adjusted the industrial and commercial tax system, set up an individual income tax system, restored and improved the tariff system, and reformed and improved the agricultural tax system.

Fourth, fiscal guarantees were provided to support other reforms. Large amounts of fiscal resources were utilized to support reform measures in areas such as science and technology and education.

The abovementioned reform measures played a critical role in ensuring the smooth introduction of various reform measures in other areas and stable implementation of overall reform plans. However, both the decentralization of power and the transfer of benefits come at a price: reduced tax revenue and increased fiscal expenditure. The reforms involving the decentralization of power and the transfer of benefits, which were based on fiscal and tax arrangements, resulted in reduced fiscal revenue and changes to the expenditure structure.

Following the implementation of various measures to decentralize power and change the way that benefits were transferred, both the ratio of fiscal income to GDP and that of central government's fiscal income to overall national fiscal income slumped, with the former falling from 31.1 percent in 1978 to 25.5 percent in 1980, 22.2 percent in 1985, 15.7 percent in 1990 and 12.3 percent in 1993, and the latter first rising from 15.5 percent in 1978 to 24.5 percent in 1980 and further to 38.4 percent in 1985, before falling to 33.8 percent in 1990 and then to 22.0 percent in 1993.[1]

In contrast, fiscal expenditure had not declined. Rather, it had increased rapidly following the decentralization of power and the implementation of reforms relating to the transfer of benefits (e.g. the price subsidies as a result of the inversion of the procurement and sale price of agricultural and sideline products, and increased special funds to raise the salaries of employees in government agencies and public institutions). China's fiscal expenditure increased from RMB112.21bn in 1978 to RMB464.22bn in 1993, with an average annual growth rate of 21 percent.

Meanwhile, the fiscal operation had become quite disorderly. There were widespread problems, including illegal tax reduction, embezzlement of fiscal revenue, excessive spending, setting up fiscal fund circulation outside the fiscal system, and involvement of non-fiscal departments in fiscal fund distribution.

As the fiscal income to GDP ratio and the central government's fiscal income to overall national fiscal income ratio fell sharply and continually, and the fiscal expenditure increased rapidly, China's fiscal deficit increased year by year and its debt level expand continually during most of this reform period. Moreover, the central government finance was unable to carry out its duty of macroeconomic regulation.

From 1979 to 1993, China had a fiscal deficit in all years except 1985, with the deficit expanding year by year. In 1981, the fiscal deficit was RMB6.9bn; in 1990, it rose to

[1]Unless specifically mentioned , data used in this paper are sourced from *China Statistical Yearbooks* of the National Bureau of Statistics (NBS).

RMB14.7bn, before further increasing to RMB29.3bn in 1993. If its debt issuance income were included as part of its fiscal deficit, which is a general international practice in calculating a deficit, then China's fiscal deficit would have been 97.86 billion yuan in 1993.

Starting from 1979, China resumed taking on foreign debt, which had been stopped 20 years previously. In 1981, China started taking on domestic debt through issuing treasury bonds. Later, it went on to issue various types of bonds, such as bonds for key construction projects, fiscal bonds, national construction bonds, special bonds and inflation-protected bonds. In 1993, China's fiscal debt issuance income amounted to RMB73.9bn.

By 1993, China central government's fiscal debt dependency ratio (ratio of debt issuance income over central government fiscal expenditure[2] plus fiscal debt expenditure) had reached 59.6 percent, a level which had rarely been seen in other countries. This meant that more than half of China's central government fiscal expenditure came from debt issuance or borrowing.

III. Embarking on the Road of "Institutional Innovation" (1994–1998)

Following the initial achievements of reform and opening-up, China's policy-makers were pleased, but the country's fiscal difficulties had soon calmed them down. They realized that the reform involving "decentralizing power and transferring benefits" was unsustainable. The reform of the fiscal and taxation system, which had been carried out in view of this philosophy for more than a decade, naturally, needed to undergo major adjustments. A new system had to be established instead of adjusting only the interest pattern of different groups or sectors. Just at that time, the 14th National Congress of the CPC formally set the reform goal of establishing a socialist market economy system in October 1992. In November 1993, the Third Plenary Session of the 14th Central Committee of the CPC was held, at which the *Decision of the CPC Central Committee on Several Issues Concerning the Establishment of Socialist Market Economy* was passed. Therefore, starting from 1994, China embarked on a road of institutional innovation in its fiscal and tax reform, with a view to establishing a fiscal and tax system that complements the socialist market economy (Xiang, 1994).

In 1994, China started to take a series of significant measures to reform its fiscal and tax system.

First, based on the principles of a "unified tax law, fair tax burden, simplified tax rules and proper power sharing," China established a turnover tax system that is mainly

[2]Before the year 2000, the "central government fiscal expenditure" did not cover repayments of the principal and interest of domestic and foreign debt.

based on value-added tax and is supplemented by consumption tax and business tax; it also made income tax for domestic enterprises consistent, established a uniform individual income tax system, expanded the scope of resource tax levies, started to levy a land value-added tax, and set basic taxation rules that match the needs of the socialist market economy. Through those actions, China comprehensively reformed its taxation system and built a new tax regime.

Second, based on adjusting the fiscal expenditure at varying levels in accordance with the duties of central and local governments, China divided its taxes into central taxes, local taxes and taxes shared by the central and local governments to establish the central and local taxation systems; it also set up central and local taxation agencies and adopted a system involving tax rebates and transfers by the central government to the local governments. Through those actions, China had made initial headway in establishing a basic framework for a tax-sharing-based fiscal management regime.

Third, in accordance with the basic requirements of establishing a modern corporate system, China reduced the corporate income tax rate for state-owned enterprises, abolishing the construction fund for key projects of energy and transportation and the budget adjustment fund; meanwhile, China also required the state-owned enterprises to pay corporate income tax at the rate of 33 percent, which was the uniform tax rate in accordance with Chinese laws, and comprehensively reformed the profit distribution system of state-owned enterprises.

Fourth, China forbid overdrafts or borrowing from the central bank, and the fiscal deficit was required to be bridged through issuing treasury bonds, so that there could be an institutional arrangement to cut the links between fiscal deficit and inflation.

This was a major policy shift. The previous fiscal and tax reform measures mainly centered around the adjustment of the interest pattern of different groups and sectors and they had been planned without clear overall reform targets. The new reform measures had overcome the restraints faced in implementing the previous philosophy of "power decentralization and benefit transfer" and reflected the embarkment on a path of institutional change and innovation.

China's fiscal and tax reform in 1994 started with rebuilding the fiscal and tax system along with its operational mechanism that complemented the socialist market economy. Regarding the content and scope of the reform, while making necessary adjustments of the interest pattern of different groups and sectors, the reform also placed emphasis on the establishment of a new type of fiscal and tax system and shifting of its operational mechanism.

The reforms have had positive impacts on China's fiscal and tax system, such as the sustainable and rapid growth in fiscal income, the reversal of declines in the ratio of fiscal income to GDP and that of central fiscal income to overall national fiscal income, the improved and strengthened fiscal macro-regulation, and the establishment of basic rules governing profit distribution between the state and state-owned enterprises. It is fair to say that through such reform, China has set up a basic framework for the fiscal and tax system and its operational mechanism that complemented the socialist market economy.

IV. Building an Institutional Framework for Public Finance (1998–2003)

Although China had embarked on a road of institutional innovation through its fiscal and tax reform in 1994, there remained some problems to be solved. Indeed, the fiscal and tax reform in 1994 only covered government revenue and expenditure within the fiscal system, while government revenue and expenditure beyond the fiscal system escaped the spotlight. Moreover, the 1994 fiscal and tax reform mainly focused on the institutional innovation relating to tax-based fiscal revenue management; although it also concerned fiscal expenditure adjustment, it is not the main task of the reform. Meanwhile, the obstruction by vested interests and the aim to increase fiscal revenue also constrained the scope and depth of the reform, so that some reform measures were obviously transitional or served as temporary alternatives.

As the fiscal and tax reform in 1994 gradually took effect, the bottleneck for national income distribution and government fiscal operation changed. Various problems with government revenue and expenditure circulated beyond the fiscal system became conspicuous. Therefore, in late 1990s, the so-called "tax and fee reform," which aimed to regulate government revenue and expenditure practices, and the fiscal expenditure management reform became the priorities of China's fiscal and tax reform. Thus, the fiscal and tax reform was put onto the orbit of rebuilding the overall framework of the fiscal and tax system, or establishing an institutional framework for public finance.

On 9 March 1998, then premier Zhu Rongji stated at his first press conference after taking office: "A problem is fees overriding taxes; many government agencies collected fees that are not allowed by the state, which constitutes unbearable burdens for the public and leads to seething resentment from the people; we must reform it." At that point, China had started the "tax and fee reform."

In reality, before the formal commencement of the national "tax and fee reform," local governments had attempted to regulate arbitrary fee collections by various government agencies. Initially, they put forward the idea of "fee-to-tax" reform, with a view to unify various fees into taxes to reduce the burden on businesses and the public. Later, as reform deepened, it was gradually found that the problems surrounding various fee collections were not rooted in the fee collection behavior of the government itself but the fact that the existing large number of fee collections by the government were never approved by the People's Congress, nor were they governed by the budget. They were allowed as a result of self-made regulations of various government agencies and regions and constituted sources of income for their expenditure. In some cases, those fees were counted as extra-budgetary income, but in other cases, they simply entered the so-called "little coffers" (off-book accounts) as income at large. Therefore, such fees were in nature an unregulated government income source. The aim of the fee-to-tax reform was obviously not to transform regulated government-collected fees into taxes; rather, it aimed to manage and regulate the previously unregulated fees. Therefore, the fee-to-tax reform started to shake off the previous philosophy of "making corresponding adjustments" to involve the management of all government incomes, including taxes. The term "fee-to-tax" was replaced by "tax and fee reform," which was assigned the special role of regulating government income behavior and mechanism.

As the tax and fee reform gradually deepened and some progress was made, reform on the fiscal expenditure side had also been ongoing. Reform measures that had been taken into consideration including those related to fiscal expenditure structural optimization (shifting from focusing on production-related sectors to public service sectors), the departmental budgetary system (focusing on implementation of standardized budgetary compilation and categorization to comprehensively reflect government revenue and expenditure conditions), the centralized revenue and expenditure management system (the fiscal department, or exchequer, collects all budgetary and non-budgetary government income and pays for all fiscal expenditures through a single exchequer account), and the government procurement system (all the direct expenditures of the government departments were gradually included in the public bidding-based procurement channel).

However, both the adjustments on the fiscal expenditure side and the "tax and fee reform" on the revenue side only concerned part of the fiscal and tax system and its operational mechanism; they did not cover the whole of the system. After the limitations of those reforms gradually became apparent, the public reached the following consensus: although sporadic and partial adjustments were important, the fiscal and tax system and its operational mechanism that complemented the socialist market economy would not be established without being reshaped as a whole and incorporating the partial adjustments into the overall framework. Therefore, it had been put on the agenda to include all the reform-related items, such as revenue, expenditure, management and regulation, into an overall framework and carry out the fiscal and tax reform as a systematic project. It was also determined that except for "public finance", there was no other concept that can cover all the contents of the fiscal and tax reform. As a result, policy-makers took the opportunity at the national fiscal working conference on 15 December 1998 to make an epoch-making decision: to establish China's basic public finance framework (Li, 1998).[3] From that point on, the establishment of a public finance framework, which represented the orientation of the overall reform and development of the fiscal and tax system formally became part of the reform agenda.

V. Further Improving the Public Finance System (2003–2012)

The fiscal and tax reform, while making steady progress towards building a basic public finance framework, had gradually entered the more sophisticated phases and faced the task of further improvement. Therefore, 5 years after the national fiscal work conference was held, the Third Plenary Session of the 16th Central Committee of the CPC in October 2003 passed the *Decision of the CPC Central Committee on Several Issues Concerning Improvement of the Socialist Market Economy System*. At that meeting and in that important document, the authorities, based on the judgment that a basic public finance framework has been initially established, put forward the strategic goal of further improving the public finance system. This means that the authorities had realized that a sound public finance system was an important component of a sound socialist market economy. Through linking them together, the former can be further improved. Based on that philosophy, China took a series of measures to further improve its public finance system to push forward its fiscal and tax reform (Xie, 2008).

The first step was to carry out the tax reform. In Clause 20 of the CPC Central Committee decision passed in October 2003, the taxation system reform was divided into eight parts: export rebate system reform, unifying the taxation system of various types of enterprises, changing production-type value-added tax into consumption-type value-added tax to make equipment investment deductible, improving consumption tax to properly expand the tax base, improving individual income tax to adopt a mixed individual income tax system, reforming the urban construction tax and fee system to start levying a unified property tax on immovable properties and, accordingly, eliminating particular fees, allowing local governments to have the jurisdiction to properly manage tax policy against the backdrop of unified tax policies, and creating conditions to gradually unify urban and rural tax systems.

During this period, the authorities initiated certain reform measures, including

[3] At that meeting, Li Lanqing, then member of the Standing Committee of the Political Bureau of the CPC Central Committee and vice premier, on behalf of the CPC Central Committee, made it clear that China should take measures to gradually establish a basic public finance framework.

reform of the export rebate system, raising the deduction threshold for salary earners and allowing self-reporting by high income earners as a move to improve the individual income tax system, eliminating the agricultural tax and changing production-type value-added tax into consumption-type value-added tax (which were important moves to unify urban and rural tax systems), and unifying corporate income taxes for domestic and foreign enterprises.

Almost at the same time, China launched reforms of the fiscal expenditure and fiscal management system. Clause 21 of the CPC Central Committee decision depicted the goals of the reforms: to improve the public finance system, to clarify the fiscal expenditure duties of governments at varying levels, to further improve the transfer payment system, to increase fiscal support for central and middle and minority concentrated regions, to deepen department budgetary management, centralized revenue and expenditure management by the exchequer, to separate management of government procurement from that of revenue and expenditure, to streamline and regulate administrative and public institution fees to put all possible fee items under budgetary management, to reform the budgetary compilation system to improve the check and balance mechanism for budget compilation and implementation and strengthen auditing and supervision, to establish the budgetary performance assessment system, to bring all revenue and expenditures under budgetary management and effectively monitor contingent liabilities, and to strengthen examination and supervision of government budgets by the People's Congress. Unlike previous reforms, this round of reforms coincided with proposed strategies relating to scientific development and constructing a socialist harmonious society. It is important to link such concepts together, to map out a plan for reforms.

China had made important progress in these above-mentioned aspects. Public finance had gradually reached rural areas; fiscal expenditure was increasingly being used to improve people's lives, such as through education, employment, health, social security, and housing; with a view to promoting balanced provision of public services among different regions, fiscal transfer payments were increased and the transfer payment system was adjusted accordingly; and, starting from adoption of the government budget management with full coverage and reform in government revenue and expenditure categorization, the budgetary supervision and management was strengthened, which further promoted the standardization of government revenue and expenditure practices.

VI. Building a Modern Public Finance System (2012–)

The year 2012 marked an important point of transition for China's development. The 18th National Congress of the CPC was held that year, which marked the launch of a new era of socialism with Chinese characteristics. It was also in that year that China's economic growth started to slow down while it underwent economic restructuring and shift to domestic-demand-based growth engines. Meanwhile, China's reform had entered a critical stage and a deep-water zone with increasing complication and risks China chose to comprehensively deepen economic, political, cultural, social and ecological system reforms. Therefore, in November 2013, the Third Plenary Session of the 18th CPC Central Committee passed *the Decision of the CPC Central Committee on Some Major Issues Concerning Comprehensively Deepening Reforms*. The fifth part of that document used a whole new idea and philosophy to make systematic arrangements for deepening fiscal and tax reform.

Unlike the previous philosophy of following the direction of economic system reform to set reform targets, this round of fiscal and tax reform was based on the overall plan of comprehensively deepening reform and linked together the goals of fiscal and tax reform with modernization of state governance, which was China's overall goal of comprehensively deepening reform; on that basis, China had embarked on the road to establishing a modern public finance system.

This round of fiscal and tax reform, with the goal of establishing a modern public finance system, had shown new characteristics and changes that were unlike those of previous fiscal and tax reforms (Lou, 2014).

Regarding budgetary management system reform, the scope of this round of reform, unlike the previous practice of fixing the direction of reform based on the general public budget (also called a fiscal budget), was expanded to cover all government revenue and expenditure items, including the general public budget, the government fund budget, the state capital budget and the social security fund budget. The goal of reform was to establish a "completely standardized, open and transparent" modern budget system. Based on that goal, the Third Plenary Session of the 18th CPC Central Committee set the following agenda: to improve the budget management system, adopt a completely standardized, open and transparent budget system, shift the focus of budget review from fiscal balance and deficit scale to expenditure budget and fiscal policies, clear up major expenditures that are linked to increases in financial revenues or GDP, and normally not allow such linkages, establish a cross-year budget balance mechanism, a comprehensive government financial reporting system on accrual basis, and a standardized and reasonable debt management and risk early warning mechanism for both central and local governments (CPC, 2013).

Regarding the taxation system reform, unlike the previous practice of fixing a reform plan that centered on increases or reductions of gross tax, this round of taxation system reform was based on the prerequisite of "stable tax burden." Its target was to establish a modern taxation system through "gradually increasing the proportion of direct taxes" to "optimize tax revenue structure on the premise of stable tax burden." Based on that target, the Third Plenary Session of the 18th CPC Central Committee set the following agenda: to deepen the reform of the taxation system, improve the local tax system, and gradually increase the proportion of direct tax; promote the reform of value-added tax, and simplify tax rate appropriately; adjust the collection scope, procedures, and rates of consumption tax and impose this tax on highly energy-consuming, highly-polluting products and some high-end consumer goods; gradually establish an individual income tax system in which taxable income is defined in both comprehensive and categorized ways, accelerate real estate tax legislation and push the related reform forward in a timely manner; accelerate resource tax reform, and change the current environmental protection fee into an environment tax (CPC, 2013).

Regarding the reform of central and local fiscal relations, unlike the previous practice of fixing a reform plan based on improving local enthusiasm or increasing central fiscal power, the target of this round of reform was set as "bringing out the enthusiasm of both central and local authorities." Setting the goal of "bringing out the enthusiasm of both the central and local authorities" instead of only central or local authorities, the Third Plenary Session of the 18th CPC Central Committee set the following agenda: to establish a system whereby authority of office matches responsibility of expenditure; appropriately increase the authority of office and responsibility of expenditure of the central government, including those concerning national defense, foreign affairs, national security, and unified national market rules and management; share the authority of office over some social security programs, the construction and maintenance of major trans-regional projects between the central and local governments, and gradually clarify authority of office in this regard; regional public services are the responsibilities of local governments; the central and local governments will shoulder their respective expenditure responsibilities according to the division of the authority of office; the central government can delegate some expenditure responsibilities to local governments through transfer payments; in terms of trans-regional public services with great impacts on other regions, the central government will share some of the expenditure responsibilities of local governments through transfer payments; maintain the overall stability of the current financial pattern of the central and local governments, and further rationalize the division of revenues between them through tax reform and taking into consideration the tax categories (CPC, 2013).

Since November 2013, China has made considerable progress in fiscal and tax reform in the following aspects:

In relation to budgetary management system reform, the newly revised *Budget*

Law was formally promulgated. Moreover, centered on the new *Budget Law*, a series of system arrangements for regulating government revenue and expenditure behavior were put in place. On that basis, some basic concepts of modern budgetary management system were established. The government budget system with full coverage, built on the four major budgets, was established. Progress had also been made in relation to preliminary and final budgets being more open and transparent.

In relation to taxation system reform, the reform involving replacing business tax with value-added tax had been fully carried out and the value-added tax rates had been simplified; the resource tax reform had been carried out smoothly, the levying scope of the consumption tax had been gradually expanded, the tax collection mechanism reform had started, and the environmental protection tax had been formally launched.

In regard to central and local fiscal relations, by taking the opportunity of the reform and replacing business taxes with value-added taxes, China furthered a transitional plan for adjustment of value-added tax revenue distribution between the central and local governments. Soon after the release of the plan, China went on to release guidelines on how to clarify the fiscal power and expenditure duties of central and local governments.

In October 2017, China's 19th CPC National Congress set the following agenda to further reform the fiscal and tax system: expedite the creation of a modern public finance system, and establish a fiscal relationship between the central and local governments built upon clearly defined powers and responsibilities, appropriate financial resource allocation, and greater balance between regions; put in place a comprehensive, procedure-based, transparent budget system that uses well-conceived standards and imposes effective constraints; implement performance-based management nationwide; and deepen reform of the taxation system, and improve the local tax system (Xi, 2017).

VII. Conclusion

In the beginning, China's fiscal and tax reform paved the way for the overall reform and followed the keynote of "decentralizing power and transferring benefits." With the 1994 fiscal and tax reform, China aimed to establish a new type of fiscal and tax system and operational mechanism, and embarked on the path of institutional innovation. The 1994 reforms were followed by the "tax and fee reforms," which aimed to regulate government revenue and expenditure behavior and the operational mechanism, and the reform of the fiscal expenditure management system, before China set an overall fiscal and tax reform agenda and development targets. The establishment of a basic public finance framework and the further improvement of the public finance system as well as the establishment of a modern public finance system (which was the target of fiscal and tax reform) have played a crucial and fundamental role in improving China's state governance system and capacity. Those are the basic steps followed in China's fiscal and tax reform over the past 40 years.

A major characteristic of China's fiscal and tax reform is that it has always been part of the overall reforms. While the basic trajectory of China's reform and opening-up in the past 40 years can be summarized as moving from economic reform to comprehensively deepening reform, with the goals of marketization and state governance modernization, respectively, China's 40 years of fiscal and tax reform, accordingly, has been a process of adapting to the overall reform and gradually moving toward a fiscal and tax system that aligns with the goals of marketization and state governance modernization.

Therefore, China's fiscal and tax reform so far has followed a consistent path, which in essence is laying the groundwork for market reform by transforming into a "public" fiscal and tax system and building the according mechanisms, and then laying the cornerstone for the modernization of state governance by building a modern public finance system.

References

CPC (the Communist Party of China), 2013, *The Decision of the CPC Central Committee on Some Major Issues Concerning Comprehensively Deepening Reforms*, adopted at the Third Plenary Session of the 18th Central Committee of the Communist Party of China, 12 November.

Gao, P. Y. and L. C. Wen, 2001, *China's Fiscal Operation Mechanism in the Process of Marketization*, Beijing: China Renmin University Press (in Chinese).

Li, L. Q., 1998, "Deepening the fiscal and tax reform to ensure the fiscal and taxation targets met next year," *Renmin Ribao* (*People's Daily*), 16 November.

Lou, J. W., 2014, "Deepening the fiscal and tax reform to establish a modern fiscal system," *Qiushi* (*Seeking Truth*), Vol. 57, No. 20, pp. 24–7.

Xi, J. P., 2017, "Secure a decisive victory in building a moderately prosperous society in all respects and strive for the great success of socialism with Chinese characteristics for a new era," Delivered at the 19th National Congress of the Communist Party of China, 18 October.

Xiang, H. C., 1994, *China's Fiscal System Reform*, Beijing: China Financial & Economic Publishing House (in Chinese).

Xie, X. R., 2008, *China's Fiscal Reform in the Past Thirty Years*, Beijing: China Financial & Economic Publishing House (in Chinese).

(Edited by Yuanfang Li)