

Evaluation of financial management reform in China since 1994

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Financial management system reform is the extension and an important part of the finance and taxation reform in 1994. This paper conducts systematical evaluation of the financial management system reform since 1994 with the concrete 3 evaluation standards. The evaluation shows that the financial management system reform since 1994 promotes the implementation of the finance and taxation reform, finishes the stage task of financial management system, and continues to construct the financial management system in accordance with the requirements of modern financial system. Future financial reform should comply with the route map and timetable of deepening finance and taxation reform, focus on the reform of budget management reform, and construct the financial management system in accordance with the requirements of modern financial system.

Keywords: financial management, public finance, modern finance system

1. Background of financial management system reform

The reform of finance and taxation system in 1994 not only introduced the tax-sharing system, but also brought far-reaching changes to China's finance and taxation system, marking a breakthrough in the country's transition from a planned economy to a market economy. With the finance and taxation system reform as an impetus and in order for the financial management system to meet the newly emerged requirements of the tax-sharing system, China has also launched the reform of financial management system.

1.1. The finance and taxation reform in 1994 was the starting point for the reform of the financial management system

The tax system reform in 1994 is a far-reaching reform for adapting to the construction of the modern socialist market economy system in China. This comprehensive tax reform, which has been the largest scale, most extensive, and most abundant of its kind since the founding of People's Republic of China, provides impetus to further financial management reform under the condition of a socialist market, which means this reforming must be propelled to serve and reflect the new tax system under the conditions of the socialist market.

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Under the guideline of “unifying tax laws, leveling tax burden, simplifying tax system, and achieving reasonable decentralization”, with the standardization of value-added tax as a chief objective, consumption and business taxes and also a new turnover tax system were established, a uniform set of requirements regarding corporate income tax were imposed on domestic capital-funded enterprises, a uniform set of rules regarding personal income tax were imposed on individuals, sole proprietors and other small businesses, adjustments were made to a number of other taxes. Tax revenues were shared between central and local governments according to tax types, central and local taxation management departments were established in order to manage respective revenue, and the amount was set for tax rebates local governments received from central government.

1.2. The introduction and implementation of “Budget Law” promote financial management reform

In order to ensure the smooth operation of the new system and consolidate results of the reform, the Second Session of the Eighth National People’s Congress passed the “Budget Law of the People’s Republic of China”, which took effect on January 1, 1995. The “Budget Law”, created under the conditions of the socialist market economy, aims to enhance allocation and supervision functions of budgeting and ultimately perfect the budget management of the state. It also aims to strengthen the state’s macroscopic regulations and ensure healthy economic and social development.

In addition, the “Budget Law” also reserves space for the deepening of the reform of financial management, such as the dual-budget, department budget, and treasury system, which are an indispensable part of the future of China’s financial management reform. If it is to be said that the tax system reform in 1994 promoted financial management reform from the perspective of revenues, then the “Budget Law” provides directional guidance to financial management reform from the perspective of expenditures.

In order to adapt to the development of the socialist market economy and meet the needs of finance and taxation system reform, in 2004, 10 years after the implementation of the “Budget Law”, the National People’s Congress started a set of revisions. The National People’s Congress conducted a trial of the amendment draft in December, 2011. The second hearing was finished in June, 2012, and the draft solicited public opinions from the community through the NPC website. The third trial was finished in April, 2014, and the fourth was on August 31st. It was finally passed by the 10th Meeting of National People’s Congress Standing Committee and officially implemented on January 1, 2015.

1.3. The establishment of public finance system further promotes the reform of financial management system

In December, 1998, Li Lanqing, vice premier of the State Council, clearly pointed out the aim

“to create conditions to actively and gradually establish a basic framework of public finance” in the annual national financial work conference. At this point, the direction of China’s fiscal reform to construct the public finance system under the conditions of the socialist market economy has been officially confirmed. The three basic characteristics of the public finance system, namely publicity, non-profit, and legality, promote the reform of the financial management system in some degree. While building the basic framework of public finance as an opportunity, China has introduced a series of reform measures in financial management system reform.

1.4. The Third Plenary Session of the 18th CPC Central Committee provides a new impetus and direction for further reform of financial management

In November, 2013, the “Decision of Central Committee of the Communist Party of China on Several Major Issues of Comprehensive Reform” passed in the Third Plenary Session of the 18th CPC Central Committee made the aim “to promote the state governance system and governance capacity modernization” as one of the comprehensive reform’s overall goals. In deepening the reform of the finance and taxation system, not only was the notion that “public finance is the foundation and the important pillar of state governance” proposed, which attached great importance to the finance and taxation system, but also “a scientific fiscal and taxation system” constructed through “perfection of legislation, clear administrative authorities, reform of tax systems, stable tax burdens, transparent budgeting, and improving efficiency”, which together achieve “a modern financial system”.

According to the spirit of “The Decision,” the CPC Central Committee Political Bureau passed the “Overall Program of Deepening Fiscal and Taxation System Reform” that was referred to as “The Program” in June, 2014. “The Program” defined the deepening tax reform that was mentioned in “The Decision” as three reform tasks that should be focused on: “improving the budget management system,” “tax structure optimization”, and “adjustment of central and local intergovernmental fiscal relationships”. “The Program” also proposes specific route maps and schedules, which means the reform of the budget management system started first and tax reform and reconstruction of intergovernmental fiscal relationships were implemented in a step-by-step manner. It also illustrated that the main tasks of deepening fiscal and taxation reform were to be completed in 2016, and the modern fiscal system is established in 2020.

These three reform tasks are all closely related to the reform of the financial management system. The budget management system reform is an important part of the financial management system reform. The tax reform and reconstruction of intergovernmental fiscal relationships depend on the financial management system being promoted. From this meaning, “The Decision” makes a layout for a new round of tax reform and accordingly provides a new impetus and direction for further deepening financial management system reform. Establishing a modern financial system as the purpose, and building a financial management system that conforms to the reality of the modern financial system, are integral measures.

2. The definition of evaluation criteria of financial management system reform

To evaluate the financial management system reform, the first step is the selection of the appropriate evaluation criteria. Financial management system reform is the synthesis of a number of policy measures, rather than simply a policy. Thus, the evaluation criteria will be difficult to apply to quantitative criteria. Therefore, it is necessary to set the evaluation criteria from the perspective of progressive and comprehensive reform of financial management system.

2.1. The evaluation criteria 1: whether it helps to promote the smooth implementation of finance and taxation system reform in 1994

According to the “State Council’s Decision on the Implementation of Financial Management System of Tax-sharing”, which is referred to in “Guo Fa 1993, No 85”, the financial management system of tax-sharing was implemented in the provinces, autonomous regions, and municipalities since January 1, 1994. This reform of finance and taxation systems, especially tax reform, formed a new government revenue pattern in which taxes became the main form and constructed an intergovernmental fiscal relationship in which tax-sharing is a main characteristic. The reform of the financial management system appeared as a form of supporting reforms and other policy measures as a necessary supplement for the tax system. Although there is no direct mention, the expression of “reforming budget method, hardening budget constraints” reflects the meaning of reforming the financial management system and promoting tax-sharing financial management system.

The reform of the finance and taxation system in 1994 was conducted under the background of building a socialist market economy system. Early in 1992, the 14th National Congress of the Communist Party of China drafted the goals of the socialist market economy system reform. In 1993, the “Central Committee of CPC’s Decision on Issues of Establishing a Socialist Market Economy System” was passed in the Third Plenary Session of the 14th Central Committee of the Communist Party of China. The total target of building and improving the socialist market economy system that is clearly put forward in the 14th National Congress was deployed, which provided directions for fiscal and taxation system reform in 1994. From this point of view, the financial management system reform caused by finance and taxation system reform is deeply rooted in the background of the socialist market economy system’s establishment and is also a reform that plays an important supporting role in the finance and taxation system reform of 1994. The first evaluation criteria “whether it helps to promote the smooth implementation of fiscal and taxation system reform in 1994 and to fully reveal the subsequent reform effect” can be determined.

2.2. The evaluation criteria 2: whether to implement or complete the stage’s task of financial management system reform

Since 1990s, China has experienced four Five-Year Plans. Currently, it is in the period of the

“Twelfth Five-Year Plan.” From a historical perspective, every Five-Year Plan in China locates specific objectives and tasks for the next five years of national economic and social development, which naturally includes financial management system reform.

From the “Ninth Five-Year Plan” to the “Twelfth Five-Year Plan”, each period has put forward specific requirements of financial management system reform. These requirements not only reflected characteristics of financial management systems in different periods, but also outlined the basic path of financial management system reform. Compared with the requirements of financial management system reform put forward in the “State Council’s Decision on the Implementation of Tax-sharing Financial Management System”, the requirement of financial management system reform set up in the periods of the “Five-Year Plan” can better reflect financial management practice in different periods. It is worth noting in particular that “gradually constructing a public finance framework that meets the requirement of socialist market economy”, as put forward in the “Tenth Five-Year Plan,” determined the direction of financial management system reform and incorporated the financial management system reform into the framework of public finance framework. This establishment of public finance framework significantly promotes the follow-up of financial management system reform, which is an accessory to the three characteristics of public finance: publicity, non-profit, and legality. Although the finance and taxation system reform in 1994 put forward the notion that “tax-sharing reform is the objective requirement of developing socialist market economy,” it has not yet been introduced to public finance due to the historical conditions of that time. Therefore, the establishment of the public finance system not only is the continuation of finance and taxation system reform from 1994, but also serves as a supplement of this reform, which reflects the asymptotic behavior of financial management system reform. This stage of financial system management is constantly in practice and can achieve certain results. Therefore, taking these characteristics of asymptotic and phased behaviors into consideration, this reform also belongs to the category of finance and taxation system reform in 1994. From that, the second evaluation criteria of “whether implementing or completing the stage task of financial management system reform” can be determined.

2.3. The evaluation criteria 3: whether it is helpful to construct the financial management system that accords with the requirements of modern financial system

The “Central Committee of the Communist Party of China’s Decision on Several Major Issues of Comprehensive Reform” which was passed in the Third Session of the Eighteenth Central Committee of the CPC laid out a plan for deepening finance and taxation system reform and pointed out that a “scientific fiscal and taxation system is the institutional guarantee of optimized allocation of resources, maintenance of unified market, promotion of social justice, and realization of stability of the state”. It defined that the stance that “improving budget management system, perfecting tax system, and establishing a system in which the government’s administrative authority is commensurate with its spending responsibility” is the “highlight” of

the new round of tax reform.

Along with the development of financial management system reform, China's government budget is no longer composed of its original public finance budget, but the governmental fund budget, state-owned capital management budget, and social insurance fund budget, which means that the budget management system must face the circumstances of China's new situation. On the other hand, budget management plays a leading role in financial management. Many contents of the financial management plan must be reflected in budget management strategies. Therefore, although "The Decision" has not directly referred to the deepening of financial management system reform, it is, indeed, an important part of the financial management system. From the specific content of "improving the budget management system" in "The Decision", it is basically the focus of reform for the next stage of the financial management system. Therefore, the "improving budget management system" indicates the next stage of financial management system reform should start from budget management, highlight the role of budget management, and drive the reform through the budget management system.

The background of finance and taxation system reform in 1994 is different than that of current reforms. If the reform at that time can be said to have belonged to the institutional innovation of the economic system, then "The Decision" is the institutional innovation under the linkage of the economic, political, social, and cultural environment. Although the background is not the same, the object of deepening finance and taxation system reform has remained the goal of the system that was first constructed in 1994. It is a continuation of the reform put forth in 1994, and this is the same for financial management system reform. Financial management system reform that has a budget management system as the breakthrough point will not only be helpful to solve persistent problems faced during the reform, but it also adds new contents for deepening the reform. Especially, the strategic plan of "establishing a modern financial system" is helpful to looking back and surveying the reform over 20 years with ample hindsight. It also provides for a clear direction for a new round of financial management system reform. From this, the third evaluation criteria "whether it is helpful to construct a financial management system that accords with the requirements of a modern financial system" can be determined.

3. The systematic evaluation of financial management system reform effect

In the process of evaluation, on one hand, it is based on the political environment, and an act of evaluating the political effects of financial management system reform. On the other hand, we measure the existing financial management system reform with current views and views of development. We can perform normative judgments to past financial management system reform. In addition, in the selection of evaluating time, it is taken into account that the financial management system reform after 1994 did not happen overnight, but instead with gradual specific reform policies being introduced and with logic, time, consistency, and continuity. Moreover, it all belongs to the category of financial management reform triggered by the finance and taxation

system reform in 1994. Therefore, in order to comprehensively assess the situation, not only was the situation of system reform in 1994 taken into consideration, but also those related reforms since 1994.

3.1. Positive effects

3.1.1. Legal system of financial management is constructed

Before the tax system reform in 1994, China's financial management has mostly been based on administrative regulations. For example, in the planned economy period, the Central People's Government Administration Council issued the "Interim Regulations on the Budget and Final Accounts" in August, 1951. After the reform and opening up, the "regulations of national budget management" was issued in October, 1991. These administrative regulations played a guiding role under the conditions of that time. However, the authority was insufficient because it was not at the legal level. In particular, broadly speaking, financial management should include the permissions of all levels of authority. However, the administrative rules and regulations promulgated by government departments had no relationship with legal authority at the time.

The congenitally deficient administrative rules and regulations were made up along with the promulgating of "Budget Law" in 1994, and were implemented in 1995. It can be narrowly said that "Budget Law" is financial law. From this sense, "Budget Law" dominated the legal system of financial management, which achieved great progress in the legal construction of financial management. It defined the duties and powers of the central and local government, power and administrative organs, and the roles of internal units in administrative organs on the financial management. It placed constraints on the budget through the law, ensures the seriousness of budget, changes the arbitrary of budget execution, reverses the situation of increasingly softening budget constraints, and ascertaining the responsibilities of legal violations.

In order to coordinate and implement the "Budget Law", the State Council released the "Budget Law Implementation Regulations of People's Republic of China" in November, 1995. The Ministry of Finance Released the "Accounting System of Total Fiscal Budget," the "Accounting Standards for Public Institutions," and the "Accounting System of Administrative Units" during the period from 1997 to 1998. The standing Committee of the National People's Congress passed the "Decision on Strengthening the Examination and Supervision of the Central Budget" in December, 1999. In addition, the Ministry of Finance issued a number of rules and regulations on budget management. Local governments introduced local regulations, rules, and other normative documents of implementing "Budget Law." In 2004, after the implementation of the "Budget Law", revised work was carried out in all aspects. After the fourth trial of the National People's Congress Standing Committee, the law was finally put through by the National People's Congress in August, 2014, and was officially implemented on January 1, 2015.

The finance and taxation system reform in 1994 also promoted the pace of tax legislation.

At that time, there was only the “Tax Law for Foreign Investment Enterprises and Foreign Enterprise Income in the People’s Republic of China”, which was implemented July 1, 1991, and had been abolished upon in the new round of reform, which aimed to adapt the reform and opening up and to attract more investment. In order to adapt to the tax system reform in 1994, the National People’s Congress revised and merged the three old laws of personal income tax¹ and formed the “Individual Income Tax Law of the Republic of China”. In February, 1995, the National People’s Congress of the People’s Republic of China passed and implemented the “Tax Collection and Management Law of the People’s Republic of China”. In December, 1993, the State Council issued the “Enterprise Income Tax Provisional Regulations in the People’s Republic of China”, the “VAT Provisional Regulations in the People’s Republic of China”, the “Business Tax Provisional Regulations in the People’s Republic of China”, the “Interim Regulations on Consumption Tax of the People’s Republic of China”, and other laws and regulations.

These laws and regulations, initiated by the finance and taxation system reform in 1994, regardless of if they are budget management- or tax-related, are all tied into financial management. They are all important legal basis for the daily financial management and financial management reform practices. Although there are still some deficiencies and defects from the perspective of today’s vision, every aspect of financial management is basically covered in laws and rules—and legislators have accumulated experience for the future revision or formulation of new laws and regulations.

3.1.2. Transformation of the traditional fiscal system into public finance system is promoted

The recognition of the public finance system in 1998 promoted finance and taxation system reform. The reform of the tax system in 1994 created a new direction and content. It not only adapts to the development of the socialist market economy system, but also confirms the idea of the government’s role in public finance, which promotes the structure of China’s basic framework of public finance. Among them, the reform of the financial management system plays a great role in this framework. The three basic characteristics of the public finance system, namely publicity, non-profit, and legality, have been reflected to different degrees. In other words, the practices of the financial management system reform promote the constructed finance system under China’s traditional planned economy system to transit to public finance under the market economic system.

First, the finance and taxation system reform in 1994 ends the situation in which different enterprises have different tax burden due to different identities. For example, the reform abolishes the state-owned enterprise income tax, state owned enterprises regulation tax, collective enterprises income tax, and private enterprise income tax. The overall rationing payment for

¹ Before 1994, China formulated three types of tax laws and regulations for three types of tax individuals: “Personal Income Tax Law” for expatriate staff in territory, “Provisional Regulations of Individual Income Adjustment Taxation” for residents in the country, “Provisional Law of Individual Industrial and Commercial Household Income Tax” for individual industrial and commercial household.

income tax is no longer implemented in state-owned enterprises. Another example is cancelling the individual income regulation tax and urban-rural individual industrial and commercial households income tax, and levying unified taxes on individual income and business operations of individual industrial and commercial households according to revised “Personal Income Tax Law”. These changes of the tax system means the tax authorities must treat the domestic taxpayers equally rather than with distinctions. From this, the financial management begins to have the characteristics of publicity.

Second, the financial management has the purpose of non-profit. Although the “Budget Law” implemented in 1995 has the traces of a traditional system, Article 26 states that “the central budget and local government budget are in accordance with the dual budget system” and the detailed explanation of Article 20 in the “Budget Law Implementation Conditions” states that “budgets of governments at various levels shall be compiled according to the dual budget system, which is divided into the government public budget, state-owned assets operating budget, social security budget, and other budgets”, all can be interpreted as that the purpose of different financial management means for different economic activities is the pursuit of non-profit. The non-profit characteristic of the public budget and the social security budget is self-evident. The state-owned capital management budget aims to promote the preservation and increment of state-owned capital, to prevent the loss of state-owned assets, which seems to have a consideration for profit. However, the capital-seeking activities in the government is an attempt to meet the social needs of the public and to create a good environment for the development of a market economy, rather than competing for benefits with civilians. Therefore, the foothold is the pursuit of non-profits. This pattern of government budget necessarily decides the content of the financial management reform and ultimately has the purpose of serving as a non-profit.

Third, the financial management includes the factor of legality. In order to adapt to the finance and taxation system reform of 1994, China has formulated and implemented a number of fiscal laws, such as the “Budget Law” and the “Law of Enterprise Income Tax.” Several regulations formulated by the administrative departments are promulgated and implemented, such as the “Budget Law Implementing Regulations”, “Provisional Regulations on Value Added Tax”, and so on. Despite the unsatisfactory results of the legal construction and outstanding problems that remain—including less tax laws and more administrative regulations—but financial management in accordance with laws and regulations are realized, a legal foundation is laid for the financial management reform, a legal guarantee is provided for the standardization of revenue and expenditure activities in comparison with past financial management. In this case, China began to attempt reform that is focused on regulating government revenue and expenditures from 1995. They strengthen not only the management of extra-budgetary funds, but also the “fee-to-tax” reform, and the subsequent “tax and fee reform” process. The far-reaching department budget, treasury’s centralized payments, government procurement, and other specific strengthening financial management measures have appeared. Therefore, it can be thought that the practice of the financial management system has legality as the criteria.

3.1.3. The benign mechanism of financial management is formed

Strengthening the two lines of revenue and expenditures in China's budget management began in 1990. In 1996, the State Council issued the "Decision on Strengthening the Management of Extra-budget" and clearly pointed out that "the extra-budget is the national financial funds, which should comply with two lines of revenue, and expenditure management". Various taxes and fees received on the basis of provision of states of local financial departments should be unified into the local financial budget as local fixed income, not as extra-budget funds, from 1996 onwards. By the end of 2001, the general office of the State Council forwarded the "Notice on Deepening the Two Lines of Revenue, Expenditure Reforms, and Strengthening Financial Management", selecting some departments as the reforming pilots of deepening the "two lines of revenue and expenditure".

Along with the financial management system reform, the "two lines of revenue and expenditure management system" that had the objective of being part of the extra-budget began to transform to reform with non-tax revenue as the objective. Under the support of department budgets, government revenue and expenditure classification, treasury-centralized payment system reform, in addition to the education fees in financial special account management, and other extra-budgetary funds are all included into budget management in accordance with the relevant provisions of the "Ministry of Finance's Notice on Incorporating Extra-budget to Budget Management" (FB [2010] No 88). This means the extra-budget has not existed since 2011.

Now, the government procurement system is fully implemented. China began pilot work for government procurement in 1996 and the government procurement system was fully implemented in 1998. The "Government Procurement Law" was then implemented in 2003. After many years of exploration, it has greatly promoted the reform of financial management in China. As an important part of financial management reform, government procurement was given great importance in the "Tenth Five-Year Plan" and the "Eleventh Five-Year Plan" in China. The "Tenth Five-Year Plan" put forward the notion that "regulating the behavior of government procurement and fully implementing the government procurement system." The "Eleventh Five-Year Plan" and "Twelfth Five-Year Plan" stressed to continue deepening the reform of government procurement system.

Along with the scale expansion of government procurement, the new round of procurement began to be used as a public policy tool as well as a tool with which the government could regulate the economy and realize the goals of economic and social development. For example, the government encourages small and medium enterprises to actively participate in government procurement market competition and strengthening government procurement in the field of energy conservation in order to support sustainable development. These measures not only enrich the connotation of government procurement, but also are conducive to the full play of government procurement policy oriented functions and serve as an important foothold of deepening the government procurement system both currently and in the future.

The implementation of department budget reform has been a long and detailed process as well. In July, 1999, the Ministry of Finance submitted to the State Council “The Instructions on Implementing Suggestions of National People’s Congress, Improving and Standardizing Budget Preparation”, and put forward the idea of compiling a department budget. Approved by the State Council, the Ministry of Finance formulated the “Opinions on Improving the Central Budget of 2000”. As a result, department budget reform began. By 2013, the governments at all levels had generally implemented the system of department budget and the number of submissions to the NPC for deliberation is increasing. Taking the central department as an example, there were four departments submitting to the NPC for deliberation and it increased to 99 by 2013. At the same time, actively promoting the department budget, final accounts, and public funds to be opened to the public according to the requirements put forward in the “Government Information Disclosure Regulations”.

Through the reform of department budget, not only can department property be found out, which can comprehensively reflect various revenue sources, but will also be conducive to the government funds management of financial departments, which initially realizes the government funds transforming from the decentralized budget and overlapping management to the unified budget and centralized management. This legislature increases the integrity of government budget, which lays the foundation for the full realization of all government funds completely arranged by financial departments.

The implementation of centralized treasury payment system has also been an important process. The centralized treasury payment system of reform began in the period of “the Tenth Five-Year Plan”. “Reforming the treasury system and establishing the modern centralized treasury payment system based on the treasury’s single account system” was clearly pointed out. In 2001, approved by the State Council, the Ministry of Finance and the People’s Bank of China jointly issued the “Reform Scheme of the Treasury Management System”. Beginning in 2001, the treasury management system’s reform was implemented in the central. The Ministry of Water Resources, Ministry of Science and Technology, Legislative Affairs Office of the State Council, Ministry of Finance, Chinese Academy of Sciences, and the National Natural Science Foundation are the reform’s pilot department, which have started the process of reform of China’s treasury management system.

After years of efforts, China has achieved significant progress in the establishment of a single account treasury system and initially constructed a modern treasury management system that is based on a single account system with the characteristic of treasury-based concentrated payments. In terms of revenues, various fiscal funds are collected in one account. These revenues include not only tax revenue but also non-tax revenue and debt revenue. In terms of expenditures, the situation of multi-accounts and multi-links is avoided and single accounts are directly paid to the goods or services provider. The establishment of a single account system for the treasury makes the fiscal funds be able to run smoothly in the accounting system, which provides mechanism protection for budget management, monitoring, and information feedback. It also provides means

for the effective control and management of the state's treasury cash.

Government revenue and expenditure classification reform has also been implemented. In 2007, China implemented a reform of government revenue and expenditure classification, which was a major adjustment of financial management following the tax reform in 1994 and department budget reform. The revenues and expenditure classification reform includes two aspects: one is to expand the scope of revenues and expenditures. The original scope of budget accounts only includes government expenditures and revenues that belongs to budget management bureaus. This excludes the extra-budget revenues and expenditures and social insurance funds. After the reform, the range of government revenue and expenditure classification includes government revenues and expenditures, extra-budget revenues, and expenditures and social insurance funds, which are more complete and comprehensive than before. The other is the method of classification adjustment and the construction of new revenue and the expenditure classification system, which is to put the revenues and expenditures of government budget, extra-budgets, and social insurance funds together and set the revenue classification, functional classification of expenditure and economic classification of expenditure according to the new standard classification.

The new classification of government revenue and expenditure, to a large degree, overcomes some problems that function in the transformation of government; this degree is unmatched and cannot be reflected—which results in contents that are not integrated, not clear, not scientific, and cannot adapt to the national economic accounting system, nor international practices. This new classification model was realized synchronously with the new department budget, the treasury centralized payment, the government procurement system, and other financial reform management systems, which have had a far-reaching impact on enhancing scientific development—including democratization and standardization of Chinese financial management.

Promoting budget performance management is clearly important. The “Decisions on Issues of Improvement of the Socialist Market Economy System of the Central Committee of CPC”, which was passed at the Third Plenary Session of the 16th CPC Central Committee, clearly pointed out “establishing an evaluation system of budget performance”. Despite the difference between performance budget and budget performance, developed countries’ practice of performance budget promotes attempts of Chinese performance budgets and guides the selection of methods for budget performance evaluation.

In 2003, the Ministry of Finance began to formulate the management methods for performance assessment in parts of various industries. In 2005, the Ministry of Finance formulated “Performance Assessment Management Methods of the Central Department Budget Expenditures”. The local financial sector formulated a performance appraisal management approach in line with local characteristics. Some local governments with advanced budget management systems, such as Guangdong, Hebei, Beijing, and others all developed their evaluation systems based on using budget expenditures. In the system construction, after the formulation of “Guidance of Promoting Budget Performance Management”, and “Interim Measures of Performance Assessment on Financial Expenditure” in 2011. A “Budget Performance

Management Plan” was issued in 2012 and determined the overall goals, the main tasks, and the key work of the budget performance management. The “Common Index System Framework of Budget Performance” formulated in 2013 strengthened the regulation and guidance of the performance assessment. In the organizational guarantees and institutional construction in 2012, the Ministry of Finance formally established the leading group of budget performance management. Among the 36 provinces including the autonomous regions, municipalities, and planned cities, there are 19 provinces setting up organs of budget performance management. Other provinces that do not set up specialized agencies make performance management functions belonging to budget division.¹

In the long period after the finance and taxation system reform of 1994, the Chinese government had only one budget, namely a general budget. Before the government fund budget, the state-owned capital operating budget and social insurance funds budget had not yet emerged—it was, in fact, the only government budget. Therefore, for a long time, the so-called budget management referred to general budget management. This kind of budget management does not include all the government revenue and expenditure, which results in the phenomenon of budget fund and extra-budget fund management. In order to guide all government revenues, the comprehensive budget management system emerged.

The so-called comprehensive budget management refers to all the government revenues and expenditures that should be included in the budget management system. In October, 2003, the “Decision on Issues of Improvement of the Socialist Market Economy System of the Central Committee of the Communist Party of China” which was passed during the Third Plenary Session of the 16th Central Committee of CPC, which was first clearly put forward for the “implementation of comprehensive budget management”. Thereafter, the State Council further suggested in the “Opinions on Deepening Economic Reform in 2005” the “reform and improvement of non-tax revenue collection management system”. The Eighteenth National Congress of CPC again clearly put forward to “strengthening the review and supervision of the comprehensive budget of the government”. The process of Chinese government budget management reform was started with the reform of budget management means such as the department budget, the treasury concentrated payments, government procurement, government revenue and expenditure classification—and this process focused on public finance budget management. Starting in 2007, the central government began to prepare the state-owned capital operating budget. In 2010, the Ministry of Finance first announced the revenue and expenditure table of the state-owned capital operating budget. The state-owned capital operating budget, as an important piece of content, was included in the trial and voting procedures of the annual National People’s Congress. 2010 was the first year that China drafted the social insurance funds budget. In 2013, the national social insurance funds budget was submitted to the National People’s Congress for trial, which made all

¹ The Ministry of Finance: “financial situation in China (2012-2013)”. http://www.mof.gov.cn/zhuantihuigu/czjbqk1/czgl/201405/t20140505_1075221.html, October 12, 2014.

concurrent government budgets including public finance budget, government funds budget, state-owned capital operating budget, and social insurance funds budget become submitted to the NPC for deliberation. This means that all four budgets have entered the legislature for deliberation at the central level. Full-covered the budget management pattern was preliminary formed, which ushered government budget management into a new stage of development.

In this new stage, the construction of financial information is promoted. In accordance with the general requirements of the public finance system framework under the socialist market economy system, the Ministry of Finance began planning to build the “government financial management information system” during the second half of 1999, while also promoting department budget and treasury centralized payment reform. The preliminary design was completed at the beginning of 2001 and began to be the pilot at the second half of the year. At the beginning of 2002, the State Council decided to rename the “government financial management information system” which was built by the Ministry of Finance of the “Golden Finance Project.” The “Golden Finance Project” was listed as one of the 12 national e-governments in the “General Office of the CPC Central Committee and General Office of the State Council on Forwarding and Guiding the Construction of the E-government of the National Informatization Leading Group”.

In the construction process of the “Golden Finance Project”, problems such as technical specifications are not unified, information systems are various, and formulation and implementation’s inability to be seamlessly tied together have gradually appeared. To this end, the Ministry of Finance in 2005 began to build the financial project application support platform and started the construction of large systems. According to the principle of “Big Finance, Big System,” China completed the promotion of the platforms at all levels on the foundation of implementation of provincial, municipal financial department in 2010 and 2011, which realized the three levels of national, provincial, and municipal unification.

3.2. Problems and shortcomings

3.2.1. The legality of financial management system reform is weak

According to the validity level of legal norms, the Chinese financial legal system is composed of related tax regulations of the constitution and tax laws formulated by the National People’s Congress and its Standing Committee, the financial management regulations formulated and issued by the State Council, tax regulations published by tax authorities in the State Council and local finance and tax laws and regulations formulated and issued by local People’s Congress and its Standing Committees of local governments. On the whole, the tax laws formulated by the NPC and its Standing Committee are smaller in amount while administrative regulations, departmental rules, and other normative documents account for larger weight. Although the formulation, amendments, and abolishment of these regulations are flexible in law, the legal authority and gravity are not sufficient and also lack stability and restraint. Moreover, there are

conflicts between different laws, rules, and regulations, which result in difficulties and legal dissonance.¹

3.2.2. The budget rights of People's Congress should to be further strengthened

The "Budget Law" was born in the period from the planned economy to the market economy. At that time, tax-sharing system reform had just started, the public finance system has not yet started, and the comprehensive budget management system reform was still in the exploratory stage, which inevitably leads to the traditional system of "Budget Law". With the unclear direction of fiscal reform, the provisions of "Budget Laws" had to be bold, general, and specific budget practices were administered by multiple administrative agencies within the government. The "Implementation Regulations of the Budget Law" is just one example. This means the government has the actual authority in budget management, while the power of the People's Congress is more symbolic in significance. Although the NPC has strengthened the supervision of the government budget and achieved positive results in recent years, the tendency for an executive leading budget still existed. For example, the NPC has the rights of budget approval, inappropriate resolution revocation, and budget execution supervision. However, when the NPC implements these rights, the expected effect is not achieved, and often "accepts" all government budgets.²

3.2.3. It is still difficult for financial departments to manage all revenues and expenditures of the government

According to the provisions of "Budget Law", as well as the concept of public finance, the financial department is the competent authority of the budget in the government system and is responsible for financial management of revenues and expenditures. In other words, the executive rights of the executive branch should focus on the financial department. However, in practice, in addition to the financial department, other government departments such as Development and Reform Commissions, education, science, and technology departments have certain budgetary rights. Decentralized budget rights have affected the integrity, authority, and legality of government budget.

In terms of public budgets, the Development and Reform Commission has great budgetary right for funds allocation, project proposal and approval and supervision. Especially in

¹ For example, in order to regulate the behavior of government procurement, *Government Procurement Law* and *Tendering and Bidding Law* were introduced. But the relationship between the two laws has not yet been clear. Differences between application scope and management responsibility still exist, which bring difficulties to the specific operation of government procurement.

² The newly revised *Budget Law* makes this situation improving from the legal sense, but the actual effect leaves space to observe.

the allocation of project funds, the Development and Reform Commission trumps all other government bodies. Similarly, the three mandatory statutory expenditures, education expenditures, agriculture inputs, and technology inputs inevitably have positive effects on education, agriculture and technology, but negatively affect the budget integrity, which forms the challenges for budget authority unification. When there is a conflict, it's difficult to determine whether to comply with "Budget Law" or other laws.

3.2.4. Public participation in the budgeting process has not been effectively guaranteed

At the present stage, the important embodiment of the public budgeting right structure is the right of knowing, which means the budget should have a considerable degree of openness and transparency. The openness of the central and local government department budget makes the public participation in the budgeting process change quite a bit, which is a token of substantial progress in this aspect. In recent years, although the content of the budget reports that the government submitted to the National People's Congress have made great progress, it is still significantly oversimplified and not refined to the specific items of expenditures. Even relatively abundant budget data compared with the past, is difficult for the public to understand, due to high technology, which has also affected the public's right to know. For some sensitive budgetary data, such as the information regarding government data that includes explicit and implicit debts, direct and contingent debts, it is difficult for the public to obtain detailed disclosure from budget reports. It is reflected in the budget practices in which transparency of the Chinese government budget is not high. It not only cannot meet up to the requirements of international organizations, but also is difficult to make the public understand the situation of fiscal funds and budget execution effects.

3.2.5. Specific measures of financial management need improvement

Government procurement is an essential measure for financial management. At present, the procurement market of the Chinese government is basically for the domestic market. The system construction and operation standards of government procurement have many inconsistencies with international common practices. Faced with the pressure of the Chinese government procurement market's opening and with the consideration of adding the foreign government procurement market into China's market, gradually opening the government procurement market will be an inevitable trend. In order to deal with the possible openness of Chinese government procurement market, not only do domestic enterprises need to improve their competitiveness as soon as possible, but also system construction and operating rules of government procurement must be consistent with international practices.

Department budgets is also essential. Form is more than essence in the unity of budgetary allocation that is reflected in China's department budget reform. Each financial department coordinates arrangements only for their budgetary funds. The allocation rights of government

funds and other kinds of funds belong to various departments, although they are reflected in the department budget. The financial department's purpose is just book management. Following the old system, some departments still have the right to decide on some budgetary funds allocation, and unified budgetary funds allocation is not yet realized, which causes a large number of budget funds to be free under the monitoring of the financial department, and is not conducive to making overall arrangements of the budget funds.

Treasury centralized payments are an important mechanism. In the implementation of the centralized treasury receipt and payment system, imbalanced budget scheduling causes an imbalance of treasury revenue and expenditures. The unpaid fiscal funds caused by the difference between the budget's actual execution and planned execution will be retained by the treasury, which leads to a positive treasury cash balance. How to manage this treasury cash balance is a problem faced by the implementation of the treasury centralized payment system. From the current perspective, the treasury cash management has just started to fall in line with policy, and lots of problems restrict the implementation of proper treasury cash management; these problems include the fact that the operation of the treasury cash management scale is large, investment tools are insufficient, ensuring the safety of treasury funds is difficult, operation of local treasury cash management is problematic, and the analysis of budget forecasts is not enough.

Budget performance evaluation is the key to proper management. Compared with the public finance management reform, the administrative management system reform is relatively slow, which restricts the implementation and promotion of the performance budget. The performance indicators are basically divided into quantitative and qualitative indicators. The quantitative indicators provide the performance evaluation a clear basis and measure, while the qualitative indicators are often started from the subjective cognition without a precise measurement criterion. In the process of China carrying out the budget expenditure performance evaluation, parts of quantitative performance were concentrated on the project expense, ignorant of the social benefits, and avoiding of performance evaluation of basic expenses.

Construction of financial information is also important. Department budget, treasury centralized payments, government procurement, budget performance evaluation, and other financial management measures have close relationship with financial informatization construction and development. Taking the treasury centralized receipts and payment as an example, the informatization level of the treasury management is low due to environmental limitation. The transverse computer network degree between fiscal organ, tax administration, treasury, and bank is not high, operation technology is unstable, and the degree of data information sharing is low. The clearing system of bank funds has not yet been established, which affects the timely and effective payment of treasury funds. Large amounts of data information is produced in the process of centralized treasury receipts and payments needs corresponding software for analysis. Compared with the central treasury, the information construction for the local treasury management is relatively weak.

4. Analysis of evaluation results

Just as with the preceding analysis, the financial management system reforms since the reform of the finance and taxation system in 1994 have both positive effects, as well as deficiencies and problems. The analysis of the financial management system reform evaluation needs to be in accordance with the three criteria set forward in the text. Combined with an understanding of the context and background, we can draw accurate conclusions.

4.1. The financial management system reform since 1994 has promoted the smooth implementation of finance and taxation system reform

Objectively speaking, the core of this finance and taxation system reform in 1994 has been adjusting the tax-sharing system. The relative supporting measures are tightly woven around the tax-sharing system. The actual features that the financial management system introduces are not much; what can be directly seen is the presentation of “reforming budgeting approaches and hardening budget constraints”. However, the implementation of tax-sharing system and the construction of financial system with tax-sharing become the starting point for a series of financial management system reforms.

These financial management system reforms are promoted by the reform of the finance and taxation system in 1994. Many of the reform initiatives, such as the reform of the “two lines of revenues and expenditures”, establishing the department budget system, implementing the centralized treasury system, promoting the government procurement system, formalizing government revenue and expenditure classification, and so on, all appeared after the finance and taxation system reform in 1994. Although limited by historical conditions, the finance and taxation system reform at that time did not suggest more reform plans, the subsequent financial management system reform undoubtedly guaranteed the smooth implementation of tax reform in 1994 and was beyond the original vision of the fiscal and taxation system reform to a great extent. It has made today’s tax system more standardized, scientific, reasonable, and more in line with the general laws of financial management under the modern financial system.

4.2. The financial management system reform since 1994 has basically implemented and completed the periodical missions, despite some problems

What these tasks refer to here is not only the requirement of the financial management system reform mentioned in the fiscal and taxation system reform in 1994, but also what was mentioned in all the Five-Year Plans since the finance and taxation system reform in 1994.

From the aspect of mission completion, such as “cleaning up and rectifying the extra-budgetary revenue and expenditure” suggested in the “Ninth Five-Year Plan,” the extra-budgetary expenditures have ceased to exist through the “two lines of revenues and expenditures” reform,

non-tax revenue management reform, department budget system, and so on. Basically, all the government revenues and expenditures are included in budget management. Therefore, on the basis of “cleaning up extra-budgetary revenue and expenditure,” we think it is basically completed now.

With the establishment of the public finance system in 1998, the financial management system reform has entered the fast lane and qualitative changes have occurred. “Strengthening the budget transparency and binding”, as suggested in the “Tenth Five-Year Plan”, “implementation of department budget”, “establishment of the modern treasury centralized receipt and expenditure system on the basis of treasury single account system”, “regulation of government procurement behavior and implementing government procurement system”, “reform of the budget formulating system, improvement of the standardization and transparency of budget”, as suggested in the “Eleventh Five-Year Plan”, “continuing to deepen department budget, treasury centralized expenditures, and government procurement management system reform”, “implementing comprehensive budget management” as suggested in the “Twelfth Five-Year Plan”, and “improving budget disclosure mechanisms and enhancing the transparency of the budget” are all explicit goals that are being worked towards. All these regulations are put forward with the implementation synchronously. In this sense, it can be considered that the reform missions have been basically completed at every stage and substantial progresses have been achieved.

On the other hand, it cannot be denied that some reform missions are constrained by various aspects. The implementation of reform at every stage is not as expected. For example, “gradually replacing zero-base budgets with base budgets”, as suggested in the “Tenth Five-Year Plan”, is important. From the current point of view, it does not reach the expected effects. For example, “improving government accounting reform”, as suggested in the “Eleventh Five-Year Plan”, has made no substantial progress in recent years.

4.3. The financial management system reform since 1994 has been conducive to the establishment of a financial management system that is in line with the requirements of modern financial system

The Third Plenary Session of 18th CPC Central Committee proposed the establishment of a “modern financial system”, which has undoubtedly determined the direction of financial management system reform in the current and future periods. It has also set forth a higher scale for the financial management system reform. It’s easy to find that measuring the past financial management reform with this rule highlights a small gap in the modern financial system. Further deepening the financial management system is a natural issue. However, on the other hand, the financial management system reform at this point is the starting point for constructing the modern financial management system. The reform missions completed at every stage are not only the continuation of finance and taxation system reform, but also the continuous approximation of the modern financial management system. We can consider every deepening measure of

financial management reform as a firm step towards the established goals of the modern financial management system.

5. Outlook of the future financial management system

According to the timetable of the “Overall Plan of Deepening Fiscal and Taxation System Reform”, the reform in 2010 should be in place and the modern financial system should basically be established. Accordingly, future reform of financial management system should closely be around the schedule with the budget management system reform as the focal point, which can drive other reforms of the financial management system. In the next 10 years, building a financial management system that is in line with the requirements of the modern financial system. In order to realize this reform commission, the following areas should be the focus of reform.

5.1. Continuing to deepen comprehensive budget management

Comprehensive budget management is the implementation basis of comprehensive, open and transparent budget system. On the basis of positive results of the comprehensive budget management in the early stage, we should continue to deepen the reform in this area in the future. Comprehensive budget management contains two meanings. One is that all the government revenues and expenditures at the administrative levels should be monopolized in financial department, namely, financial departments unify to an administrator that manages the rights of all government revenues and expenditures, which is the target of comprehensive budget management. The other is that all the government revenues and expenditures should be controlled by legislature, namely the scale, raising, and expenditure purpose of all the government revenues and expenditures should be authorized by the People’s Congress and public supervision—which is the ultimate goal of comprehensive budget management.

Therefore, on the premise of clarifying the responsibility and authority of relevant departments of the government, we should emphasize the centralized right of the financial departments on all the government revenues and expenditures; Unify the budget right that is dispersed in relevant government departments into the financial departments at the administrative level and put in order the key expenditures relative to education, technology, agriculture, culture, health, social security, and family planning, which are linked with the growth of financial revenues, expenditures, and GDP. All government revenues and expenditures are centrally managed and arranged by financial departments. The second is to enhance the authority of the People’s Congress in budget management and to reduce the phenomenon in which the People’s Congress authorizes too much to the government. Each concrete matter on the management of the budget should be made as clear as possible, which will allow the People’s Congress to enjoy the full decision-making authority in budget preparation, approval, implementation, adjustment of the budget, and decision reviews. In the process of budget management, People’s Congress can exercise a full range of

supervision rights and it should be guaranteed that the four budgets are approved by the same standards and procedures when subjecting budgets to People's Congress. This will ultimately establish the legislative control of comprehensive budget management.

5.2. Making efforts to build a public and transparent budget system

In addition to continually deepening the comprehensive budget management, we should further promote the openness of the government and department budgets at the level of system and mechanism construction. The open and transparent direction makes the community know sources of government revenue and objects of government expenditure. Therefore, except confidential information, government budget expenditure should be refined and subjected to a functional classification system for the public, and specific transfer payment budgets should be more open according to the project and to the area. This refined disclosure of the budget should be applied to basic expenditures and project expenditures. On the basis of functional classification, expanding the open and transparent contents of the government budget and department budget in accordance with economic classifications will be an important step. The original data and information behind the budget should also be disclosed to the public. The budget report should be as easy as possible to understand, which will allow for non-professionals to know the relative content clearly. The government should create conditions and actively explore the mechanisms and channels of public participation in the decision-making process to make the financial funds be able to meet the social public needs.

5.3. Establishing a cross-year budget balancing mechanism

Changing the current single annual budget balancing mechanism and achieving a reasonable multi-year balancing mechanism in the government budget preparation and execution is the key to progress in financial management reform. Improving the methods of annual budget control to make better use of the macro-control role of public finance is important. For surplus revenue in budget year, it cannot be used in principle. The government should also reduce the fiscal deficit, resolve government debts, and promote budget stabilization funds in order to resolve the next annual budget's issues. For the deficits in budget year, the budgets should be resolved and budget stabilization funds should be transferred according to procedure—ultimately reducing existing expenditures and deficits. The government should weaken revenue plan, which will allow revenue budget transfer from constraints to expectations. Government should also strengthen the constraints of expenditure budgets. Learning from foreign experiences, the government should formulate the cross-year budget, determine a reasonable time span and benchmark price. The basic content of the cross-year budget, in addition to the fiscal revenue and expenditures of the traditional budget, should include the analysis and prediction of the macroeconomic situation, and also the policy measures for achieving the established policy objectives.

5.4. *Improving the government financial reporting system*

Along with the development of the market economy and gradual improvement of public finance management, establishing a governmental financial report that is comprehensive and in line with international practices will be an inevitable trend. “The Accounting Standards No.1 in the International Public Sector’s Financial Statements” points out that a complete system of government financial report should include: (1) financial position statements, which are referred to as balance sheets; (2) financial performance statements, which are referred to as income statements, income and expense statements; (3) statements of net assets/changes in equity; (4) statements of cash flow; (5) accounting policies and financial statement notes. In order to completely reflect the government’s financial position, the government’s financial report system, including the balance sheets, financial performance statements, and cash flow statements can be formed according to the above statements and combined with China’s actual forms, which can truly reflect the government’s financial position. There should be three main parts in the government financial report: the first is all levels of government, the second is the administrative institutions that have a direct relationship with government budget, the third is government units that include state-owned enterprises, state-owned holding (sharing) enterprises. On this basis, the unified government financial report can be formed. In order to meet the needs of strengthening government debt management, reflecting government debt, and formulating a balance sheet at all levels should be a top priority.

5.5. *Continuing improving the technical measures of financial management*

Deepening the reforms of financial management has a close relationship with the support of technical means of financial management. The next stage of deepening financial management system reform should be on the basis of summing up the experience, which includes government procurement, department budgets, centralized treasury payments, treasury cash management, financial management information systems, budget performance, and so on. It will also be crucial to actively explore new management techniques, such as the accrual basis of government accounting and tax expenditures to ensure that financial management remains as up-to-date and effective as possible.