China's Macroeconomic Governance: Evolution, Theoretical Innovation, Challenges, and Reform Pathways

Deng Yongbo*, Li Yuju

Research Center for Xi Jinping Thought on Economy,National Development and Reform Commission, Beijing, China

Abstract: *Effective macroeconomic regulation and robust governance are vital for harnessing the advantages of China's socialist market economy. Since the launch of reform and opening-up in 1978, China's macroeconomic governance has progressed through three distinct phases: the "comprehensive balancing" stage under the planned economy (pre-1992), stage of macroeconomic regulation in transition to a market economy (1993-2012), formation and development of the macroeconomic governance system in the new era (2012-present). Through sustained theoretical innovation and practical experimentation, China has developed a unique macroeconomic governance framework. This framework is defined by a dynamic, multi-dimensional target management system, a cohesive set of policy tools, and an institutional foundation tailored to the country's unique context. Yet, as global transformations accelerate and internal and external risks converge, China's macroeconomic governance faces significant challenges. Overcoming these demands further refinement of regulatory systems, coordinated reforms in key areas such as fiscal policy, taxation, and finance, greater alignment in macroeconomic policy, and the modernization of governance through digital advancements.*

Keywords: *Macroeconomic governance; historical development; theoretical innovation; practical challenges; reform pathways*

JEL Classification Codes: E60; O53

DOI: 10.19602/j.chinaeconomist.2025.05.04

1. Introduction

Scientific and effective macroeconomic governance is essential for China's efforts to modernize its national governance system and enhance its governance capacity. It forms a critical component of building a high-standard socialist market economy. Since the 18th National Congress of the Communist Party of China (CPC) in 2012, the CPC Central Committee with General Secretary Xi Jinping at its core has enhanced strategic planning and unified leadership over economic work. This has significantly improved the foresight, precision, and effectiveness of macroeconomic regulation, driving China's economic strength, comprehensive national power, and global influence to new heights.

The 14th Five-Year Plan and the *Outline of Long-Range Objectives Through 2035*, for the first time, designated "improving macroeconomic governance" as a key aspect of "enhancing government

* CONTACT: Deng Yongbo, email: dyongbo@126.com.

Acknowledgement: Key research project of the Xi Jinping Economic Thought Research Center: "Research on the Original Contributions of Xi Jinping's Economic Thought"; 2024 Annual Research Project: "The Intellectual Context, Scientific Framework, and Contemporary Relevance of Xi Jinping's Economic Thought on State-Owned Economic Reform and Development".

economic governance capabilities". The Report to the 20th CPC National Congress in 2022 further emphasized the need to "strengthen the macroeconomic governance system", identifying it as a vital task in developing a high-standard socialist market economy. The Third Plenary Session of the 20th CPC Central Committee in 2024 outlined comprehensive measures to advance this goal, including refining the national strategic planning system, strengthening policy coordination mechanisms, deepening fiscal and tax reforms, advancing financial system reforms, and improving mechanisms for implementing regional coordinated development strategies. To implement the directives of the Third Plenary Session, we must pursue reforms and innovations to establish a macroeconomic governance system according to the requirements of the new era, relentlessly enhance governance capabilities, and provide robust institutional support for Chinese modernization.

Relevant research emphasizes the need to clearly define the framework of the macroeconomic governance system. China's macroeconomic governance is structured around a three-dimensional framework comprising macroeconomic regulation, institutional safeguards, and risk prevention (Liu & Chen, 2021). Its core features are characterized by the synergy between an enabling government and an efficient market (Lin, 2017), the core driving force of supply-side structural reforms (Huang, 2020), and the organic integration of both counter-cyclical and cross-cyclical adjustments (Li, 2021). The theoretical evolution of this system reveals a distinct inter-disciplinary trajectory: *New Structural Economics* focuses on the alignment between factor endowment structures and industrial upgrading (Lin, 2012); *Institutional Economics* highlights the impact of property rights systems and factor marketization on governance efficiency (Zhang, 2020); and *System Dynamics* centers on the construction of multi-agent collaborative governance models (Chen et al., 2022).

Research highlights several persistent challenges in improving China's macroeconomic governance system. Structural contradictions within the economy remain significant, with the transition from investment-driven to innovation-driven growth still constrained by path dependency (Fan, 2021). Institutional barriers to achieving balanced regional development have yet to be fully dismantled (Lu, 2020). Meanwhile, the intensifying uncertainty in the global environment and the ongoing restructuring of global industrial chains are placing new demands on the system's governance resilience (Yu, 2022). At the same time, the complexity of managing the spillover effects of monetary policy has increased significantly (Zhou, 2019).

On the theoretical front, the compatibility of the New Keynesian framework with China's development realities still requires deeper investigation (Wu, 2024). Institutional reform also faces the urgent task of clarifying five fundamental relationships: the dynamic balance between objectives and processes; the design of mechanisms for both incentives and constraints; the governance efficiency between centralization and decentralization; the delineation of boundaries between the market and government; and the interactive logic between government action and the rule of law (Qian, 2018). These theoretical and practical challenges call for sustained and in-depth exploration.

Research has identified three key dimensions in which China's macroeconomic governance system can be enhanced. First, in optimizing the macroeconomic regulation framework, priorities include shifting monetary policy from quantitative to price-based instruments (Yi, 2018), improving the effectiveness of targeted fiscal policy (Gao, 2023), and establishing a coordinated mechanism between industrial policy and competition policy (Jiang, 2021). Second, in the innovation of governance tools, efforts should focus on promoting the application of big data in macro-economic forecasting (Zhang & Liu, 2022) and integrating digital technologies —such as major tech platforms, artificial intelligence, and blockchain — into economic and financial systems (Huang, 2021). Third, in strengthening risk prevention mechanisms, it is important to both refine and upgrade the Macro-prudential Assessment (MPA) framework (Zhang, 2016) and to establish a “closed-loop management” system for local government debt (Li & Zhang, 2024), thereby creating a comprehensive, multi-layered risk prevention network.

Prior research has systematically deconstructed the fundamental framework of macroeconomic governance, thoroughly analyzed the practical challenges of transitional phases, and developed innovative portfolios of policy tools, thus producing a substantial body of theoretical contributions that provide a robust academic underpinning for this study. Building upon this existing scholarship and grounded in the theoretical frameworks of Marxist political economy and the political economy of socialism with Chinese characteristics, this paper systematically examines over four decades of China’s institutional transformation and practical innovation since reform and opening-up in 1978. It focuses on elucidating the historical trajectory of the macroeconomic governance system’s evolution, the essence of its institutional innovations, and the pathways for deepening reform, aiming to explore an integrated solution that synergizes theoretical advancement with practical breakthroughs.

2. Historical Evolution: Logical Leap from Macroeconomic Regulation to Macroeconomic Governance

Since the reform and opening-up began in 1978, China has continuously reformed production relations and the superstructure to better align with the development of its productive forces. The central objective of these reforms has been to establish and improve the socialist market economy system. As the transformation of the economic system and the shift in development models have deepened, China’s macroeconomic governance system has exhibited distinct characteristics of staged evolution.

2.1 The “Comprehensive Balancing” Stage under the Planned Economy

In the early stages of China’s reform and opening-up, the institutional evolution of the macroeconomic governance system displayed clear path dependence, inheriting the “comprehensive balancing” approach of the planned economy. The core development concept for this stage was rooted in the macroeconomic equilibrium theory of Marxist political economy, which emphasized systematic coordination of all aspects of social reproduction through state planning. The fiscal balance framework under the planned economy prioritized three key balances: fiscal revenue and expenditure, credit, and material resources. The *Resolution of the CPC Central Committee on Economic System Reform* called for reforming the planning system, establishing a rational price structure, and strengthening macroeconomic regulation through the integrated use of economic levers such as prices, taxes, and credit. This marked a paradigm shift in China’s macroeconomic regulation system from direct planned management to indirect, parameter-based regulation. As the opening-up strategy deepened, the balance of foreign exchange receipts and payments emerged as a critical factor influencing macroeconomic equilibrium. The *Seventh Five-Year Plan for National Economic and Social Development (1986-1990)* underscored the importance of maintaining a basic equilibrium between aggregate social demand and supply, while ensuring both individual and coordinated balances within and among state finance, credit, material resources, and foreign exchange.

The “comprehensive balancing” approach to macroeconomic management maintained coordination in the key proportional relationships of national economic and social reproduction, providing essential support for rapid economic growth. However, this model gradually exposed deep-seated contradictions in practice. On one hand, the planned and directive- based resource allocation system may lead to resource allocation decisions lacking the support of market signals, as it is challenging for the government to access real-time data on the entire society's production and consumption. On the other hand, the widespread “soft budget constraint” problem (Kornai, 1980) allowed economic entities to make decisions unconstrained by strict solvency limits, leading to intertwined issues of inefficient resource allocation and accumulating financial risks.

A pivotal institutional breakthrough occurred at the Third Plenary Session of the 13th CPC Central Committee in 1988. For the first time, central policy documents formalized the concept of macroeconomic regulation and emphasized the strategic initiative to “integrate governance of the economic environment and rectification of economic order with efforts to strengthen and improve macroeconomic regulation during the transition between old and new systems”. This marked a turning point in China’s macroeconomic governance, initiating a shift beyond the institutional boundaries of the planned economy toward a market-oriented regulatory paradigm.

2.2 Stage of Macroeconomic Regulation in China’s Transition to a Market Economy

The *Resolution of the CPC Central Committee on Issues Concerning the Establishment of a Socialist Market Economy System* laid the institutional foundation for China’s macroeconomic regulation framework, establishing a “three-in-one” macroeconomic regulation system integrating state planning, fiscal policy, and monetary policy. At this stage, state planning still held a relatively foundational position in macroeconomic regulation, with the objectives and overarching requirements outlined in national plans serving as the primary basis for formulating fiscal and monetary policies. As the market’s decisive role in resource allocation gradually strengthened, planning tools underwent a progressive functional transformation within the control framework—transitioning from a “foundational” to a “strategic” paradigm.

A breakthrough in institutional innovation came with the 1994 tax-sharing reform, which restructured fiscal relations between central and local governments through fiscal centralization. This reform significantly increased both the central government’s share of total fiscal revenue and the proportion of fiscal revenue in GDP, thereby providing a solid material foundation for nationwide macroeconomic regulation. Between 1993 and 1997, the conceptual framework for China’s macroeconomic regulation largely took shape. Through effective regulatory measures, the government successfully guided the national economy from a phase of “high growth and high inflation” to “high growth and low inflation”, achieving a smooth economic “soft landing”.

From 1998 to 2012, China’s macroeconomic regulation system demonstrated strong institutional resilience in the face of global economic shocks. In 2010, “structural adjustment” was integrated into the comprehensive policy objectives. The government leveraged the catalytic pressures of the global financial crisis to accelerate structural reforms—adjusting the balance between domestic and external demand, optimizing investment-consumption structures, upgrading industrial composition, advancing independent innovation, and driving substantive progress in transforming the development model. This path of composite transformation—characterized by market-oriented reforms of regulatory mechanisms and the gradual enhancement of governance capacity—not only avoided disruptive transitional shocks but also nurtured a policy toolbox with distinct Chinese characteristics.

Overall, from 1993 to 2012, as its macroeconomic regulation objectives evolved, China’s regulatory tools became increasingly flexible and science-based. A composite control model emerged, centered on fiscal and monetary policies, coordinated with industrial policies, and supplemented by administrative and legal measures.

2.3 Formation and Development of the Macroeconomic Governance System in the New Era

Since the 18th CPC National Congress, Xi Jinping Thought on Economy has pioneered groundbreaking theoretical concepts such as macro-economic governance, propelling the evolution of macro-regulation into a modernized framework of macro-economic governance, marking a transformative shift in China's economic governance paradigm.These theoretical innovations are reflected in three key areas: First, the scope of objectives has expanded from a sole focus on economic development to the integrated pursuit of both development and security. Xi Jinping Thought on Economy underscores the importance of bottom-line thinking and heightened risk awareness, with particular emphasis on preventing major economic risks and systemic financial risks. The *14th Five-Year Plan* and the *Outline of Long-Range Objectives Through 2035* explicitly call for the improvement of mechanisms for major risk identification and early warning, which plays a crucial role in strengthening macroeconomic governance. Second, policy tools have evolved from a focus on demand-side management to a coordinated approach that integrates both supply- and demand-side forces. This approach emphasizes maintaining a dynamic balance and synergy between aggregate supply and demand, thereby ensuring smoother national economic circulation and sustained economic resilience. Third, the decision-making framework has shifted from fragmented, department-based approaches to a model of systemic coordination, enhancing the consistency and alignment of macroeconomic policy orientations. This is achieved by strengthening the coordination of fiscal, monetary, employment, industrial, regional, scientific and technological, and environmental policies, while also incorporating non-economic policies into the assessment of macro policy coherence. This comprehensive policy alignment ensures concerted efforts and fosters cohesive, mutually reinforcing outcomes.

Since the New Era, China's macroeconomic governance system has undergone continuous refinement, with macroeconomic regulation becoming increasingly forward-looking, targeted, and effective, propelling the Chinese economy to new heights. In 2024, China's GDP surpassed 134 trillion yuan, consistently contributing approximately 30% to global economic growth for many years and serving as a major engine of the world economy. The institutional framework for scientific and technological innovation has been steadily enhanced, and the modern industrial system has grown robust. From 2013 to 2023, large high-tech manufacturing enterprises in China recorded an average annual growth of 10.3% in added value, making the nation the first to hold over 4 million valid domestic invention patents[1]. Progress in building a high-standard market system has accelerated, with market-based allocation of production factors deepening and the development of a unified national market gaining momentum. The state-owned economy has undergone optimized restructuring, while institutional mechanisms to support the high-quality development of private enterprises have been strengthened. These efforts have fostered an improving institutional environment characterized by effective market mechanisms, dynamic micro-economic entities, and balanced macroeconomic regulation.

China has comprehensively integrated the holistic approach to national security across all domains, significantly enhancing its capacity to safeguard economic security. China has continuously improved its system for grain production, procurement, storage, processing, and sales, with total grain output reaching a historic 1.4 trillion jin (or 700 million tons) in 2024 — ensuring basic self-sufficiency in cereals and absolute security in staple foods. China has strengthened its autonomous control over industrial and supply chains, ensured stable and orderly supply and pricing of bulk commodities and raw materials,

---

[1] CPC National Bureau of Statistics Party Leadership Group: "Harnessing the Forces of Historical Changes and Composing a New Chapter of High - Quality Development", *Qiushi* Website, July 23, 2024, http://www.qstheory.cn/dukan/qs/2024-07/01/c_1130170863.htm.

advanced data security capabilities, and progressively improved mechanisms for financial risk prevention and control.

In summary, the development of China's macroeconomic management theory and policy has undergone a gradual evolution — from the "comprehensive balancing" approach of the early reform period, to the adoption of "macroeconomic regulation". This shift was marked by the establishment of a macroeconomic regulation framework compatible with the socialist market economy, achieved through reforms in fiscal, taxation, financial, and investment systems. It then progressed to a phase of demand-side management, characterized by the coordinated use of fiscal and monetary policies, and has now advanced toward systemic reforms that place equal emphasis on both supply- and demand-side management. The evolution of China's macroeconomic governance system embodies distinct characteristics of its time. Rooted in the fundamental principles of Marxist political economy, and going beyond the limitations of Western-style "macroeconomic demand management", it has ultimately forged a macroeconomic governance framework with uniquely Chinese characteristics.

3. Theoretical Innovation: Shaping a Macroeconomic Governance System with Chinese Characteristics

Through decades of theoretical breakthroughs and practical innovation, China has established a macroeconomic governance system characterized by distinct Chinese features. Grounded in the political economy of socialism with Chinese characteristics, this system integrates the realities of China's national conditions with the complexities of global challenges, while continuously refining its policy tools and institutional frameworks. It has underpinned China's "dual miracles" of sustained rapid economic growth and long-term social stability, and has significantly elevated the country's global influence. This governance framework represents a landmark achievement in the development of China's independent economic knowledge system.

3.1 Diversified Target System: A Governance Philosophy beyond Short-Term Equilibrium

China's macroeconomic governance system emphasizes national medium- and long-term development planning as the strategic cornerstone of economic management. It fully leverages the guiding role of these plans, with the Five-Year Plans providing a key framework for macro-level coordination. The system promotes the organic integration of specialized, regional, spatial, and local plans with the overarching national development strategy, ensuring coherence and consistency across all planning levels. At the same time, it strengthens the capacity of medium- and long-term plans to guide and coordinate annual plans, public budgets, industrial development, land use, financial credit allocation, and public service provision — thereby fostering a dynamic alignment between macroeconomic objectives and policy instruments, and enhancing the strategic foresight and directive function of planning. Since the 19th CPC National Congress, the CPC Central Committee has systematically mapped out both short-term economic tasks and medium- to long-term development goals (extending to 2035 and the middle of the century), establishing a multi-tiered macroeconomic governance target system. This framework clearly defines the phased priorities of macroeconomic governance, ensuring both strategic foresight and policy adaptability.

In terms of growth targets, China's economic strategy during the 14th Five-Year Plan period (2021-2025) combines potential growth rate theory with the distinctive characteristics of its current development stage. By setting a flexible GDP growth target range, China aims to avoid the trap of growth for growth's sake while maintaining the momentum of its catch-up economy. On the employment front, China has adopted a composite indicator system—combining the urban surveyed unemployment rate with the migrant worker employment index—to guide targeted policy interventions. In 2024, China created 12.56 million new urban jobs and maintained the surveyed unemployment rate at a stable 5.1%.

In terms of structural optimization, China has prioritized promoting coordination across major economic structures and refining productivity layouts to reduce the impact of economic cycles, while enhancing the resilience and security of its industrial and supply chains. As a result of these efforts, the added value of China's strategic emerging industries increased from 5% of GDP in 2012 to over 13% in 2023[2]. Additionally, the added value of core industries of China's digital economy accounted for around 10%[3] of GDP by 2024, marking a structural leap from a "catch-up" model to a "leading" paradigm in the global digital economy landscape.

In the area of income distribution, the focus has shifted from the "efficiency first" approach to fostering common prosperity and inclusive growth. Innovations in the three-tier income distribution system have helped reduce China's Gini coefficient from its peak of 0.491 in 2008 to 0.466[4] in 2022, reflecting the sustained impact of policies aimed at achieving "common prosperity".

China's multi-dimensional macroeconomic target system breaks away from the single-goal limitation of the neoclassical synthesis, instead embracing a dynamic mechanism for adjusting policy priorities. In practice, this multi-dimensionality is reflected in the flexible reordering of goals in response to changing national challenges. For example, in light of mounting resource and environmental constraints, China has prioritized the development of resource-efficient and environmentally friendly production and consumption patterns, deepened structural reforms on the energy supply side, and accelerated the green transformation of its growth model — achieving notable progress in energy conservation and emissions reduction.

Meanwhile, in response to the long-standing issue of insufficient consumer demand — as highlighted in the People's Bank of China's *Monetary Policy Implementation Report for Q4 2022*, which noted that China's household consumption rate (household consumption expenditure as a share of GDP) lags significantly behind that of developed economies — macroeconomic policy has increasingly tilted toward "expanding domestic demand".[5] The *Outline of the Strategic Plan for Expanding Domestic Demand* explicitly identifies final consumption as the enduring engine of economic growth. To strengthen consumption's pull on economic circulation, China is working to improve its income distribution system, building a coordinated framework across primary, secondary, and tertiary distribution, while refining taxation, social security, and transfer mechanisms to enhance precision and long-term domestic demand resilience.

Overall, China's macroeconomic governance framework is characterized by "flexible anchoring", which prevents the rigidity of single-target policymaking while maintaining policy continuity through

---

[2] Li Yuju: "Comprehensively Understanding China's Economic Situation, Drivers, and Confidence," *Study Times*, May 15, 2024.

[3] National Data Bureau: "Digital China Development Report (2024)", Official Website of the Digital China Construction Summit, April 30, 2025, https://www.szzg.gov.cn/2025/xwzx/qwfb/202504/t20250430_5012953.htm.

[4] Source: Cover News (2022): "Shi Nian | Central Finance Office: In the Past Decade, the Gini Coefficient of Residents' Income Dropped from 0.474 to 0.466, https://www.thecover.cn/news/9144056.

[5] According to the *Fourth Quarter 2022 Monetary Policy Execution Report* by the People's Bank of China, China's household consumption rate lags significantly behind that of developed economies. In the U.S., the household consumption rate (household consumption expenditure as a share of GDP) has risen steadily from around 60% to over 68% over the past five decades, with household consumption contributing an average of over 70% to economic growth in the past 20 years. The Eurozone, UK, and Japan all have household consumption rates exceeding 50%. By contrast, China's household consumption rate was only 37.2% in 2022, influenced by its economic development stage, high savings culture, and differences in housing consumption statistics. Structural gaps in income distribution, social security, and supply capacity have also contributed to relatively low consumption.

instruments such as the Five-Year Plans. This approach has gradually shaped what can be viewed as a distinctive "China Paradigm" within the field of development economics.

3.2 The Synergy of Policy Tools: Innovation in Regulatory Mechanisms from a Systems Theory Perspective

China's macroeconomic governance system has pioneered a paradigm shift, achieving coordinated governance across both the supply and demand sides. This has led to the development of a dynamic "supply-side structural reform and upgraded demand-side management" coupling mechanism. Supply-side reform focuses on improving the quality of the supply system by removing constraints caused by inefficient supply through institutional innovation, fostering new drivers of effective supply, and enhancing the supply structure's capacity to meet evolving demand.

Demand-side management, in contrast to the emphasis on short-term aggregate demand regulation, has shifted toward a strategic focus on cultivating a complete and resilient domestic demand system. At the 2020 Central Economic Work Conference, the concept of "demand-side management" was formally introduced, emphasizing the need to accelerate the creation of a new development pattern in which domestic circulation serves as the mainstay and domestic and international circulations reinforce each other — with supply-side structural reform as the guiding principle and demand-side management as a crucial complement.

It is important to highlight that China's demand-side management is fundamentally different from the concept of aggregate demand management in Western macroeconomic theory. The latter primarily uses monetary and fiscal policies for short-term, counter-cyclical stabilization to smooth economic fluctuations. In contrast, China's approach places greater emphasis on using structural policies to resolve medium- and long-term development challenges, with the goal of nurturing a complete domestic demand system and building a strong domestic market. As pointed out by President Xi Jinping, expanding domestic demand is neither a temporary measure to deal with financial risks and external shocks, nor does it mean resorting to relying solely on increased government investment. Instead, it requires establishing effective systems to boost domestic demand based on China's economic realities, unlocking its potential. This involves accelerating the development of a comprehensive domestic demand system, strengthening demand-side management, expanding consumer spending, and upgrading consumption. The goal is to make the building of a super-sized domestic market a sustainable historical process.

China has advanced its regulatory framework for macroeconomic governance by adopting monetary and fiscal policies as its primary instruments. This approach combines range-based regulation, targeted regulation, and discretionary regulation to guide economic management. Since the 18th CPC National Congress in 2012, the central roles of fiscal and monetary policy in macroeconomic regulation have been further strengthened. The 14th Five-Year Plan and the *Outline of Long-Range Objectives Through 2035* underscore the need to employ these policies as the main tools, while closely coordinating them with employment, industrial, investment, consumption, environmental, and regional policies. Monetary and fiscal policies are the most effective tools for short-term economic management, and reinforcing their central role helps enhance the overall efficiency of macroeconomic governance. Range-based regulation provides clear guidance on when macroeconomic policies should be activated and when strategic patience is warranted, allowing market self-regulation to take the lead during periods of stability. When intervention is required, targeted regulation and discretionary regulation further define the specific goals and approaches of policy actions. This combined regulatory framework not only helps prevent drastic economic fluctuations but also enhances the effectiveness of macroeconomic governance. Moreover, this policy coordination mechanism transcends the linear logic of Tinbergen's Rule[6] and establishes a systemic, integrated macroeconomic governance model with distinct Chinese characteristics.

China's macroeconomic governance creatively integrates counter-cyclical and cross-cyclical policies to address the limitations of Western counter-cyclical regulation, which focuses on short-term tightening or easing to manage output and inflation gaps. Such Western approaches can heighten financial risks, as aggressive stimulus during recessions may create low-quality demand, fueling economic bubbles and impeding long-term growth. Recent global practices underscore these shortcomings. By aligning medium- and long-term planning with dynamic, short-term responses, China ensures continuity, stability, and sustainability in macroeconomic policy. Cross-cyclical regulation balances the interplay between multiple objectives—economic growth, financial stability, and structural optimization—maintaining robust policy impact while preserving sufficient policy space. This approach enables the economy to operate within a reasonable range, combining long-term strategic vision with flexible, short-term adjustments.

3.3 Institutional Innovation as the Cornerstone of China's Socialist Market Economy

The institutional foundation of China's macroeconomic governance system is deeply rooted in the basic economic system of socialism. At its core lies a distinctive institutional philosophy: the construction of a "high-standard socialist market economy system" that embodies paradigm-shifting innovation. This system seeks to achieve the dialectical unity of an "efficient market" and a "well-functioning government" through institutional coupling. Under the socialist market economy, the decisive role of the market in resource allocation is fully leveraged. Economic activities that can be effectively regulated by market mechanisms are entrusted to the market, while the government reduces its direct allocation of resources and minimizes intervention in microeconomic activities. This approach helps stimulate the enthusiasm of various market entities, ignites their entrepreneurial and innovative vitality, and drives the optimal allocation and maximized efficiency of resources.

At the same time, in response to instances of market failure, China has developed a governance framework with distinct national characteristics. Within this framework, the government plays a vital role in maintaining macroeconomic stability, improving and optimizing public services, ensuring fair competition, strengthening market regulation, safeguarding market order, and promoting common prosperity. Scientific macro-economic regulation and effective governance are intrinsic requirements for harnessing the strengths of the socialist market economy system. Through sound macroeconomic governance, China is better able to balance individual and social interests, local and national priorities, and short-term and long-term goals. This not only helps overcome the spontaneity, blind spots, and lag inherent in market economies but also promotes orderly social division of labor and cooperation, thereby sustaining coordinated and balanced economic development.

The "market-driven, government-supported" dual-wheel mechanism fundamentally represents an institutional innovation that deeply integrates the strengths of the socialist system with the operating principles of a market economy. The "new whole-nation system" embodies a transformative evolution in national governance, combining the advantages of China's political system with the dynamics of market mechanisms. As a representative model of this institutional innovation, the new whole-nation system achieves three key breakthroughs in governance logic: First, at the value level, it inherits the whole-

[6] Tinbergen's Rule, formulated by Dutch economist and Nobel laureate Jan Tinbergen, outlines the relationship between a nation's economic policy instruments and its objectives. The rule posits that the number of independent policy instruments must at least equal the number of economic targets and that these instruments must be linearly independent to effectively achieve the desired outcomes.

nation system's capacity to mobilize resources nationwide for major undertakings, while embedding the efficiency principles of market-based resource allocation. Second, at the structural level, it constructs a governance framework characterized by strategic guidance, market-driven dynamics, and multi-stakeholder collaboration, promoting the transition of innovation factors from administrative allocation to market allocation. Third, in terms of goal orientation, it shifts from a singular focus on target achievement to a dual emphasis on both goal realization and efficiency, ensuring that the implementation of major national strategies reflects not only the strength of state will but also the adaptive flexibility of market mechanisms.

In summary, through the strategic goal realignment, the innovation of policy tools, and institutional breakthroughs, China's macroeconomic governance system has pioneered a paradigm shift in development economics, institutional economics, and macroeconomic regulation theory. At its core, this model integrates the fundamental principles of Marxist political economy with the realities of Chinese practice. The result is a development-oriented governance model with built-in stability — one that not only offers developing countries an alternative path for modernization but also contributes a distinctively Chinese approach to global economic governance.

4. Practical Challenges: Issues in Strengthening the Macroeconomic Governance System

As China's macroeconomic governance system continues to mature and deliver notable results, it still faces a range of prominent challenges in practice. These are chiefly reflected in persistent bottlenecks hindering the coordination and consistency of macroeconomic policies, ongoing difficulties in balancing risk prevention with the building of economic resilience, the emergence of new structural contradictions in promoting regionally coordinated development, and a relative lag in the modernization of governance capabilities. Collectively, these issues increase the difficulty of sustaining stable economic performance and represent key obstacles that must be overcome in the pursuit of a more robust and refined macroeconomic governance system.

4.1 Persistent Bottlenecks in the Coordination and Coherence of Macroeconomic Policies

Conflicts often arise between short-term macroeconomic stabilization policies and medium- to long-term structural adjustment policies due to their differing objectives, making effective coordination challenging. Short-term issues, such as insufficient aggregate demand and severe economic downturns, call for stronger expansionary macroeconomic measures. At the same time, the government must prioritize medium- and long-term structural reforms, which sometimes carry greater strategic importance. However, some local governments and functional departments tend to oversimplify institutional reforms, into formalized procedures. As a result, sustained "strategic long-term efforts" are often transformed into short-term "indicator-driven campaigns". This practice leads to vertical attenuation and horizontal distortion in the transmission of central policies, and gives rise to "fallacy of composition" or "fallacy of division"[7] in areas such as debt resolution and dual energy consumption controls. Short-term stimulus measures may, in fact, aggravate long-term structural issues like debt accumulation, while structural reforms can temporarily constrain short-term economic growth.

[7] The "fallacy of composition" refers to situations where the aggregated implementation of policies across various fields and departments fails to achieve the intended overall policy outcomes. Conversely, the "fallacy of division" arises when a broadly optimal strategy or action cannot be effectively broken down into actionable tasks at the departmental or local level, weakening policy effectiveness and hindering the successful translation of macro-level policy objectives into micro-level implementation.

In addition, inconsistencies persist between certain industrial policies and the broader goals of macroeconomic regulation. In recent years, some industrial policies have encountered implementation challenges, including the micromanagement of macroeconomic measures, the bureaucratization of industrial policymaking, and the formalized rollout of new economy initiatives. These issues have collectively undermined the effectiveness of macroeconomic regulation. At the root of these challenges lie the misalignment between industrial policy and competition policy, as well as the imperfect integration of an efficient market with an enabling government. In some cases, local industry regulations and controls adopt extreme or "one-size-fits-all" approaches, with formalized thinking recurring frequently. Such practices disrupt market expectations, erode confidence in the real economy, and ultimately weaken social capital, diminish growth expectations, and reduce investment.

4.2 Challenges in Risk Prevention and Economic Resilience Building

Fiscal risks refer to the potential threats faced by governments at all levels in managing revenues, expenditures, debts, and policy formulation. These risks may lead to fiscal imbalances, economic volatility, or a reduced capacity to deliver social services. In recent years, changes in external conditions combined with weak domestic demand have introduced new challenges to China's economic performance. Tax revenues have consistently fallen short of expectations, while income from land transfers has seen a sharp decline — placing considerable strain on the stability and responsiveness of local government finances.

Analyzing the growth rate of tax revenue relative to GDP growth, data from 1990 onward shows that tax revenue growth largely outpaced GDP growth. However, this trend has reversed in recent years, with tax revenue experiencing negative growth in 2020, 2022, and 2024. Notably, the growth gap between tax revenue and GDP reached a historic low of -8.4% in 2024 (see Figure 1). This structural shift in fiscal revenue has challenged the government's capacity to regulate the economy through fiscal tools. A sustained decline in

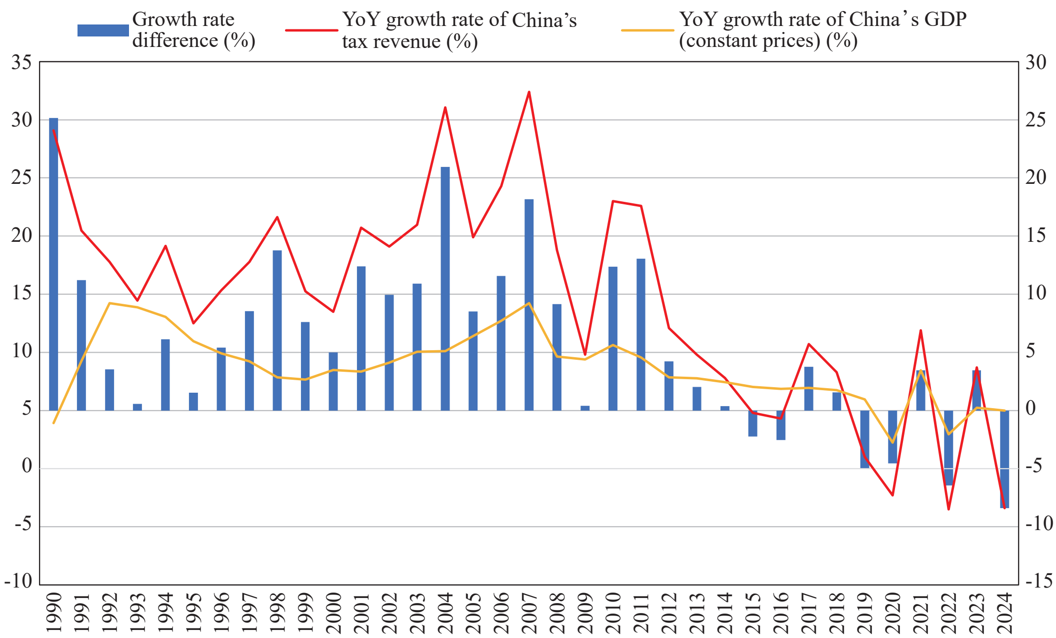

Figure 1: Comparison of China's Tax Revenue and GDP Growth Trends

Data Source: Compiled from the *Statistical Yearbook* of the National Bureau of Statistics (NBS).

local governments' public service capabilities could weaken investor confidence, thereby impacting economic growth and employment markets. Rising unemployment and population aging may further exacerbate fiscal risks through feedback effects on social security systems. Overall, the relative slowdown in China's fiscal revenue growth reflects the phased characteristics of high-quality development, influenced by moderating growth in key economic indicators, the effects of tax and fee reduction policies, and accelerated economic restructuring. Nevertheless, the proactive fiscal policy continues to play an indispensable role in maintaining overall economic stability and sustaining progressive development.

Deepening fiscal and tax system reform is a critical strategy for mitigating and resolving fiscal risks. The primary challenge in optimizing China's tax structure lies in pressure to transition from a system heavily reliant on indirect taxes. The Third Plenary Session of the 20th CPC Central Committee outlined key priorities for comprehensive fiscal and tax reform, including enhancing the budget system, optimizing the tax structure, rationalizing central-local government relations, and strengthening the government debt management system. These measures aim to bolster economic governance capacity, elevate fiscal sustainability, and achieve systemic restructuring. From the perspective of tax structure evolution, China has developed a gradually improving balance, with direct taxes accounting for roughly 40% and indirect taxes 60% of total revenue. This reflects progress in tax system optimization, though indirect taxes remain dominant. Following the 1994 tax reform, indirect taxes, such as value-added tax and consumption tax, once comprised over 75% of revenue, while direct taxes, including corporate and individual income taxes, constituted less than 25%[8]. Compared to developed nations, where direct taxes typically predominate, China's indirect tax-heavy structure requires further adjustment. In 2022, direct taxes (including social insurance contributions) in China accounted for 42% of fiscal revenue, 17 percentage points lower than the 59% average across 38 OECD countries (see Figure 2). Increasing the share of direct tax revenue remains a key objective in deepening the reform of the fiscal and tax systems. Nevertheless, China's top 1% and 10% income earners contribute a significant share of tax revenue, aligning with the principle of tax fairness that burdens should reflect taxpayers' ability to pay. This pattern is consistent with global trends, where high-income earners account for a substantial portion of

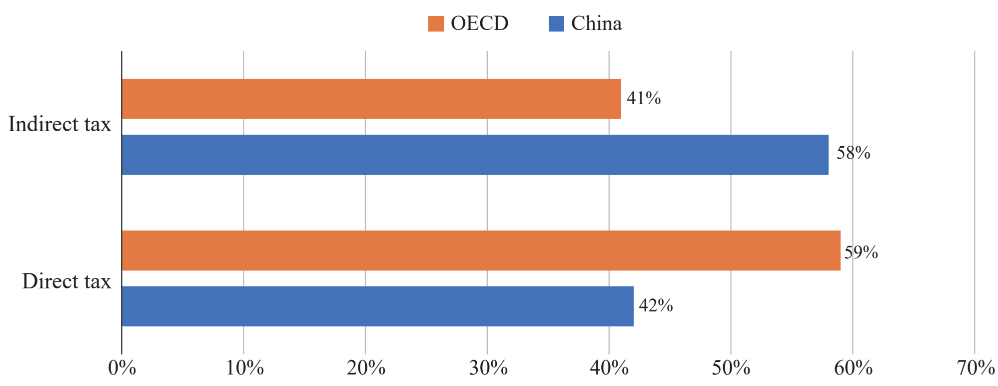

Figure 2: International Comparison of Tax Structure in 2022 (China vs. OECD average)

Data Source: China's 2022 tax structure data is compiled based on statistical data from the National Bureau of Statistics (NBS). OECD tax structure data is sourced from the Organisation for Economic Co-operation and Development (OECD) "Consumption Tax Trends 2024" report, released on November 21, 2024, available at https://www.oecd.org/en/publications/consumption-tax-trends-2024_dcd4dd36-en.html.

[8] Source: "The Tax Burden of Salaried Workers Is Expected to Be Reduced, Which Is Conducive to Regulating Income Distribution", China News Service, November 20, 2013, https://www.chinanews.com.cn/cj/2013/11-20/5522396.shtml.

individual income tax in major economies.

China's financial system currently demonstrates overall stability, with risk exposures narrowing at the margin and key indicators remaining within regulatory safety thresholds. However, risk prevention continues to face a complex landscape shaped by the interplay of both traditional and emerging risks. On the external front, the deep restructuring of the global political and economic order has altered risk transmission mechanisms. Unexpected shocks — including geopolitical conflicts, industrial chain reconfigurations, and the spillover effects of monetary policy adjustments — are subjecting the financial system to multi-dimensional stress tests. From an internal perspective, the deep integration of financial technology has reshaped the risk landscape. The extensive application of modern technologies across the financial sector has fundamentally changed the operating logic of financial markets, the mechanisms through which risks emerge, and the pathways by which risks spread. As a result, the triggers and forms of financial risk have become increasingly diverse and complex.

At the same time, structural imbalances on the financial supply side remain unresolved. The financial sector's market structure, product systems, business models, capacity for innovation, and service quality must continue to evolve to meet the demands of a changing environment. Moreover, the development of the legal and regulatory framework and the construction of a sound credit system still require further strengthening. Financial risks — such as those stemming from the real estate market, the asset quality of commercial banks, and external shocks — are increasingly intertwined with non-financial risks, with rising complexity, concealment, permeability, and contagion potential. Against this backdrop, risk prevention remains a critical and ongoing priority that requires sustained attention and vigilance.

4.3 Emerging Structural Contradictions in Regional Coordinated Development

New structural contradictions are surfacing in the uneven landscape of regional development, primarily evident in stark disparities in economic growth, growing polarization of development momentum, and significant challenges faced by certain regions. There remains a wide absolute gap in regional development. The Northeast has consistently recorded economic growth rates below the national average, coupled with accelerated population aging. The Northwest grapples with intense pressure on resource and environmental conservation, a relatively weak economic foundation, and delays in economic transformation and upgrading. The task of optimizing the regional productivity layout is formidable, with key industries and critical industrial chain components overly concentrated in specific areas. In some regions, the alignment of industrial layouts with available resources and environmental conditions is inadequate, and local protectionism and regional barriers persist to varying degrees. Homogeneous industrial development and low-level redundant construction among regions continue to pose significant issues. The revitalization of special areas continues to face obstacles, with underdeveloped regions reporting low per capita disposable income, outdated infrastructure, and inadequate public services in old revolutionary base areas. Resource-based regions encounter shortages of critical inputs like technology, talent, and capital for industrial transformation. In 2024, the per capita GDP of the eastern region was 1.8 times that of the western region and 2.1 times that of the northeastern region, and the the urban-rural income gap in China's western region stood at 2.48:1 (see Table 1). In terms of innovation resource allocation, the R&D intensity (R&D expenditure as a percentage of GDP) in the eastern region (3.4%) was 2.1 times that of the western region (1.6%) in 2024.

4.4 Relative Lag in Modernizing Governance Capacity

The development of a digital government is a strategic, foundational, and pioneering initiative for the modernization of national governance. It serves as a key driver for innovating governance concepts

Table 1: Per Capita GDP and Urban-Rural Income Gap in Eastern, Central, Western and Northeast China in 2024

Indicator	Eastern region	Central region	Western region	Northeast region
Per capita GDP (10,000)	13.61	8.01	7.59	6.44
Urban-rural income ratio	2.06:1	2.17:1	2.48:1	1.94:1

Source: The regional division of the eastern, central, western and northeastern regions is in line with that in the *Statistical Communiqué on the 2024 National Economic and Social Development of the People's Republic of China*. The relevant data on each province is compiled based on the 2024 statistical communiqués on economic and social development of the corresponding regions.

and practices, shaping a new framework for digital governance, and advancing the modernization of both governance systems and capabilities. At present, China's efforts to modernize its governance capacity are constrained by dual institutional challenges. On one hand, digital governance remains underdeveloped. The application of technologies such as big data and artificial intelligence in policy formulation is still at an exploratory stage, and data silos have yet to be fully dismantled. When confronted with new governance challenges emerging from the digital economy — which are often cross-sectoral, cross-regional, and highly concealed — governments at all levels have not yet fully harnessed the potential of next-generation information technologies such as big data, AI, and blockchain. This shortfall undermines both the timeliness and precision of governance responses.

Furthermore, the regulatory system for the digital economy remains incomplete. A comprehensive, multi-tiered, and multi-dimensional supervisory framework has yet to be established, and a collaborative, multi-stakeholder governance mechanism is still in the process of taking shape. The distribution of rights, responsibilities, and benefits among enterprises, industry associations, and the general public remains ambiguous, and the multi-actor regulatory system requires further refinement and improvement. On the other hand, the statistical system remains relatively outdated. Existing statistical standards for emerging sectors such as the digital economy and new business models are incomplete, and significant institutional friction persists between traditional indicator systems and the "three new" characteristics of the digital economy — namely, new industries, new technologies, and new business formats. In addition, monitoring frameworks for key indicators, including platform transaction volumes and data element flows, remain underdeveloped, leaving notable gaps in the system.

5. Reform Path: Prioritizing Key Tasks to Enhance the Macroeconomic Governance System

To address the internal and external pressures confronting macroeconomic governance, there is an urgent need to strengthen the macroeconomic governance system. This requires accelerating the implementation of the strategic directives from the Third Plenary Session of the 20th CPC Central Committee, refining the macroeconomic regulation framework, advancing coordinated reforms in critical areas such as fiscal and financial systems, and ensuring greater alignment in macroeconomic policy orientation. These efforts will provide robust support for achieving scientific macroeconomic regulation and effective governance.

5.1 Enhancing the National Strategic Planning System and Policy Coordination Mechanisms

Efforts should focus on refining the formulation and implementation mechanisms for national strategies, improving top-level design and execution efficiency, and strengthening macroeconomic guidance and coordination capabilities. At the same time, it is essential to improve the connection between planning and implementation. This can be achieved by leveraging the strategic orientation of national development plans, reinforcing the foundational role of territorial spatial plans, and enhancing the supportive role of specialized and regional plans. Policy coordination must also be strengthened across fiscal, monetary, employment, industrial, investment, consumption, price, regional, trade, environmental, and regulatory domains. To support this, robust mechanisms for communication, consultation, and feedback should be established among departments to improve policy synergy. In addition, fiscal and monetary policy tools should be more closely aligned. Limited fiscal resources should be used to catalyze financial support and drive high-quality development in key sectors and critical areas.

The mechanism for assessing the consistency of macroeconomic policy orientation also requires further refinement. Both economic and non-economic policies should be integrated into this framework to ensure alignment in policy objectives, tools, timing, intensity, and pacing. Comprehensive tracking of policy transmission pathways will be essential to maximize overall effectiveness. Managing social expectations is another important priority. This calls for stronger economic communication, better guidance of public opinion, and targeted efforts to address the concerns of micro-level entities. At the same time, fostering a stable, transparent, and predictable policy environment will help anchor confidence and maintain social stability.

5.2 Advancing Reforms in Fiscal, Tax, and Financial Systems

To actively mitigate fiscal and tax-related risks and accelerate the establishment of a government debt management framework that meets the evolving needs of society, efforts should be made to promote high-quality development as the guiding objective. We should refine the classification and functional positioning of government debt and optimize the debt structure between central and local governments. Priority should be given to adopting a balanced approach that addresses both immediate challenges and root causes, combining preventive and corrective measures. It is essential to establish a comprehensive oversight system for local government debt and to build a sustainable mechanism for preventing and resolving hidden debt risks. A crucial step involves strengthening the governance of financing platforms and to advance their market-oriented transformation through clear classification and targeted reform.

We should improve the tax system to better serve the goals of high-quality development, social equity, and a unified national market, while continually optimizing its structure. It is recommended to enhance the role of direct taxes in fiscal revenue generation and income redistribution, thereby promoting social fairness and justice. The local tax system should be improved by expanding local fiscal autonomy, broadening tax bases, and appropriately increasing local tax administration authority. To safeguard financial stability, we should strengthen the financial regulatory framework, ensure that all financial activities fall under legal supervision, and reinforce regulatory accountability and coordination between central and local authorities.

Efforts should be made to actively develop science and technology finance, green finance, inclusive finance, pension finance, and digital finance, with a focus on delivering high-quality financial services to major national strategies, key industries, and underserved areas. We should encourage diversified equity financing, accelerate the development of a multi-tiered bond market, and steadily increase the proportion of direct financing in the financial system. Finally, priority should be given to enhancing the capital market's ability to balance investment and financing needs, thereby supporting its sound, stable, and sustainable development.

5.3 Enhancing the Mechanism for Regional Coordinated Development Strategy

China should pursue a unified "one chessboard" strategy to promote integrated and coordinated regional development, creating a complementary economic framework. The government must accelerate differentiated regional strategies, including the western development, accelerated rise of Central China, and Northeast revitalization strategies, while forming an open pattern of land-sea-inland-overseas connectivity and east-west mutual support. Industries across eastern, central, western, and northeastern regions should deepen high-quality collaboration. Economic hubs like Beijing-Tianjin-Hebei, Yangtze River Delta, Guangdong-Hong Kong-Macao Greater Bay Area, and Chengdu-Chongqing Twin Cities must strengthen innovation and regional influence. Policymakers should prioritize ecological protection and green development, establishing systems to balance river basin conservation with socioeconomic progress, ensuring efficient resource flows, and advancing the Yangtze River Economic Belt and Yellow River Basin's ecological and high-quality development. Major economic provinces should lead national strategies, align with other initiatives, and drive coordinated implementation.

5.4 Advancing Governance System and Capacity Modernization through Digitalization

China should enhance the digital, intelligent, and data-driven implementation of macroeconomic policies by developing a policy management platform that promotes transparency and improves scientific precision and policy effectiveness. Inter-departmental data barriers must be dismantled to establish a unified platform for policy information collection and sharing. To better reflect the dynamics of emerging industries and new economic activities, the statistical indicator system should be refined to support high-quality development. Meanwhile, improvements to the national economic accounting system are essential, along with enhanced statistical methods for tracking the digital economy, future industries, and producer services.

References:

Chen Y. B. et al. Macroeconomic Policy Evaluation Report 2022[M]. Beijing: Science Press, 2022.

Fan G. Dual Circulation and the New Stage of China's Economic Development[J]. China Policy Review, 2021(4): 25-28.

Gao P. Y. On "Expansion Like Squeezing Toothpaste Out of the Tube"[J]. Financial Minds, 2023(4): 5-16+142-143.

Huang S. H. Adhere to the Mainline of Deepening Supply Side Structural Reform[N]. People's Daily, 2020-12-11.

Huang Y. P. Several Viewpoints on the Innovation and Development of China's Digital Finance[J] Journal of Modern Finance, 2021(11): 3-5+36.

Jiang X. J., Meng L. J. Mainly Inner Circulation, Outer Circulation Empowerment and Higher Level Double Circulation: International Experience and Chinese Practice[J]. Journal of Management World, 2021(1): 1-19.

Kornai J. Economics of Shortage[M]. Amsterdam: North-Holland Publishing, 1980.

Li D. K., Zhang H. A Study on the Scale of Local Government Debt in China[J]. Finance & Trade Economics, 2024(12): 5-21.

Li Y. Coordination of Monetary Policy and Fiscal Policy: A Research Outline[J]. Chinese Review of Financial Studies, 2021(2): 1-11+123.

Lin Y. F. China's Experience: Efficient Markets and Proactive Governments are Indispensable in Economic Development and Transformation[J]. Administration Reform, 2017(10): 12-14.

Lin Y. F. New Structural Economics: Reflecting on the Theoretical Framework of Economic Development and Policy[M]. Beijing: Peking University Press, 2012.

Liu W. Theoretical Breakthrough ands Practical Features of China's Macroeconomic Governance[J]. Social Sciences, 2024 (10): 147-162.

Liu W., Chen Y. B. The Development Trajectory and Distinctive Characteristics of Macroeconomic Governance in the New Era[N]. Economic Daily, 2021-10-12.

Lu M., Chen Z. Governance of Great Powers: Spatial Political Economy of Development and Balance[M]. Shanghai: Shanghai People's Publishing House, 2020.

Qian Y. Y. Modern Economics and China's Economic Reform[M]. Beijing: CITIC Publishing Group, 2018.

Sun Y. F. Place Planning and Statistics on the Basis of the Law of Value[J]. Economic Research, 1956.

Xu X. C. The Era Characteristics and Construction Pathway of the New Whole-Nation System. Marxism and Reality, 2024(1): 11-18.

Wu J. L., Liu J. R. On Competitive Market System[M]. Beijing: China Financial & Economic Publishers, 1991.

Wu J. L., Liu J. R. On the Competitive Market System[M]. Beijing: China Financial and Economic Publishing House, 1991.

Yi G. China's Economic Transformation and Prudent Monetary Policy[J]. Globalization, 2018(3): 64-67.

Yu Y. D. Stabilizing Economic Growth Requires More Relaxed Macroeconomic Policies[J]. New Finance, 2022(3): 4-9.

Zhang J. Comparative Economic Models: Economic Theories on Planning and Markets[M]. Shanghai: Fudan University Press, 1999.

Zhang T., Liu K. B. The Application of "Big Data" in Macroeconomic Forecasting and Analysis[J]. Financial Minds, 2018(3): 65-83+143.

Zhang X. H. Interpretation of Macro Prudential Assessment System[J]. China Money, 2016(8): 10-13.

Zhou X. C. Mathematical Programming and Economic Analysis[M]. Beijing: China Financial Publishing House, 2019.