Intrinsic Logic and Driving Mechanisms of Government Function Transformation in the Development Process of Private Enterprises

Xuanzhao Wang

Graduate School, China University of Political Science and Law, Beijing, 100088, China

Keywords: Market-oriented reform; Transformation of government functions; Service-oriented government; Intrinsic logic; Driving mechanisms

Abstract: In the process of deepening market-oriented reforms, the transformation of government functions is one of the core issues that must be addressed to clarify the boundaries between the government and the market, and the government and society. Since the reform and opening up, in order to promote the development of private enterprises, the government's functions have undergone several transformations. Overall, the relationship between the government and the market has shifted from substitution to complementarity in terms of power relations; the transformation of government function performance methods has promoted the reshaping of the regulatory relationship. The intrinsic logic of the transformation of government functions in the process of private enterprise development can be summarized as follows: theoretical logic of adjusting the relationship between the government and the market, the government and society, and intergovernmental relations in response to the "failure" of government management; and practical logic of transforming the economic perspective to achieve high-quality economic development. In terms of driving mechanisms, the reform of the modernization system of national governance and economic growth dynamics constitute the internal and external motivations for the transformation of government functions, jointly driving the process of government function transformation.

1. Introduction

Since the reform and opening up, with the deepening of China's market-oriented reforms, private enterprises have risen rapidly and played an important role in promoting China's transition from high-speed growth to high-quality development, becoming an indispensable force in creating the Chinese miracle. According to data released by the National Bureau of Statistics of China, in 2023, the value added by China's private enterprises reached 38.5 trillion yuan, accounting for 60.5% of the gross domestic product (GDP) [Jin Jia: "As of 2017, there are over 27 million private enterprises, and the proportion of private economy in GDP exceeds 60%", cited in China Xiaokang Net]. This indicates the significant role of Chinese private enterprises in the national economy. General Secretary pointed out profoundly in his speech at the 14th National Committee of the Chinese People's Political Consultative Conference that "we must optimize the development environment
for private enterprises, remove institutional barriers that hinder fair participation of private enterprises in market competition, safeguard the property rights and entrepreneurs' rights of private enterprises in accordance with the law, translate the requirement of equal treatment of state-owned and private enterprises into institutional and legal terms, encourage and support the development and growth of the private economy and private enterprises, and boost market expectations and confidence"

In the process of the development of private enterprises from non-existence to existence, from small to large, the role of the market has gradually been valued, and the ways and focuses of government function performance are also changing, exploring government-market relations with Chinese characteristics. This process is not smooth sailing but faces multiple pressures, such as breaking ideological constraints, controlling development risks, and breaking existing interests. So, what are the reasons for the transformation of government functions in China? What are its intrinsic logic and driving mechanisms? How should the government strengthen its capacity to promote the development of private enterprises in the next step? These are the central questions that this paper attempts to answer.


The relationship between the government and the market in our country can be traced back to before the reform and opening up, during the early period of the founding of New China. At that time, our country relied on government regulation as the core, rejecting market regulation to establish a planned economic system. However, the highly centralized planned economy resulted in inefficiency across the entire economy. Therefore, after the reform and opening up, the economic system shifted to one where government regulation was primary, with market regulation as secondary. With the convening of the 14th National Congress of the Communist Party of China, the proposal was made to "establish a socialist market economic system, allowing the market to play a fundamental role in resource allocation under the macro-control of a socialist country." It wasn't until the Third Plenary Session of the 18th CPC Central Committee that it was proposed that "economic system reform is the focus of comprehensive deepening reform, and the core issue is the relationship between the government and the market. The market should play a decisive role in resource allocation and the government should play a better role." China's path to market-oriented reform has been exceptionally challenging. Through continuous transformation of government functions, it has ultimately forged a path of socialist market economy development with Chinese characteristics[1].

2.1. From Substitution of Power to Complementarity

The power relationship between the government and the market has gradually changed with the country's demands for economic development. During the planned economy era, the government's power far exceeded that of the market, and market regulation was strongly rejected. The single state-owned economic system greatly magnified the government's power and completely replaced the role of the market. The government, acting as both "referee" and "player," regulated the economy. However, how could it ensure the improvement of players' capabilities while scoring itself? The highly centralized planned economy system suppressed competition, resulting in poor business operations and low productivity among workers, leading to a lack of economic vitality. Therefore, the government fully recognized the limitations of being an "omnipotent government." It realized that relying solely on government efforts could not activate economic vitality. It was necessary to allow the market to participate appropriately in economic development, utilizing the characteristics of the market to increase enterprise vitality through competition and adjusting supply
and demand through price mechanisms instead of direct government price controls. Thus, after the reform and opening up, the economic system shifted to one where government regulation was primary and market regulation was secondary. In simple terms, it was a system where planned economy was primary and market economy was secondary. This was manifested in the form of the household responsibility system in rural areas, granting farmers autonomy in production and management. It wasn't until the convening of the Third Plenary Session of the 18th CPC Central Committee that the relationship between the government and the market was clarified, the roles of the government and the market were repositioned, the power balance between the government and the market was corrected, and it was emphasized that the government and the market are organically unified and not mutually exclusive. They cannot replace each other. Since then, China has accelerated the implementation of government institutional reforms, granting more power to the market, and created a new pattern of complementary advantages between an effective government and an efficient market. Under the system of an efficient market and an effective government, the market determines resource allocation from a micro perspective, and the government shifts from being management-oriented to service-oriented. The division of labor between the market and the government is more clearly defined, achieving a transition of the market's role from fundamental to decisive, and the market's power has transitioned from being initially substituted to now interacting with the government. The market playing a decisive role in resource allocation is an inevitable path because establishing a sound socialist market economy is the inevitable choice of socialism with Chinese characteristics, and the market playing a decisive role in resource allocation is an inherent requirement of a market economy[2].

2.2. Reshaping the Regulatory Relationship: From Replacement to Undertaking

Looking back at the planned economy era, the government directly participated in the allocation of economic resources, deciding on production management, price management, and resource distribution. Due to its identity as a "referee," there was no real "regulation" during the economic development process. The government replaced regulation with approval and used approval instead of regulation. The regulatory relationship was not established because, at that time, market power was replaced by the government. The government managed too many things that it should not, could not, or did not manage well. It wasn't until the early stages of the reform and opening up, with the convening of the Third Plenary Session of the 11th CPC Central Committee, that although administrative approval still played a leading role, due to the allowance of market intervention, allowing the market to play a fundamental role in resource allocation, the government's regulatory function had space to operate, manifested in the form of reliance on approval functions. During this period, the regulatory relationship gradually became clear, but due to the dominance of the planned economy and the secondary role of the market economy, the boundaries of the regulatory relationship were not clear enough. This led to a long-term phenomenon of "heavy approval, light regulation," where the government could not effectively protect the market, and the market mechanism was unable to function properly due to its influence. It wasn't until the reform of the administrative approval system in 2001 that the boundaries of the regulatory relationship became clearer, the power of government approval functions gradually diminished, and some approvals could only be delegated to regulatory departments for undertaking. With the deepening reform of China's economic system towards marketization, the market gradually replaced the government's functions. Government functions shifted from micro-control to macro-management, providing a fair and just environment for the market economy through regulation. Regulatory functions were further subdivided, the scope of administrative approval was greatly constrained and streamlined, administrative supervision was gradually strengthened, forming a process of "transfer" to
"undertaking." The concept of "delegating powers, strengthening regulation, and optimizing services" was first proposed in 2015. The core of "delegating" lies in the issue of government role positioning, which requires redefining the boundaries between the government, market, and society, aiming to stimulate market vitality and social creativity. The core of "strengthening regulation" lies in the transformation of government management, aiming to build a modern government. The core of "services" lies in modernizing governance capabilities, aiming to build a service-oriented government that satisfies the people. Simplifying administration and delegating power, combining delegation and regulation, and optimizing services have become the core content of regulatory relationship reform, ensuring that while administrative approval matters are delegated, regulatory mechanisms are also improved to ensure that regulatory authorities have the capacity to undertake them[3].

3. The Inherent Logic of Government Function Transformation in the Process of Private Enterprise Development

The report of the 18th National Congress of the Communist Party of China pointed out the need to accelerate the improvement of the socialist market economy system. To achieve this goal, it is inevitable to require corresponding political system reforms, transform government functions, and adapt to the continuous development of the economy and society. As a new institutional arrangement in China's economic development, private economy has become the main form of market-oriented reform in China's economy and plays a crucial role in economic operation. The process of China's government function transformation is driven by the interests of the government itself. The process of government function transformation is a result of the interaction between maximizing government interests, the possibility of political transactions between economic and social organizations and the government, and the relative bargaining power of the three.

3.1 Dealing with Government Management "Malfunction": Transformation from a Government Oriented Towards Economic Construction to a Public Service-Oriented Government

At the beginning of the reform and opening up, China was an economically extremely poor and backward country, and changing this situation as quickly as possible was the top priority of the reform. Therefore, development was the top priority, and the pursuit of GDP became the top priority of government work. The government hesitated between efficiency and fairness and chose efficiency because wealth creation and resource accumulation were manifested in the process of production, which required efficiency, and GDP was the most important indicator of economic growth. When the planned economic system was broken, China adopted a government-driven economic development model, which effectively achieved rapid economic growth. Analyzing the rapid economic growth of China, at least two important factors can be attributed to the government: first, the competition among local governments similar to companies; second, the incentive system for officials' promotion based on economic performance. Economic growth is a crucial condition for officials' promotion. However, the system of excessive concentration of power in the government led to serious "government malfunction," misalignment of government roles; defects in the government's organizational system; conflicts with market mechanisms; pursuit of non-public interests of government internal interests; rent-seeking activities, seriously affecting the vitality of private enterprise development. Until the emergence of the "New Public Management" system, which elevated the status of public services and social management, the transformation of government functions from "management" to "service" further changed the relationship between the government, the market, society, and the government itself. The proposal of the service-oriented
government is essentially a response to the overall strategic thinking of "government failure," "market failure," and "social failure." China must organically combine administrative system reform centered on streamlining administration and delegating power, market reform aimed at releasing vitality and reducing economic regulation, and social development focused on capacity building to achieve organic interaction and systematic advancement of the three[4].

3.1.1 Transformation of Government Relations with the Market

From the Third Plenary Session of the Fourteenth Central Committee to the Third Plenary Session of the Eighteenth Central Committee, China has made great progress in building a market economy system, and the role of the market in resource allocation has shifted from "basic" to "decisive." However, our current market economy has not yet truly played a decisive role in resource allocation, which means that in future reforms, "it is necessary to eliminate some interventions and distortions left by the market and let resources be allocated by the market," in order to establish an "effective market". The decisive role of the market in resource allocation does not mean the government's withdrawal; on the contrary, we now need a strong government to effectively regulate the free-market economy, achieve the effective transformation of functions from management to governance, and the process of government function transformation is precisely the process of regulating the relationship between the government and the market. On the one hand, it exits from micro-control, allowing the market to play a decisive role in resource allocation, while on the other hand, it improves its own governance capacity to ensure that government functions are consistent with its positioning, ultimately effectively promoting the modernization of national governance.

3.1.2 Transformation of Government Relations with Society

After the Sixteenth National Congress of the Communist Party of China to the Fifth Plenary Session of the Seventeenth Central Committee, our understanding of the public service functions of the service-oriented government has become increasingly profound, and the content of the service-oriented government has gradually become clear. The efforts made by the government in public services and public goods are evident, and its achievements in social governance are also obvious. The purpose of governance and the activation of social organizational capabilities. The service-oriented government's service function focuses on the needs of higher-level members of society, conducts social governance for the purpose of achieving public interests, different from previous legal governance, regulation, or even violence. Governance emphasizes people-oriented principles and is guided by the needs of the people, improving people's sense of well-being, providing a fair and reasonable consumption environment, ensuring public security and production safety, and laying a good economic foundation for economic development. The government further integrates social organizations into a legal channel, supported by corresponding departments, delegates certain powers, and shifts from previous high dependence on the government to some extent exercising some government powers to more efficiently regulate and supervise the market, such as coordinating prices within the industry, formulating industry standards, etc., further improving the soft environment for economic development and escorting economic development[5].

3.1.3 Transformation of Government Relations with Other Governments

In the process of market-oriented reform, the transformation of the government's own administrative system is mainly aimed at coping with the phenomenon of "omnipotent government" in the past, which resulted from excessive government power. The core of the government's
transformation of its own functions lies in constructing a government governance structure with a "high government responsibility intensity and large departmental functional span" that meets the requirements of the socialist market economy, because departments with large functional "span" and governments with high responsibility "intensity" are inevitable requirements of China's socialist market economy. Moreover, the core of China's market-oriented reform is the transition from authority economy to property rights economy. The root cause of corruption is the coexistence of authority economy and property rights economy. The direction of future reform is still to further narrow the scope of authority economy and reduce the resources controlled by the government. The service-oriented government emphasizes the legalization of government behavior. In the transition to a market economy, the government's legal construction is strengthened, and government behavior is incorporated into the legal track, especially the legalization of public decision-making and the execution of public policy decisions, to minimize the arbitrariness and randomness of government behavior leading to injustice and corruption and improve the quality of public policy formulation and implementation. As rational economic actors, this also reminds us that we must not only strengthen the government's self-discipline mechanism but also strengthen external supervision and restraint mechanisms, accelerate the formulation of laws and regulations on supervising government behavior, prevent government corruption and injustice. Governing the country according to law under the premise of respecting the law can not only reduce the occurrence of government corruption but also establish the authority of the government in the whole society and enhance the government's social credibility. China needs to embark on a new path of industrialization and truly transform its economic growth mode, mainly due to institutional barriers, and the key lies in the transformation of government functions. The government needs to further improve the operation mode of its internal institutions through reforms to optimize its own organization structure, improve its operational methods and processes, strengthen its governance capacity, so that the government can fully and correctly perform its functions, and improve the scientific, democratic, and effectiveness of government administration. The determination of a service-oriented government not only reduces the operating costs of government institutions but also improves operational efficiency, compresses the space for "government failure" and rent-seeking, and weakens the obstacles to China's market-oriented reform.

3.2 Economic Perspective Transformation; Prioritizing Efficiency over Demand

The report of the 19th National Congress of the Communist Party of China proposed that socialism with Chinese characteristics has entered a new era, and the economy has shifted from the previous high-speed development to high-quality development. The report of the 20th National Congress of the Communist Party of China emphasized that "high-quality development is the primary task of comprehensively building a modern socialist country." This conclusion signifies that China's economic development has entered a new stage. Unlike the early stages of reform and opening up, China's economic development strategy has shifted from the low-income stage to the middle-income development stage, from quantitative growth to qualitative efficiency-driven growth, and from poverty alleviation to basic modernization. The arrival of a new era means that we must adopt a different development path from before, no longer blindly pursuing demand, i.e., high-speed growth of GDP, but allowing innovation to replace demand as the primary driver of economic development. Looking back at the economic miracle of China's reform and opening up for 30 years, the government has played an indelible role in the process, formulating strategies for catching up for many years and policies for industrialization and urbanization, stimulating economic development through demand, and introducing a large number of surplus rural labor forces into cities, the rapid release of population dividends promoted high-speed economic growth, and
abundant and low-cost land and natural resources provided unique advantages for economic development. It is undeniable that the achievements made by the government in the early stage of economic development, but when China entered the mid-term of the industrial age, the above factors became weak in promoting economic development. An economic system overly reliant on population and resources cannot support China's economic development needs in the next stage, that is, it cannot meet the requirements of high-quality development. Labor costs will continue to rise with the new changes in China's population structure, and technological backwardness will lead to waste and inefficiency of resources, restricting long-term high-speed economic growth, facing the risk of "middle-income trap," and always failing to become an economic power, the reason lies in the neglect of "efficiency" of economic growth by the country[6]. In the early stage of reform and opening up, due to the extreme backwardness of the national economy at that time, it was necessary to catch up with the pace of other countries urgently, and the country had to focus on the "speed" of economic development and ignore "efficiency." Based on the different sizes of the economies, the country pursued quantity growth in the early stage of economic development. In 1984, the GDP reached its highest growth of 15.4%, which resulted in four serious inflation crises, and in 1994, it reached its highest level of 24.1%. This stage is also referred to as the stage of rapid economic growth by the Chinese Economic Growth Frontier Research Group, mainly relying on high government investment and labor participation to increase demand, thereby achieving the goal of high-speed GDP growth. Using Keynesian theory, it can be understood that GDP equals consumption plus investment plus net exports, and if willing, government spending can also be added. In today's popular terms, it is called the "three horses," if one horse fails to run, let the other horse run. If exports fail, rely on investment; if investment fails, rely on consumption. This was the basic core model of economic growth at that time. With the advent of the "high-quality" development stage, economic growth needs to rely on high-precision technology innovation and efficient production drive. According to Adam Smith's economic theory, high-quality development of the economy must be based on market competition, and only by relying on the free competition of the market can further effective high-quality economic development be achieved. The price mechanism of the free trade market will drive the efficiency of enterprise production and the innovation of products.


There are various opinions in the academic community regarding the driving mechanism of government function transformation. Yang Xueyuan believes that there are three main sources of transformational drive: first, the top-down administrative coercion; second, the power pressure from outside the system; third, the democratic promotion from bottom to top. Wang Wei, from the perspective of new institutionalism, analyzes the motives of government function transformation. He believes that the transformation of government functions in China is a proactive response by the government to changes in the external environment. This transformation combines the characteristics of two institutional change modes. On the one hand, it is a top-down institutional change enforced by the state, and on the other hand, it is a response to institutional demands, involving institutional innovation without changing the fundamental system. Bao Zonghao, based on the premise of "good government - strong society," with "public interest" as the core, constructs a "Four-in-One" dynamic mechanism for government function transformation, including driving force system, balance force system, bearing force system, and guarantee force system. He Qiang believes that to achieve the transformation of government functions, it is necessary to study the driving mechanism and path in four areas: economic, political, ideological, and internal government.
The factors driving the transformation of government functions in the process of private enterprise development are diverse. This article will analyze the driving mechanism of government function transformation from the perspectives of internal and external factors, combining existing views in academia.

4.1 External Factors: Economic Dynamics

Since the reform and opening-up, China has formulated a strategic policy of vigorously developing the socialist market economy with Chinese characteristics, allowing the market to play a decisive role in resource allocation, and the government to carry out macroeconomic regulation. The pattern of an effective market and a proactive government has gradually formed and been established; a proactive government is premised on an effective market, and an effective market is based on a proactive government. Economic development and government function transformation are an interactive process and result. Economic development provides a material basis for social harmony. However, along with economic development, there have been significant changes in societal values, international competition, and industrial clusters. The competitive environment requires the government to promptly transform its functions, adjust the structure and scope of functions, and adapt to changes in the external environment to ensure stable economic development[7]. As a late-developing country, China has its disadvantages and advantages. The theory of latecomer advantage explains that although latecomer countries have a significant gap in technology and market compared to advanced countries, they also have unique advantages. Ge Shengkong uses time as a criterion to judge advanced and latecomer countries. Because technological innovation is discontinuous and costly, advanced countries may delay the development of new technologies, while latecomer countries, under conditions of abundant other production factors, can eliminate the dross and obtain benefits at a lower cost, reducing the uncertainty of new technological innovation risks, and may thus surpass advanced countries technologically. By aiming for high-quality economic development, the government transforms its own functions with the goal of catching up with advanced countries. Although there is controversy in academia over the choice of industrial policies adopted by the government for economic development: Lin Yifu believes that the role of the government in guiding the economy is mainly to provide incentives to compensate for the externalities of pioneers and to coordinate the improvement of the soft and hard infrastructure needed for the upgrading of related enterprises, thus helping enterprises reduce transaction costs, transforming the potential comparative advantage of the entire country into a real comparative advantage, and making this industry a competitive advantage for the country. Jiang Feitao believes that functional industrial policies can improve market institutions, optimize market environment, maintain fair competition, support innovation and diffusion of enterprise industrial technology, and establish a systematic and effective public service system, improve workers' skills to meet the needs of industrial development. However, regardless of which industrial policy is chosen, the core expression is: when the government clearly prioritizes high-quality economic development, it should use this goal as a driving force to transform its functions, thereby stimulating market vitality, providing a good market environment, and escorting economic development. Although China has initially established a socialist market economy with Chinese characteristics, our market power is very weak, and the "Matthew effect" and negative externalities brought about by the market economy are still evident. In this situation, the government not only needs to guide and supplement the market but also to help overcome the problems brought about by the market mechanism and to some extent nurture and replace the functions of the market. Different from the "market failure" phenomenon brought about by Western market economies, China faces the "market deficiency" phenomenon due to the immaturity of
market forces and the problems left over from past planned economies, resulting in imperfect market mechanisms. Therefore, the government needs to replace the economic functions of the market, help establish an effective market economy system, and when ensuring that the market mechanism has sufficient ability to operate independently, delegate authority and withdraw.

4.2 Internal Factors: Reform of the National Modernization System

The Third Plenary Session of the 18th CPC Central Committee clearly stated that the overall goal of comprehensively deepening reform is to improve and develop the socialist system with Chinese characteristics and promote the modernization of the national governance system and governance capacity, and the government undoubtedly plays an important role in this process. The modernization of national governance capacity can be defined as a set of institutional rules constructed by multiple subjects to regulate the use of power and maintain social order, characterized by democratization, rule of law, civilization, and scientification. It requires the transformation of government functions as the entry point for promoting the structural reform of the economic governance system, thereby constructing a national governance pattern of "strong government-led coexistence and complementarity of government, market, and society". In terms of government, in the long process of economic construction, the government's powers and responsibilities are not sufficiently detailed, and the attribution of power is not clear. Through administrative system reform of streamlining administration and delegating power, the government adjusts the power between government departments. Especially after the implementation of the tax-sharing system, the relationship between the central and local governments has been further strengthened; under the decentralized relationship, the central government allows local governments to participate in resource regulation and assumes certain powers and responsibilities in local economic development. However, under the established government management system and the promotion competition, the decentralization of power has led to vicious competition among local governments for economic resources, and due to the limitations of the vertical administrative management structure and the mobility of resources, the competition between local governments has not brought about the imagined benign growth of the economy. In terms of the market, the government delegates power to the market, using the characteristics of market mechanisms to drive economic vitality and determine resource allocation to ensure the sound growth of the economy. The government then shifts from a role of direct control over the market to a service role of protecting the market environment. In terms of society, the government continuously strengthens investment in the public sector, plays a leading role in governance, takes the rule of law as the premise of administrative power, the principle of governance practice, emphasizes that laws not only regulate the behavior of citizens but also restrict the power of the government, and insists on governing the country according to law to achieve the transition from rule of man to rule of law. To sum up, to establish an ideal socialist market economy with Chinese characteristics and achieve modernized governance in the economic field, it is necessary to effectively transform government functions through administrative system reform, activate market vitality, and strengthen social public construction, aiming for effective interaction among the market, government, and society.

5. Conclusion

The transformation of government functions has played a crucial role in China's market-oriented reforms and the development of private enterprises. Through continuous adjustments in government functions, China has successfully transitioned from a planned economy to a socialist market economy, gradually establishing a complementary relationship between the government and the market. In this process, the government's power has shifted from substituting the market to
complementing it, and its functions have moved from micro-management to macro-management, creating a fair and just environment for the healthy development of the market economy. The intrinsic logic of government function transformation is primarily reflected in the theoretical logic of adjusting the relationships between the government and the market, the government and society, and intergovernmental relations, as well as the practical logic of transforming the economic perspective to achieve high-quality economic development. In the face of market mechanism deficiencies, the government has gradually withdrawn from micro-management, delegating decision-making power on resource allocation to the market while continuously improving its governance capacity to ensure that government functions align with their roles. The driving mechanisms for the transformation of government functions include the modernization of the national governance system and the internal and external motivations for economic growth. External motivations are primarily reflected in the demands for government function adjustments brought by economic development. As the market economy evolves, the government needs to timely transform its functions to adapt to changes in the external environment, ensuring stable economic growth. Internal motivations mainly lie in the reforms of the national modernization governance system. Through administrative system reforms and delegating power, the government adjusts power relations among departments, clarifies responsibilities, and enhances governance capabilities. In conclusion, the transformation of government functions is not only a key aspect of China's economic system reform but also a necessary condition for promoting the development of private enterprises. In the future, the government needs to continue deepening reforms, optimizing the market environment, improving public service levels, and building a modern governance system where an effective market and a proactive government complement each other, thereby providing strong support for high-quality economic development.

References