

# CHINA FINANCE

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### HIGHLIGHTS

- Finance Minister Liu Kun: China's fiscal and tax reform from a global perspective
- Finance Minister Liu Kun met with Takehiko Nakao, President of the Asian Development Bank
- A delegation of China's authoritative economic experts headed by Zhou Qiangwu, DG of IEFI of MOF, visited Japan
- MOF published a circular on improving the local government debt management in 2018
- The State Council decided to deepen the tax reform and further reduce the tax burdens on market entities
- Revenue under China's general public budget totaled 3.6553 trillion RMB from January to February

# Brief Introduction to IEFI

The International Economics and Finance Institute (known as IEFI) is the think tank of the Ministry of Finance of China. It is devoted to financial and economic studies at home and abroad, and to the promotion of global and regional economic cooperation and integration.

The think tank provides policy recommendations to the top decision-makers of MOF and other government agencies of China. It communicates with other government agencies, international organizations, prestigious domestic and foreign think tanks, and other academic groups to strengthen knowledge cooperation, idea exchanges and experience sharing. It publishes research papers and organizes high-level forums and seminars.

IEFI is committed to be a world-class economic think tank.

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## I. Policy Update

### 1. MOF published the *Guidelines for Implementing Agricultural Machinery Purchase Subsidies for 2018-2020*

On March 6, the Ministry of Finance (MOF) published the *Guidelines for Implementing Agricultural Machinery Purchase Subsidies for 2018-2020*, which provided the following. First, the subsidy recipients are individuals and organizations engaging in agricultural production and operation, and the latter includes rural collective economic organizations, specialized farmers' cooperatives, agricultural enterprises, and other organizations engaging in agricultural production and operation. Second, the subsidies for agricultural machinery purchase are fixed and determined by the provincial authorities of agricultural mechanization, and in case of generic machinery, shall not exceed the maximum level determined by the Ministry of Agriculture. The amount of subsidy is calculated based on the average sales price of the same product in the previous year, and in principle, shall be no more than 30% of the price. Third, the amount of subsidy for single general equipment shall not exceed 50,000 RMB in principle; and the amount of subsidy for single cotton picking machine shall not exceed 600,000 RMB.

### 2. MOF published a circular on the

### pilot project for developing innovative policies to support agricultural industrialization consortium

On March 9, MOF published a circular on the pilot project for developing innovative policies to support agricultural industrialization consortium, which provided the following. First, Select Hebei, Inner Mongolia, Anhui, Henan, Hainan, Ningxia, Xinjiang and other provinces (regions) as pilot provinces in 2018, and actively expand the scope of pilot provinces where appropriate from 2019 to 2022. Second, all branches of the Agricultural Bank of China will support members of agricultural industrialization consortium to apply for loans through credit enhancement, guarantee, etc. The loan interest rate is, in principle, the same as the benchmark interest rate of the People's Bank of China in the same period, and is allowed to float by no more than 5% in light of market conditions. Third, members of agricultural industrialization consortium that have credit enhancement agreement with the Agricultural Bank of China will, in principle, be granted loans 10 times the amount of their funds deposited at the Bank.

### 3. MOF published a circular on matters related to the management of local government treasury cash deposits

On March 12, MOF published a circular on matters related to the management of local government treasury cash deposits, which provided the following. First, starting from 2018, the information

of local government treasury cash deposits shall be publicized on a monthly rather than quarterly basis. Second, starting from January 2018, local finance authorities would compile, on a monthly basis, Monthly Report on the Local Government Treasury Cash Deposits, Monthly Report on the Funds in Local Government Special Accounts, and Statistics on Local Government's Temporary Deposits and Payment. The Assessment of Local Government Treasury Cash Deposits will be integrated into the Monthly Report on the Local Government Treasury Cash Deposits and will no longer be publicized. Third, starting from 2018, the report on the local government treasury cash deposits will be publicized on a monthly rather than quarterly basis, and shall be publicized within the first 8 working days of each month.

#### **4. MOF published a circular on improving the administration of bookkeeping service providers in 2018**

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On March 16, MOF published a circular on improving the administration of bookkeeping service providers in 2018, which provided the following. First, the bookkeeping service providers that have acquired qualifications before December 31, 2017 should register with the approval authority through the National System for Administering Bookkeeping Service Providers before April 30, 2018. If a bookkeeping service provider has branches, the branches shall register with the local approval authorities. If a bookkeeping service provider relocates its office

beyond the jurisdiction of the original approval authority before December 31, 2017, then it shall register with the new local approval authority. Second, if a bookkeeping service provider fails to meet the eligibility criteria, the approval authority should order it to rectify within 60 days. If the failure to meet criteria still persists after 60 days, the approval authority will revoke its eligibility for bookkeeping service provision.

#### **5. MOF published a circular on the tax policies to support the opening up of the futures market of crude oil and other commodities**

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On March 20, MOF published a circular on the tax policies to support the opening up of the futures market of crude oil and other commodities, which provided the following. First, the income derived from crude oil futures trading in China (excluding income from physical delivery) by foreign institutional investors (including foreign brokerage institutions) that have not established or maintained effective presence in China will be temporarily exempted from corporate income tax. The income from commissions obtained by foreign brokerage agencies providing foreign investors with crude oil futures brokerage services in China does not fall into the category of the income from labor services in China and shall be exempted from corporate income tax. Second, starting from the date when crude oil futures are opened up, the income derived from crude oil futures in China by individual foreign investors will be temporarily exempt from personal income tax for three years.

## 6. MOF published a circular on the pilot program for subsidizing the purchase of new agricultural machinery products from 2018 to 2020

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On March 21, MOF published a circular on the pilot program for subsidizing the purchase of new agricultural machinery products from 2018 to 2020, which provided the following. First, in principle, there shall be no less than two producers under the pilot program so as to foster competition. If there is only one producer that can make the pilot products, the producer may be included into the pilot program after the special evaluation and verification. The catalogue of pilot equipments, once determined, shall not be added or replaced. The pilot period will last until the end of 2020. Second, the amount of funds earmarked for the pilot program in a year shall be no more than 10% of the total scale of the central government's annual subsidies provided to the pilot province for the purchase of agricultural machinery. If the total amount of subsidies is less than 10 million RMB, the annual funds for the pilot program can be raised to a maximum of 1 million RMB; if the total subsidies reach or are more than 300 million RMB, the annual funds for the pilot program should not exceed 30 million RMB.

## 7. MOF published a circular on the *Adjustment of the Standards of User Fees for Sea Areas and Uninhabited Islands*

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On March 22, MOF published a circular on the

*Adjustment of the Standards of User Fees for Sea Areas and Uninhabited Islands*, which provided the following. First, since the implementation date of this circular, the collection of user fees for sea areas and uninhabited islands shall be enforced in accordance with national standards. Second, the coastal provinces, autonomous regions, municipalities and cities with independent planning status should reasonably determine and classify the level of sea areas according to local conditions, and formulate local standards of user fees that are no lower than the national standards. Third, the transfer of the right to use uninhabited islands is subject to a minimum limit. Fourth, the sea and island projects that have been approved prior to the implementation of the circular but have not yet paid the user fees shall still implement the previous standards.

## 8. MOF published a circular on the 2018 plan of tax-free import of seeds and provenances

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On March 22, MOF published a circular on the 2018 plan of tax-free imports of seeds and provenances, which provided the following. First, the import of seeds (seedlings), breeding stock (poultry), fish seeds (fry) and wild fauna and flora provenance will continue to be exempted from import VAT during the 13th Five-Year Plan period. Second, the Ministry of Agriculture's plan of tax-free import of seeds (seedlings), breeding stock (poultry) and fish seeds (fry) as well as the State Forestry Administration's plan of tax-free import of seeds (seedlings) and wild fauna and flora provenance are endorsed, and shall

be enforced by relevant government departments in accordance with the Circular of MOF, *General Administration of Customs and State Administration of Taxation on Administering the Tax Policies for the Import of Seeds and Provenances during the 13th Five-Year Plan Period*.

### **9. MOF published a circular on the deed tax policies to continue to support the restructuring and reorganization of companies and government-sponsored institutions**

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On March 23, MOF published a circular on the deed tax policies to continue to support the restructuring and reorganization of companies and government-sponsored institutions, which provided the following. First, in case of the restructuring of companies in accordance with relevant provisions of the *Company Law of the People's Republic of China*, including the restructuring of non-corporate companies into limited liability companies or joint stock limited companies, the change of limited liability companies into joint stock limited companies, and the change of joint stock limited companies into limited liability companies, if the original company's investors continue to exist and hold over 75% of equities (stakes) in the restructured (changed) company and the restructured (changed) company still inherits the rights and obligations of the original company, then the restructured (changed) company shall be exempted from the deed tax when it inherits the original company's land and house tenure. Second, in case of the restructuring of

government-sponsored institutions into companies, if the original institution's investors continue to exist and contribute to over 50% of capital (equities or stakes) in the restructured company, the restructured company shall be exempted from the deed tax when it inherits the original institution's land and house tenure.

### **10. MOF published a circular on the publication of the catalogue of additional subsidies for renewable energy electricity prices (photovoltaic projects for poverty reduction)**

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On March 26, MOF published a circular on the publication of the catalogue of additional subsidies for renewable energy electricity prices (photovoltaic projects for poverty reduction), which provided the following. First, MOF will give priority to the photovoltaic projects listed on the catalogue when it allocates subsidies for poverty reduction. The application for and the disbursement of subsidies to the photovoltaic projects of the State Grid Corporation of China and the China Southern Power Grid Corporation will be administered by these two companies. Second, for village-level power stations and centralized power stations, the subsidy funds for poverty alleviation will be directly disbursed by the power grid companies or finance authorities to the local agencies specialized in the transfer of power generation incomes, and the latter will then disburse the subsidies to the villages where the photovoltaic projects are located under the supervision of poverty

reduction authorities.

## 11. MOF published a circular on improving the local government debt management in 2018

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On March 26, MOF published a circular on improving the local government debt management in 2018, which provided the following. First, reasonably determine the debt limit of local government by regions. Regarding the allocation of local government debt limits, in order to ensure the debt limit is compatible with the debt service capacity, the local government shall not disregard the reality of its financial capacity and over-retain or allocate to the lower-level government the debt limit approved by the higher-level government. Second, accelerate the allocation of the local government debt limit. Provincial-level finance authorities must prepare for all tasks in advance and, as soon as they are allocated with the local government debt limit issued by the State Council, they must complete the statutory approval process for the local government debt arrangements as soon as possible, and, in principle, allocate the debt limit to city and county level governments within a month, or even earlier if it is possible.

## 12. MOF published a circular on matters related to the enhanced supervision of CPA industry

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On March 27, MOF published a circular on matters related to the enhanced supervision of CPA industry,

which provided the following. First, business entities registered as accounting firms should apply to the local provincial finance department for the permit to practice accounting within 60 days from the date of obtaining the business license. The provincial finance department shall regularly check whether there are accounting firms with business license but without permit to practice accounting in their respective jurisdictions through the State Enterprise Credit Information Disclosure System. Second, the provincial finance department should require the accounting firms to file records on time according to the requirements, and make special investigation of the accounting firms whose business records are clearly beyond their service capacity and audit fees are significantly lower than the costs so as to bring the local accounting service market to order.

## 13. MOF published the *Interim Measures for the Administration of Budget Stabilization Fund*

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On March 28, MOF published the *Interim Measures for the Administration of Budget Stabilization Fund*, which provided the following. First, in addition to offsetting deficits, the surplus revenues of the general public budget shall be set aside or be used to replenish the budget stabilization fund. Second, the surplus funds of the general public budget shall be set aside or be used to replenish the budget stabilization fund. The funds that are accounted on the accrual basis in the general public budget are not regarded as surplus; the funds that have not been used up for

two consecutive years in the general public budget shall be regarded as surplus funds and be used to replenish the budget stabilization fund. Third, 30% of the carryover funds of the government-managed fund budget in excess of the fund's income in a given year shall be used to replenish the budget stabilization fund. Fourth, when the draft general public budget is prepared, budget stabilization fund can be used to make up for the shortfalls in the revenues and expenditures of the general public budget. The funds used should be included in the general public budget revenue.

#### 14. The State Council decided to deepen the tax reform and further reduce the tax burdens on market entities

On March 28, Premier Li Keqiang chaired an executive meeting of the State Council, which provided the following. First, from May 1, 2018, the VAT rate of the manufacturing industry and other industries will be cut from 17% to 16%, and the VAT rate on the transportation, construction and telecom services industries as well as agricultural products will fall from 11% to 10%. Second, introduce unified standard for small-scale VAT payers. Increase the annual sales standard for small-scale taxpayers of industrial and commercial enterprises from 500,000 RMB and 800,000 RMB to 5 million RMB, and allow companies registered as general taxpayers to register as small-scale taxpayers within a certain period of time. Third, allow eligible enterprise in the equipment manufacturing and other advanced

manufacturing industry, R&D and other modern service industries as well as grid companies to claim a one-time refund of their input taxes that have not been deducted for a certain period of time.

## II. Facts & Figures

### 1. 957.69 trillion RMB of transactions of non-cash payment were made in the fourth quarter of 2017 in China

The data released by the People's Bank of China (PBoC) on March 5 showed that 47.113 billion transactions of non-cash payment worth 957.69 trillion RMB were made in the fourth quarter of 2017 in China, an increase of 25.26% and 0.25% year on year respectively. In the fourth quarter, there were 66.9837 million transactions of notes and bills worth 44.83 trillion RMB, down by 14.69% and 11.17% year on year respectively; as of the end of the fourth quarter, the number of bank cards in use was 6.693 billion, an increase of 2.68% from the previous quarter; in the fourth quarter, a total of 2.987 billion transactions of credit transfers, direct debits, entrusted collection of payment, and domestic letter of credit settlement were made, with a total value of 716.35 trillion RMB, an increase of 14.35% and 0.97% year on year respectively.

### 2. 3759.94 trillion RMB of transactions of non-cash payment were made in 2017 in China

The data released by PBoC on March 5 showed that 160.878 billion transactions of non-cash payment worth 3759.94 trillion RMB were made in 2017 in China, an increase of 28.59% and 1.97% year on year respectively. In 2017, there were 256 million transactions of notes and bills worth 172.37 trillion RMB, down by 12.79% and 8.21% year on year respectively; as of the end of 2017, the number of bank cards in use was 6.693 billion, an increase of 9.27% from the previous year; in 2017, a total of 11.191 billion transactions of credit transfers, direct debits, entrusted collection of payment, and domestic letter of credit settlement were made, with a total value of 2825.92 trillion RMB, an increase of 19.77% and 2.48% year on year respectively.

### **3. Revenue under China's general public budget is estimated to reach 8.5357 trillion RMB in 2018**

The data released by MOF on March 6 showed that revenue under China's general public budget is estimated to reach 8.5357 trillion RMB in 2018, up by 5.2% over the amount of revenue in 2017. Budgeted expenditure at the central government level is 10.331 trillion RMB, up by 8.5%. Central fiscal deficit is 1.55 trillion RMB, on par with that of 2017. The balance of the central budget stabilization fund is 253.605 billion RMB. The limit on the balance of central treasury bonds is 15.690835 trillion RMB. The budgeted revenue at the local government level is 9.782 trillion RMB, up by 7%, and the figure will rise to 16.8564 trillion RMB when 7.0344 trillion RMB of tax rebates and transfer

payment from the central government and 40 billion RMB of funds mobilized by local governments are added. The budgeted expenditure at the local government level is 17.6864 trillion RMB, an increase of 7.3% after adjusting for the funds carried over from the previous year.

### **4. China's total imports and exports in February amounted to 2.0012 trillion RMB**

The data published by the General Administration of Customs on March 8 showed that China's total imports and exports in February amounted to 2.0012 trillion RMB, a decrease of 20.4% month on month and an increase of 17.2% year on year. Among them, exports were 1.11304 trillion RMB, down by 16.1% month on month and up by 36.2% year on year; and imports were 888.16 billion RMB, down by 25.3% month on month and down by 0.2% year on year. After seasonally adjusted, China's total imports and exports in February went down by 2.2% month on month and up by 10.6% year on year. Among them, exports were up by 0.4% month on month and up by 7.8% year on year; and imports were down by 5.3% month on month and up by 14.2% year on year.

### **5. China's CPI rose by 2.9% year on year in February**

The data released by NBS on March 9 showed that China's CPI rose by 2.9% year on year in February and up by 1.2% month on month, among which, CPI

rose by 3.0% year on year and up by 1.3% month on month in urban areas, and rose by 2.7% year on year and up by 1.1% month on month in rural areas. CPI went up by 4.4% year on year and up by 4.4% month on month for food; went up by 2.5% year on year and up by 0.5% month on month for non-food; increased by 2.5% year on year and up by 1.4% month on month for consumer goods; increased by 3.6% year on year and up by 1.0% month on month for services.

## 6. China's PPI rose by 3.7% year on year in February

The data released by NBS on March 9 showed that China's PPI in February rose by 3.7% year on year, and down by 0.1% month on month. The price of the means of production jumped by 4.8% year on year, and down by 0.1% month on month; specifically, the figure surged by 6.4% year on year in the extractive industry, and up by 0.6% month on month; rose by 5.9% year on year in the raw material industry, and stayed flat month on month; went up by 4.2% year on year in the processing industry, and down by 0.2% month on month. The price of the means of consumption rose by 0.3% year on year, and stayed flat month on month; specifically, the figure stayed flat year on year and month on month for food; increased by 0.5% year on year for apparel, and stayed flat month on month; rose by 1.1% year on year for daily necessities, and down by 0.1% month on month; and fell down by 0.1% for durable consumer goods, and up by 0.1% month on month.

## 7. The value-added of industrial enterprises above the designated size went up by 7.2% year on year from January to February

The data published by NBS on March 14 showed that the value-added of industrial enterprises above the designated size went up by 7.2% year on year from January to February. Specifically, there was an increase of 1.6% year on year in the mining sector, an upswing of 7.0% in the manufacturing sector, and an upsurge of 13.3% in the electricity, thermal, gas and water sector. By enterprises of different ownership, there was an increase of 9.0% year on year in state-controlled enterprises, a decrease of 2.3% in collectively owned enterprises, an increase of 7.3% in joint-stock enterprises, and an upsurge of 5.9% in foreign-invested and Hong Kong, Macau and Taiwan enterprises. By regions, there was an increase of 6.9% in the eastern region, 8.2% in the central region, 8.4% in the western region and 4.7% in the northeastern region.

## 8. China's fixed asset investment (excluding rural households) increased by 7.9% from January to February

The data published by NBS on March 14 showed that China's fixed asset investment (excluding rural households) jumped by 7.9% year on year in the first 2 months of 2018. By industries, the primary industry investment was 113.2 billion RMB, up by 27.8% year on year; the secondary industry investment was 1.485 trillion RMB, up by 2.4% year

on year; and the tertiary industry investment was 2.8644 trillion RMB, up by 10.2% year on year. By regions, the eastern region's investment rose by 5.7% year on year; the central region's investment rose by 10.7% year on year; the western region's investment rose by 11.1% year on year; and the northeastern region's investment increased by 8.1% year on year. By types of registered enterprises, the investment of domestic firms was up by 8.7% year on year; the investment of Hong Kong, Macau and Taiwan firms went down by 3.6% year on year; and the investment of foreign firms was down by 3.1% year on year.

## 9. China's real estate development investment increased by 9.9% year on year in nominal terms from January to February

The data published by NBS on March 14 showed that China's real estate development investment reached 1.0831 trillion RMB, an increase of 9.9% year on year in nominal terms, in the first 2 months of 2018. By regions, the real estate development investment was 649.7 billion RMB in the eastern region, up by 11.6% year on year; 214.7 billion RMB in the central region, up by 13.4% year on year; 205.5 billion RMB in the western region, up by 3.7% year on year; and 13.2 billion RMB in the northeastern region, down by 15.3% year on year. The housing construction by property developers reached 6.32002 billion square meters, up by 1.5% year on year; the land purchase by property developers reached 23.45 million square meters, down by 1.2% year on year; and the land transaction reached 79.4 billion RMB, staying flat year on year.

## 10. China's retail sales of consumer goods went up by 9.7% year on year in nominal terms from January to February

The data published by NBS on March 14 showed that retail sales of consumer goods from January to February totaled 6.1082 trillion RMB, up by 9.7% year on year in nominal terms. The retail sales of urban areas totaled 5.2046 trillion RMB, up by 9.6% year on year; and the retail sales of rural areas amounted to 903.6 billion RMB, up by 10.7%. In addition, catering revenues amounted to 661.3 billion RMB, up by 10.1% year on year; and retail sales of goods reached 5.4469 trillion RMB, up by 9.7% year on year.

## 11. Revenue under China's general public budget totaled 3.6553 trillion RMB from January to February

The data released by MOF on March 21 showed that revenue under China's general public budget totaled 3.6553 trillion RMB from January to February, up by 15.8% year on year, among which, revenue at the central government level was 1.822 trillion RMB, up by 19.1% year on year; revenue at the local government level was 1.8333 trillion RMB, up by 12.7% year on year. Expenditure under China's general public budget was 2.9062 trillion RMB, up by 16.7% year on year, among which, expenditure at the central government level was 353.4 billion RMB, up by 3.9% year on year; expenditure at the local government level was

2.5528 trillion RMB, up by 18.8% year on year. Revenue under the government-managed fund budget was 967.1 billion RMB, up by 33.3% year on year; and the expenditure under the government-managed fund budget was 682.8 billion RMB, up by 60.2% year on year.

## 12. Nationwide lottery sales in February were 25.659 billion RMB

The data released by MOF on March 28 showed that nationwide lottery sales in February were 25.659 billion RMB, down by 8.9% year on year, among which, welfare lottery sales were 13.118 billion RMB, down by 14.2% year on year; and sports lottery sales were 12.541 billion RMB, down by 2.5% year on year. By type, the lotto lottery sales were 15.245 billion RMB, down by 12.4% year on year; the toto lottery sales were 5.551 billion RMB, up by 11.0% year on year; the instant lottery sales were 1.8 billion RMB, down by 14.4% year on year; the video lottery sales were 3.056 billion RMB, down by 16.1% year on year; and the keno lottery sales were 8 million RMB, down by 38.7% year on year.

## 13. The operating incomes of SOEs reached 8.30151 trillion RMB from January to February

The data published by MOF on March 28 showed that the operating incomes of SOEs totaled 8.30151 trillion RMB from January to February, up by

11.2% year on year, among which, the figure for central SOEs was 5.02443 trillion RMB, up by 10.9% year on year, and the figure for local SOEs was 3.27708 trillion RMB, up by 11.5% year on year. The operating costs of SOEs totaled 8.05779 trillion RMB, up by 10.6% year on year, among which, the figure for central SOEs was 4.83604 trillion RMB, up by 10.4% year on year, and the figure for local SOEs was 3.22175 trillion RMB, up by 10.9% year on year. The profits of SOEs totaled 367.29 billion RMB, up by 25.3% year on year, among which, the figure for central SOEs was 242.38 billion RMB, up by 20.2% year on year, and the figure for local SOEs was 124.91 billion RMB, up by 36.6% year on year. The payable taxes of SOEs totaled 791.76 billion RMB, up by 9.9% year on year, among which, the figure for central SOEs was 597.59 billion RMB, up by 9.1% year on year, and the figure for local SOEs was 194.17 billion RMB, up by 12.6% year on year.

## III . MOF Events

1. On March 7, Finance Minister Xiao Jie, Vice Finance Minister Shi Yaobin, and Vice Finance Minister Hu Jinglin attended the Press Conference of the 1st Plenary Session of the 13th National People's Congress and answered questions from domestic and foreign journalists on the issue of fiscal and tax reform and fiscal work.

2. From March 18 to 22, a delegation of China's

authoritative economic experts headed by Zhou Qiangwu, Director General of the International Economics and Finance Institute of MOF, visited Japan and met with Japanese government officials, members of parliament, renowned think tanks, economic organizations, business communities as well as mainstream media for extensive and in-depth exchange of views over China's economic situation and macroeconomic policies, the latest developments of the Belt and Road Initiative, financial reforms and opening up policies, and China-Japan economic and trade relations. Members of the delegation include Liu Shijin, Li Gang and Bai Chongen, who are well-known Chinese economists.

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3. From March 19 to 20, Vice Minister Zhu Guangyao attended the G20 Finance Ministers and Central Bank Governors Meeting.

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4. On March 21, Assistant Finance Minister Xu Hongcai met with Koichiro Yoneda, the Deputy Secretary General of Japan's National Governors Association.

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5. On March 22, Finance Minister Liu Kun met with the senior representatives of Moody's.

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6. On March 23, Finance Minister Liu Kun met with Zimbabwe's Finance Minister Chinamasa.

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7. On March 23, Vice Finance Minister Shi Yaobin met with Chang Junhong, Director of the ASEAN+3 Macroeconomic Research Office (AMRO).

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8. On March 25, Finance Minister Liu Kun attended

and addressed the 2018 Annual Meeting of the China Development Forum.

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9. On March 25, Finance Minister Liu Kun met with Takehiko Nakao, President of the Asian Development Bank.

## IV. Local Finance

### 1. The Finance Department of Yunnan Province took multiple measures to effectively promote the reform of government procurement of services

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According to the news released by the Finance Department of Yunnan Province on March 6, it has actively moved to make innovations and adopted multiple measures to promote the reform of government procurement of services. First, strengthen institutional building and improve the system for government procurement of services. Establish and improve the policy framework for government procurement of services, and work with other government departments to jointly publish a number of policy documents on regulating and promoting government procurement of services. Second, improve the working mechanism to facilitate the government procurement of services, including strengthening the information sharing, designation of liaison persons, and standardization of budget preparation and management. Third, explore trial

programs and achieve new breakthroughs in the reform of the government procurement of services. Conduct research and carry out trial programs so as to produce a third-party evaluation report and submit it to relevant departments as a reference for decision making on government procurement of services. Fourth, conduct supervision and make overall plans to promote the reform of the government procurement of services. Foster province-wide synergy in advancing the reform of the government procurement of services. Fifth, play a leading role and promote the reform of the 2nd-tier government-sponsored institutions for public welfare. Earnestly strengthen investigations and studies on the reform of government-sponsored institutions, and fully listen to the opinions and suggestions on promoting such reform. Sixth, set up an information platform to strengthen the development of the information network for government procurement of services.

## 2. Hebei Province would build a high-quality public finance system

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According to the news released by the Finance Department of Hebei Province on March 7, it would increase financial resources, optimize the composition of expenditures, move to build a high-quality public finance system, and focus efforts on six priority tasks. First, support the fight against major risks. Effectively prevent and control the government debt risks, comprehensively measure various types of debts, reduce the existing stock of debts and curb the increase of new debts. Second, support the fight against poverty. Focus efforts

on the extremely impoverished areas, tilt the provincial transfer payment toward the extremely impoverished counties, and prioritize the projects that support the upgrading of poor counties and villages. Third, support the fight against pollution. Earnestly implement the three-year combat plan for the blue sky and the three-year plan for clean heating in the winter, and support the implementation of the project of “replacing coal with gas and electricity”. Fourth, make the cake of fiscal resources bigger and better. Handle the relationship between funding and quality enhancement, and ensure the sustained and stable growth of fiscal revenue. Fifth, promote high-quality economic development. Implement the policy of reducing taxes and fees, and improve the mechanism for the dynamic management of charges and the mechanism for reporting and handling complaints against arbitrary charges. Sixth, support the strategy of rural revitalization. Implement new management model of fund management to promote greater consolidation of agriculture-related funds.

## 3. Changzhou City, Jiangsu Province took three steps to promote the high-quality development of industrial economy

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According to the news released by the Finance Department of Jiangsu Province on March 13, the Finance Bureau of Changzhou City, Jiangsu Province has fully played its role and earnestly implemented the proactive fiscal policy to help

the transformation and upgrading of industrial enterprises in the city and provide solid support for the higher quality development of the city's industrial economy. First, serve the needs of enterprises and increase investment to accelerate the transformation and upgrading of the city's industrial economy. On the basis of the needs of enterprises and with the aim of strengthening the weak links, step up fiscal support and implement more proactive and effective fiscal policies to lighten the burden of and invigorate the enterprises. (1) Effectively implement various policies of tax cut and fee reduction. (2) Move forward the "three-pronged" development strategy. (3) Comprehensively manage and support the industrial development fund. Second, develop innovative ways to promote the establishment of a diversified financial service system. Correctly handle the relationship between the government and the market, further optimize the composition of government expenditure, develop innovative government investment methods, enable government funds to play a guiding and catalytic role, and guide the establishment of a diversified financial service system that supports the development of industrial economy. (1) Catalyze private capital investment into the real economy. (2) Encourage financial capital to flow to manufacturing sector. (3) Encourage companies to increase the proportion of direct financing. Third, deliver better services for enterprises and constantly improve the city's environment for business startup and innovation. Further consolidate resources, enhance policy synergies and optimize procedures to enhance the effectiveness of fiscal funds in

support of enterprises and foster a favorable environment for the city's business startup and innovation. (1) Improve the services of the city's platform for business startup and innovation. (2) Ensure that the fiscal funds are used in an open and transparent way and effectively improve the effectiveness of government services. (3) Fully implement the performance-based management of special funds.

#### **4. Finance Department of Hunan Province lent full support to the fight against poverty**

According to the news released by the Finance Department of Hunan Province on March 14, government should play a leading role in poverty alleviation, actively open up new channels for raising funds for poverty alleviation and development, and see to it that the government's poverty alleviation efforts are commensurate with the task of poverty alleviation. First, promote resource consolidation and double the government investment in poverty alleviation. Significantly increase investment of government special funds for poverty alleviation, actively secure support from the central government's special funds for poverty alleviation, and increase investment of provincial government's special funds for poverty alleviation. Implement reforms to consolidate the agriculture-related fiscal funds in impoverished counties to ensure targeted and effective poverty alleviation. Second, take a five-pronged strategy to poverty alleviation and use funds in a more targeted way. (1) Vigorously support

the development of industries conducive to poverty alleviation. Provide rewards instead of subsidies to encourage leading agribusinesses and other economic organizations to offer direct assistance for impoverished households. (2) Constantly improve the social protection mechanism. Raise the standard for rural minimum living allowances, provide financial assistance for people living in difficult conditions, and effectively address the problem of rural poor people falling into or slipping back into poverty due to illness. (3) Actively raise funds for the relocation of people for the purpose of poverty alleviation. (4) Effectively strengthen ecological compensation for poverty alleviation. (5) Steadily promote poverty alleviation through education. Third, strengthen supervision and inspection to prevent leak and loss of funds. Ensure the safe and well-regulated use of government funds for poverty alleviation, increase the effectiveness of the fund use, and prevent leak and loss of funds. (1) Enhance institutional building to strengthen fund management. (2) Step up supervision and put into place sound supervision system for poverty alleviation funds. (3) Introduce rewards and penalties and establish a disincentive and incentive mechanism. (4) Enhance the regulation of funds to ensure targeted use.

## 5. Finance Department of Shanxi Province moved to accelerate the well-regulated development of PPP

According to the news released by the Finance Department of Shanxi Province on March 19, in order to regulate and accelerate the use of

public-private partnership (PPP) and enable PPP to better serve the economic transformation and development in Shanxi Province, the finance authorities at all levels in Shanxi Province have made bold exploration and innovation, timely established the PPP agency dedicated to public services, eased market access conditions, fully stimulated market vitality, and actively guided all types of private capital towards the areas of public services and infrastructure construction. To give full play to the advantages of PPP and promote the economic transformation of Shanxi, the Finance Department of Shanxi will strengthen the regulation in four aspects in 2018. First, redouble efforts to promote fast development of PPP. Continue to accelerate the implementation of PPP projects and improve the screening, identification, and preparation of PPP projects in the field of infrastructure and public services. Second, comply with the rules and regulations and promote well-regulated development of PPP. Make sound study of the economic and social benefits of the newly-built project in strict accordance with the stipulated requirements, speed up the well-regulated development of PPP, and improve the quality and efficiency of PPP projects. Third, enhance engagement with the private sector and move forward cooperation in a win-win manner. Actively guide the well-regulated participation of private capital in PPP projects to realize mutual benefits through cooperation. Fourth, establish a PPP promotion association. Innovatively set up the PPP promotion association to build a bridge for comprehensive communication and cooperation between the government and the market. At

the same time, build platforms for policy implementation, policy outreach and industry self-discipline to turn the advantages of PPP into a driving force for economic and social development.

## 6. Finance Department of Qinghai Province actively supported the development of bilingual talents

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According to the news released by the Finance Department of Qinghai Province on March 21, it has strengthened the consciousness of the need to maintain political integrity and think in big-picture terms, actively worked for the unity among different ethnic groups, continued to increase investment in the development of bilingual talents, and strongly supported the development of bilingual training bases and bilingual teachers to effectively meet the basic needs of bilingual talent development. First, take the demand for talent as the guide to action and improve the "soft power" of bilingual education. Provide bilingual education for the pastoral areas, the grass-roots communities and the ethnic minorities, and implement a series of measures to improve education quality and promote the continued and healthy development of ethnic education and bilingual education. (1) Develop innovative mechanism for the recruitment of bilingual teachers. (2) Strengthen the training and development of bilingual talents. (3) Train professional Tibetan-Chinese translators. Second, create platforms to support the "hard power" of bilingual education. The bilingual education base is an important platform and vehicle for the development of bilingual talents.

(1) Step up the development of training bases for bilingual teachers. (2) Build professional bilingual training bases. (3) Improve the bilingual skills of grass-root level cadres to deliver better services for grass-root communities. Improve the bilingual skills of grass-roots government officials and judicial and law-enforcement officers to enable them to better serve people. (1) Focus on improving the bilingual skills of grass-root government officials. (2) Effectively enhance the overall bilingual level of judicial and law-enforcement officers.

## 7. Maoming City of Guangdong Province enhanced the protection of rural ecological environment

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According to the news released by the Finance Department of Guangdong Province on March 26, the finance authorities of Maoming City have constantly optimized the composition of fiscal expenditure, increased input in the comprehensive improvement of the rural environment, and strived to promote the development of a resource-saving and environment-friendly rural ecological environment. First, improve the supportive fiscal policies and address the outstanding problems in the rural environment. Instead of totally relying on fiscal funds, incentives and rewards financed by fiscal funds are deployed to leverage more financial resources for the improvement of rural ecological environment. Second, optimize the composition of fiscal input and intensify efforts to improve rural environment. Continuously optimize the composition of fiscal input, and raise funds from

higher level government, local government, township collectives and private sector to further promote rural environmental improvement. Third, optimize the long-term fiscal mechanism to promote the continuous improvement of the rural environment. Explore the development of environmental protection industries, actively bring in environmental protection enterprises that treat sewage and waste, speed up the establishment of a sound investment and financing mechanism, and realize the industrialized, large-scale, and institutionalized treatment of rural sewage and waste.

## 8. Kunming City of Yunnan Province stepped up spending on science and technology innovation

According to the news released by the Finance Department of Yunnan Province on March 29, the Finance Bureau of Kunming City has pooled various resources for science and technology innovation, given full play to the role of innovative entities such as universities, research institutes and enterprises, and helped significantly increase the R&D spending, thus laying a solid foundation for the development of Kunming as a national innovative city. First, provide rewards and subsidies to encourage business investment in R&D. The average annual growth of R&D spending in Kunming reached 20.17%, which is much higher than the GDP growth rate of the city, demonstrating the visible effects of policy incentives. Second, support the industrial technology innovation represented by leading enterprises. Focus on supporting the faster development of key industries,

bring together resources for science and technology innovation, implement a number of major science and technology innovation projects in line with the direction of the development of key industries in Kunming, and provide support for the R&D and innovation of new technologies and techniques by the pillar industries in Kunming. Third, promote the development of a number of platforms for science and technology innovation. Fourth, recruit talents and improve the mechanisms for developing and incentivizing science and technology talents. Support the efforts to recruit and incentivize talents and strive to build a multi-tiered science and technology talent development mechanism. Fifth, improve the environment for opening up and cooperation in the field of science and technology. Promote the consolidation of innovative entities, continue to encourage academicians and their teams within and outside Yunnan to help Kunming develop its key industries, and establish a high-level platform for synergistic cooperation among enterprises, universities and research institutes. Sixth, increase funding for popular science education, and support the implementation of special popular science education programs.

## V. Remarks & Opinions

### 1. Liu Kun: China's fiscal and tax reform from a global perspective

In his recently delivered speech at the China

Development Forum, Finance Minister Liu Kun said that the fiscal system is an important part of the state governance system. The history of some modern developed countries suggests that, in the course of their modernization, the evolution and improvement of the state governance system are always based on the continuous development of the fiscal system. A country's fiscal system must fit with its basic national conditions, well adapt to the needs of different stages of development, and fully consider factors such as historical and cultural tradition, distribution of factors of production and resources, characteristics of administrative systems, and differences in regional development; and must also properly handle the relationship between efficiency and fairness, growth and allocation, as well as government and market, and get the fiscal relations between different levels of government right, so as to make scientific and rational allocation of fiscal resources and facilitate the realization of the national strategic goals of development.

This year marks the 40th anniversary of China's reform and opening up. Since 1978, based on its own national conditions and practices, China has overcome the difficulties and challenges that it encountered as it pushed forward reforms, resolutely removed the institutional obstacles to development, and continuously unlocked and developed the social productivity. Especially in the past five years, under the strong leadership of the CPC Central Committee with Comrade Xi Jinping as the core, we have steadily advanced the comprehensive reform agenda, made new grounds in deepening reforms on all fronts, achieved breakthroughs in key areas and key links of reform, and basically put into place the framework of reform. The socialist system with

Chinese characteristics has been further improved, the country's system and capacity for governance has been markedly modernized, and the social vitality and innovation capacity have significantly increased.

In this process, as one of the key areas of the comprehensive reform agenda, the fiscal and tax reform has been further advanced and the development of the modern fiscal system has achieved important results. The main framework of the modern budget system is basically established. The new budget law was enacted. A series of major reform measures have been introduced and implemented for advancing budget disclosure, implementing mid-term fiscal planning and management, improving the transfer payment system, and strengthening local government debt management. Great progress has been made in the reform of the tax system. The business tax to VAT reform has been implemented across the board, subjecting all goods and services to VAT and putting an end to the 66-year-old business tax. The VAT reform would effectively reduce the burden on market participants by promoting the establishment of a unified and simple taxation system and eliminating double taxation, extend the industrial chain to broaden the tax base, help foster new growth engines and promote the optimization and upgrading of the industrial structure, and create more job opportunities. The ad-valorem taxation reform of resource tax has been comprehensively advanced. The environmental protection tax law has been introduced. The real estate tax legislation, personal income tax reform, and local taxation system reform are steadily advancing. The fiscal system has been further improved. We issued

guidelines on the division of fiscal powers and spending responsibilities between the central and local governments, clarified the overall requirements, principles, main contents, timetable and roadmap of reform, and started with this reform in the field of diplomacy by unveiling the first reform plan. The transitional plan for adjusting the division of VAT revenues between the central and local governments after the VAT reform has been introduced and implemented. By continuously deepening the institutional reform, the role of public finance as the foundation and important pillar of state governance has been brought into full play.

The 19th CPC National Congress made the significant judgment that "the socialism with Chinese characteristics has entered a new era", pointed out that the principal contradiction in Chinese society has evolved to one between the people's ever-growing needs for a better life and the unbalanced and inadequate development, set the goal of securing decisive victory in building a moderately prosperous society in all respects and embarking on a new journey towards building a modern socialist country, and drew up a strategic plan for the new era. China's economic development has entered a new era, the basic characteristic of which is China's economy has transitioned from a stage of high-speed growth to high-quality development. Promoting high-quality development is a prerequisite for maintaining sustained and healthy economic development, for adapting to the changes of principal contradiction in Chinese society, for building a moderately prosperous society in all respects and building a modern socialist country, and for following the laws of economic development. To this end, we must build a modern economic system, which is the

strategic goal of China's development. Specifically, it is necessary to build an industry system featuring innovation-led and coordinated development, a market system that is unified, open, competitive and orderly, an income distribution system that is efficient and promotes fairness, an urban-rural and regional development system with distinctive strengths and effective coordination, a green development system that conserves resources and is environmentally friendly, a comprehensive opening-up system that is diversified, balanced, safe and efficient, and an economic system that gives full play to the role of market and enables the government to better play its part.

The success of reform and opening up in the past 40 years has promoted the rapid economic growth in China. In the coming period, reform and opening up are still essential for the promotion of high-quality economic development. We will closely follow the changes of Chinese society, pursue high-quality development, build a modern economic system, implement the plan of the 19th CPC National Congress on accelerating the establishment of modern fiscal system and requirements set out in the Government Work Report on deepening the fiscal and tax reform, in order to quicken the pace of reform, improve the institutional mechanisms, and give full play to the role of public finance.

First, establish a central-local fiscal relationship built upon clearly defined powers and responsibilities, appropriate allocation of financial resources and greater balance between regions. We will scientifically define the fiscal powers and spending responsibilities at all levels of government, and see a reasonable allocation of financial resources between the central and local governments. On the

consideration of the costs of spending in different regions, the gap of per capita fiscal spending for permanent residents will be controlled within a reasonable range, and the equalization of access to basic public services will be accelerated.

To have clearly defined powers and responsibilities, we must develop a model that features the central government's leadership, reasonable delegation of powers, and law-based, well-regulated and efficient enforcement for dividing the fiscal powers and spending responsibilities. On the basis of properly handling the relationship between government and market, and in accordance with the principles of defining the scope of beneficiaries of basic public services, balancing the government functions and administrative efficiency, matching rights and responsibilities, and incentivizing local governments, we will strengthen the coordination with reforms in related fields, and rationalize the division of fiscal powers and spending responsibilities between central and local governments. To have appropriate allocation of financial resources, we must reasonably share the resources between the central and local governments so as to provide strong funding for all levels of government as they exercise their fiscal powers and spending responsibilities. Under the premise of maintaining the overall stability of the central and local financial resources, we will scientifically determine the model and the proportion for sharing tax revenues between central and local governments, and appropriately increase the types of local taxes. We will continue to optimize the transfer payment system, expand the scale of general transfer payments, and establish and improve regular assessment and exit mechanisms for special transfer payments. To have greater balance among regions,

we must focus on strengthening the financial capacity of financially troubled regions, and steadily increase the level of equalization of access to basic public services among regions. We will rationally establish basic standards for basic public services and adjust and improve them when appropriate. In light of the differences of financial resources in the eastern, central and western regions and the features of various basic public services, we will rationalize the sharing of fiscal powers and spending responsibilities for basic public services. To ensure basic financial capacity of local governments, we will make timely adjustments to improve the mode of general transfer payment from central to local governments so as to promote the equalization of access to basic public services.

The reform plan for the division of common fiscal powers and spending responsibilities in the area of basic public service area introduced at the beginning of this year has provided guidance for such reform. Building on this initial progress, we will promote the division of fiscal powers and spending responsibilities in education, health care, transportation and environmental protection in order to encourage all levels of governments to better fulfill their duties and improve the efficiency of providing basic public services. At the same time, we will move faster to formulate a reform plan for the division of revenues between central and local governments. We will deepen the reform of the transfer payment system and continue to clean up and regulate transfer payment projects. We will improve the fiscal policies that support the urbanization of rural migrant workers and help improve the quality of new-type urbanization.

Second, we must establish a comprehensive,

procedure-based and transparent budget system that uses well-conceived standards and imposes effective constraints, and promote performance-based management across the board. This not only maintains certain continuity but also deepens and expands the statement set out in the *Decisions of the 3rd Plenary Session of the 18th CPC Central Committee*. Building on the established framework of the budget system, we will move to make the budget more comprehensive, procedure-based and transparent, make the preparation of budget more science-based and accurate, strengthen the hard constraints of budget implementation, and increase the efficiency of the allocation of financial resources.

The key to comprehensive, procedure-based and transparent budget is promoting comprehensive government budget management, accelerating the unified budget allocation, making the mid-term fiscal planning more science-based, further improving the cross-year budget balance mechanism, and enhancing overall transparency of budget. To use well-conceived standards, we must follow the basic rules of budget preparation and to determine the basic norms of budget arrangements for key expenditures based on factors such as the economic and social development targets, the requirements of national macroeconomic regulation, and the development needs of industries. To have effective constraints, we must strictly implement the budget law, harden budget constraints, establish a well-regulated government debt financing mechanism with controllable risks, and enhance fiscal sustainability. We will improve the performance evaluation system, clearly define the responsibilities of local governments at all levels, and enhance

accountability and punishment for wrongdoings. To implement performance-based management across the board, it is necessary to closely focus on improving the effectiveness of the use of fiscal funds, embed the concepts and methods of performance-based management deeply into the entire process of budget preparation, implementation, and supervision, enhance cost-benefit analysis, and pay attention to the match between expenditure outcomes and policy objectives. We will see that all financial resources are subject to performance-based management, promote the match between rights and responsibilities, and combine power delegation with accountability. We will strengthen the management of performance targets and establish an incentive and disincentive mechanism that links the budgetary arrangement with performance targets and the effects of fund usage. This year, we will formulate guiding documents for the full implementation of budget performance-based management.

Third, we will deepen the reform of the tax system and improve the local tax system. We will further optimize the structure of the tax system, refine the overall design, enhance the implementation of supporting reforms, speed up the improvement of the local tax system, and improve the legal framework of the tax system.

We will make efforts to improve the direct tax system, establish a personal income tax system that combines the taxation of consolidated income with that of separate income, optimize the tax rate structure, improve pre-tax deductions, strengthen the tax base, enhance tax collection and administration, and give full play to the role of personal income tax in adjusting income levels. We will closely follow the developments of international tax reform,

prudently assess and judge the development trend of the international tax system, and further improve the corporate income tax system. In accordance with the principle of "legislation first, full authorization, and step-by-step advancement", the real estate tax legislation and implementation will be promoted. We will improve the indirect taxation system, adhere to the principle of tax neutrality, deepen the reform of VAT, further improve the deduction chain, optimize the tax rate structure, and improve the export tax rebates, in order to establish a fairer and simpler tax system. In line with the process of VAT reform, VAT legislation will be advanced and a standardized modern VAT system will be formed. In conjunction with the implementation of the reform to divide revenues between central and local governments, we will study and adjust the stages for collecting some consumption tax items and the ownership of such revenues. We will actively and steadily promote the reform of the local tax system, adjust the structure of the tax system, cultivate local tax sources, strengthen local taxation rights, rationalize the relationship between taxes and fees, and gradually establish a stable and sustainable local tax system. We will fully implement the principle of law-based taxation, and see to it that all the new taxes will be governed by laws; the existing taxes governed by the administrative regulations of the State Council will be governed by laws instead, and the relevant tax regulations will be abolished.

In this year, we will adjust the level of VAT rate as we cut the tax brackets from three to two, and we will focus on lowering the tax rates for manufacturing, transportation and other industries to further stimulate the vitality of market players and promote the development of the real economy.

We will reform the personal income tax system, reasonably increase the basic deduction standards in line with the changes of the living standards and consumption of residents, and increase itemized deductions for children's education and major disease medical expenses. We will accelerate the tax legislation and strive to complete the drafting of laws for deed tax, resource tax, consumption tax, and stamp tax.

## **2. Zhu Guangyao: China will open up wider and promote the inclusive growth of the global economy**

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In his recent speech at the G20 Finance Ministers and Central Bank Governors Meeting, Vice Finance Minister Zhu Guangyao said that this year marks the 40th anniversary of China's reform and opening up, and the Chinese government will take this opportunity to launch new and more vigorous measures of reform and opening up. In terms of international tax cooperation, G20 countries should strengthen their consensus, deepen cooperation, and adhere to the principle of tax neutrality to better promote the development of new economic models. China will work with other G20 members to coordinate structural reforms and promote the strong, sustainable, balanced and inclusive growth of the global economy.

In the context of the current world economic situation and China's reform and opening up process, this year coincides with the 40th anniversary of China's reform and opening up. The past 40 years have seen a fundamental change in the look of

Chinese society. This is a fact that is obvious to all. China's rapid development has benefited hundreds of millions of Chinese people, significantly improving their quality of life; at the same time, it has also made substantive contribution to global poverty reduction and economic growth. China's contribution to global poverty reduction has exceeded 70%, and its contribution to global economic growth has exceeded 30%. President Xi Jinping emphasized that China's reform and opening-up is a never-ending process. Opening-up is reform, and reform must be advanced during the process of opening up. The Chinese government will introduce new and more vigorous measures for reform and opening-up as it seizes the opportunity to commemorate the 40th anniversary of reform and opening up. At present, there are still many uncertainties and risks in the global economy. G20 should continue to maintain solidarity and close cooperation rather than blame each other. China is willing to work with other G20 members to coordinate structural reforms and promote the strong, sustainable, balanced and inclusive growth of the global economy.

In terms of international tax cooperation, G20 has achieved significant outcomes in combating base erosion and profit shifting and enhancing tax transparency, outcomes that are attributable to the joint efforts of G20 members and the contributions made by OECD, IMF, World Bank and other international organizations. The booming digital economy is the result of innovation. The digital economy, in turn, promotes the increase of productivity and boosts the momentum of economic growth. At the same time, the development of the digital economy has also brought new challenges

to tax administration and anti-money laundering. G20 countries should adhere to the principle of tax neutrality and better promote the development of new economic models. China commends the OECD's mid-term report on digital economy taxation. All parties need to pay attention to the spillover effects of the unilateral and short-term measures for taxing digital economy, and the possible impact on the existing international tax rules, so as to prevent short-term tax benefits from impeding innovation and the long-term development of the digital economy. G20 should continue to strengthen coordination and reach a consensus on a long-term solution to digital economy taxation in 2020.

### **3. Lou Jiwei: break traditional mentality to advance supply-side structural reforms**

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In his recently published speech, Lou Jiwei, chairman of the National Council for Social Security Fund, said that the socialism with Chinese characteristics has entered a new era and pushing forward supply-side structural reforms is the only way for the Chinese economy to achieve high-quality development. The central task for the current and future period is to cut overcapacity, destock, deleverage, lower costs and strengthen weak links. In this process, it is important to avoid excessive reliance on administrative orders and government's forces, guard against the pitfalls of the planned economy, and earnestly promote the real reforms. First, in terms of cutting overcapacity,

government should rigorously manage the "negative externalities", implement the standards for environmental protection, production safety and quality, and cut the sub-standard production capacity according to rules and procedures. Second, in terms of destocking, especially in the real estate sector, property price is high despite the excess of housing inventory, and various types of development zones are underused despite the high costs of development, thus increasing the difficulty of carrying out the destocking. In this context, it is necessary to further promote the reform of the household registration system, speed up the urbanization of migrant workers, offer tenants the same rights as home owners, and promote the transferability of compulsory education resources funded by the central government. Moreover, in line with the requirement of the 19th Party Congress on "creating networks of cities and towns based on city clusters and enabling the coordinated development of cities of different sizes and small towns", it is important to enhance the coordination of urban planning in order to revive the development zones and bring down the inventory of other commercial properties. Third, in terms of lowering costs, the transaction costs caused by institutional arrangement still have room for reduction through measures such as the deregulation and the reform of streamlining administration, delegating powers and improving services. We must respect the law of value and avoid mechanically implementing the "cost reduction" policy so much so that pricing is made rigid. For example, according to the law of value, the price of electricity and gas at peak time ought to be many times higher than the normal price

and the costs at peak time should be reflected in the final price. If the pricing is mishandled, there may be chronic shortage of gas reserve and even periodic gas crunch. Fourth, we must pay special attention to the "strengthening of weak links" over the medium and long term. If the medium and long-term problems are not handled properly, "risks that may delay or interrupt the process of the great rejuvenation of the Chinese nation" might emerge. Take the pension problem for example, the growth of premiums income has long been slower than that of pension payment, which reflects the quickening of aging process on one hand and the inadequacies of incentive and disincentive mechanisms on the other hand. Further reform and improvement are needed if we are to address the problem. It is recommended that an actuarial system be set up as soon as possible to make public the actuarial report, reveal long-term risks, build up the consensus in the entire society for further reforms and institutional improvement, and strengthen intergenerational equity. In addition, among the current tasks, "deleveraging" and "strengthening the weak links" are the most difficult. For "deleveraging", reducing financial risks is most urgent. In terms of "strengthening the weak links", poverty alleviation as well as ecological and environmental treatment are the priorities.

#### **4. Liu Shangxi: the development of a modern economic system must be people-centered**

In his recently published speech, Liu Shangxi, member of the National Committee of the Chinese

People's Political Consultative Conference and Director General of the Chinese Academy of Fiscal Sciences, said that the proposal of the 19th CPC National Congress on developing a modern economic system is an overall comprehension of economic development and a deeper understanding of the economic development in the past. The development of a modern economic system must be people-centered, and only by relying on human development can we have high-quality economic development.

The past 40 years of reform and opening up have seen remarkable historic transformation from shortage to abundance of goods and services. At present, China's economic strength and overall national strength have been greatly enhanced, and China has become the world's second largest economy. Under the new circumstance, economic development should make a clean break from the old ideas. In the past, the work of economic development was focused on addressing the shortage of resources. Now that our country has entered a new era of development, each and every aspect needs to be modernized, of which economic modernization is the fundamental.

Economic modernization is an all-encompassing system that includes at least six aspects: industrial system, market system, distribution system, urban & rural and regional development system, green development system, and the overall opening-up system. The concept of a modern economic system is based on an overall comprehension of economic development and a deeper understanding of economic development in the past. A modern

economic system is meant to include not only production but also distribution. If the wealth generated by production cannot be shared, then it cannot be called a modern economy; at the same time, if economic development causes damage to the ecological environment, then it is no green development, nor can it constitute a modern economic system. The modern economic system emphasizes new meaning, new requirements, and new standards. The development of a modern economy is of great importance and the six major systems need to be developed as a whole and in a coordinated manner.

To comprehensively understand the current economic development and China's development, we must fully and accurately grasp the characteristics of the new normal and understand the new requirements for development. Economic development is no longer limited to things, and it must be elevated to people. The development pattern needs to evolve to become people-oriented, because only by relying on human development can we achieve high-quality development; and only by relying on human development can we ensure that people are able to share in the benefits of development. China has accumulated a lot of distinctive experiences of development. Today's development model and development philosophy should be people-centered, namely, of the people, by the people and for the people. All policies need to be people-centered, and all reforms also need to be people-centered. Only in this way can China's development be sustainable and the great rejuvenation of the Chinese nation be achieved.

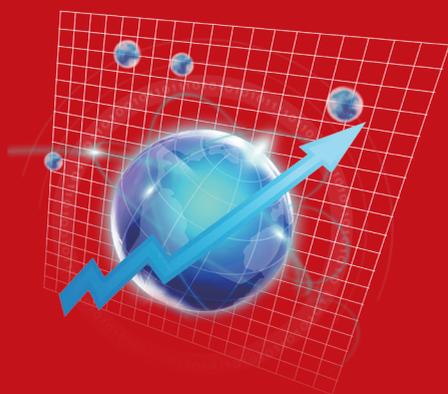
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