

# CHINA FINANCE

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### HIGHLIGHTS

- Finance Minister Liu Kun: high-quality infrastructure investment should be development-oriented
- Finance Minister Liu Kun attended and addressed the G20 Finance Ministers and Central Bank Governors' Meeting in Fukuoka, Japan
- MOF published a circular on the application of government procurement policies to support poverty alleviation
- The CPC Central Committee and the State Council published the *Circular on Improving the Work of Local Government Special Bond Issuance and Project Supporting Financing*
- China's general public budget revenue registered a year-on-year increase of 3.8% from January to May

# Brief Introduction to IEFI

Founded in 2007, the International Economics and Finance Institute (IEFI) is affiliated to the Ministry of Finance of China, specializing in international economic and financial studies. Its main functions include macroeconomic research on advanced economies such as U.S., Europe and Japan, and on emerging economies such as BRICS countries; research on global and regional economic and financial cooperation, global governance reform and international development cooperation; participation in bilateral and multilateral financial dialogues; and exchanges with think tanks and government agencies around the world.

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Website:<http://iefi.mof.gov.cn>

# Acronyms

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ADB	Asian Development Bank
AIIB	Asian Infrastructure Investment Bank
AMRO	ASEAN+3 Macroeconomic Research Office
APEC	Asia-Pacific Economic Cooperation
ASEAN+3	Association of Southeast Asian Nations, China, Korea and Japan
BRI	Belt and Road Initiative
BRICS	Brazil, Russia, India, China and South Africa
CEPA	Closer Economic Partnership Arrangement
CMIM	Chiang Mai Initiative Multilateralization
CPA	Certified Public Accountant
CPC	Communist Party of China
CPI	Consumer Price Index
CPPCC	Chinese People's Political Consultative Conference
CSRC	China Securities Regulatory Commission
FDA	Food and Drug Administration
GAC	General Administration of Customs
GDP	Gross Domestic Product
IEFI	International Economics and Finance Institute
IMF	International Monetary Fund
IPI	Industrial Production Index
IPR	Intellectual Property Rights
LICs	low income countries
MIIT	Ministry of Industry and Information Technology
MNR	Ministry of Natural Resources

MOA	Ministry of Agriculture and Rural Affairs
MOC	Ministry of Commerce
MOF	Ministry of Finance
MOHRSS	Ministry of Human Resources and Social Security
MOHURD	Ministry of Housing and Urban-Rural Development
MOST	Ministry of Science and Technology
NBS	National Bureau of Statistics
NDB	New Development Bank
NDRC	National Development and Reform Commission
NEA	National Energy Administration
NFSRA	National Food and Strategic Reserves Administration
NPC	National People's Congress
OECD	Organization for Economic Co-operation and Development
PBoC	People's Bank of China
PMI	Purchasing Managers' Index
PPI	Producer Price Index
PPP	Public-Private Partnership
QE	Quantitative Easing
QQE	Qualitative and Quantitative Easing
R&D	Research and Development
RCEP	Regional Comprehensive Economic Partnership
SAFE	State Administration of Foreign Exchange
SAMR	State Administration of Market Regulation
SAT	State Administration of Taxation
SMEs	Small and Medium Enterprises
SOEs	State-owned Enterprises
VAT	Value-added Tax
WTO	World Trade Organization

## I. Policy Update

### **1. The State Council published the *Reform Plan for the Division of Fiscal Mandates and Spending Responsibilities between the Central and Local Governments in the Field of Science and Technology***

On May 31, the General Office of the State Council published the *Reform Plan for the Division of Fiscal Mandates and Spending Responsibilities between the Central and Local Governments in the Field of Science and Technology*, which provided the following. First, scientific and technological research and development. The scientific and technological plans formulated with the use of fiscal funds to support basic research, applied research and technological research and development (special funds, facility, etc.) are recognized as the joint fiscal mandates of central and local governments, with the central and local finance authorities bearing the corresponding spending responsibilities in light of different situations. Second, the construction and development of scientific and technological innovation bases. The subsidies for the construction and development of scientific and technological innovation bases

are recognized as the joint fiscal mandates of the central and local governments, with the central and local finance authorities bearing the corresponding spending responsibilities in light of different situations. Third, the development of scientific and technological talents. For the development of high-level scientific and technological talents, the special projects for the development of scientific and technological talents implemented in a unified way according to relevant plans are recognized as the fiscal mandates of either the central government or the local government, with the finance authorities of the same level bearing the spending responsibilities. Fourth, the transfer and application of scientific and technological achievements. The transfer and application of scientific and technological achievements supported by methods such as risk compensation, post-subsidy and venture capital channeling are recognized as the joint fiscal mandates of the central and local governments, with the central and local finance authorities bearing the corresponding spending responsibilities in light of different situations. Fifth, the construction of regional innovation system. The funding of the construction of regional innovation system will be adjusted as the joint fiscal mandates of the central and local governments, with the central and local finance authorities bearing the corresponding spending responsibilities in light of different situations. Sixth, the popularization of science and technology. The supporting funding of the popularization of scientific and technological knowledge, the promotion of scientific methods, the dissemination

of scientific ideas, the promotion of scientific spirit, and the improvement of the scientific quality of the whole nation is recognized as the joint fiscal mandates of the central and local governments, with the central and local finance authorities bearing the corresponding spending responsibilities in light of different situations. Seventh, the reform and development of scientific research institutions. The subsidies for the reform and development of scientific research institutions established with the use of fiscal funds are recognized as the fiscal mandates of either the central government or the local government, with the finance authorities of the same level bearing the spending responsibilities. Eighth, other unlisted items in the field of science and technology. The division of the fiscal mandates and spending responsibilities of the matters related to international scientific and technological exchanges and cooperation is to be implemented in accordance with the reform plan of the diplomatic field.

## **2. The State Council published the *Reform Plan for the Division of Fiscal Mandates and Spending Responsibilities between the Central and Local Governments in the Field of Education***

On June 4, the General Office of the State Council published the *Reform Plan for the Division of Fiscal Mandates and Spending Responsibilities between the Central and Local Governments in the*

*Field of Education*, which provided the following. First, compulsory education. Compulsory education is generally a joint fiscal mandate between the central and local governments, and is refined according to specific matters. Among them, for the funds required for financing the recurring matters related to the daily operation of schools, the safety of school buildings, and the study and life of students, the proportion for sharing the financing burden between the central and local governments is clearly set out in accordance with national basic standards, with the central government's portion financed by the transfer payment for joint fiscal mandate; for matters involving phased tasks and special work, the required funds are financed by the local finance authorities with transfer payment support from the central government. Second, student financial aid. Student financial aid is a relatively independent and complete policy system, covering pre-school education, general high school education, vocational education, higher education, etc.. It is generally recognized as the joint fiscal mandate between the central and local governments, and is refined according to specific matters. Third, other education. For pre-school education, general high school education, vocational education, higher education and other education, the funding is primarily financed by government, with reasonable burden sharing with students and fund-raising through other channels. It is generally recognized as the joint fiscal mandate between the central and local governments, and the required fiscal subsidies are generally shared between the central and local finance authorities in

accordance with administrative affiliation, with the central government supporting local government through transfer payment. Fourth, supporting measures. Strengthen organizational leadership and implement spending responsibilities; improve budget management and enhance fund efficiency; clarify local powers and responsibilities and strengthen provincial-level coordination; revise and improve systems, and promote rule-based operations; and jointly promote reforms to form positive interactions.

### **3. MOF published a circular on the application of government procurement policies to support poverty alleviation**

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On June 5, MOF published a circular on the application of government procurement policies to support poverty alleviation, which provided the following. First, fully understand the importance of using government procurement policies to support the fight against poverty. Second, encourage the use of priority procurement and reserve procurement to purchase agricultural products and by-products of poor areas. When the budget units at all levels purchase agricultural products, the agricultural products and by-products of poor areas should be given the priority provided that other things are being equal. All competent budget units should make effective coordination, and determine and reserve a certain proportion of the agricultural products and by-products purchased by the budget units of the department for the agricultural products

and by-products of poor areas. Third, encourage the priority purchase of property management services provided by property management companies staffed by documented poor people. Where budget units at all levels use fiscal funds to purchase property management services, those who have the conditions should give priority to purchase the property management services provided by property management companies registered in the 832 national-level poverty-stricken counties and staffed by documented poor people. Fourth, establish sound safeguard measures. MOF and the Leading Group Office of Poverty Alleviation and Development of the State Council, together with relevant departments, will formulate the implementation plan for priority procurement of agricultural products and by-products of poor areas, set up an online sales platform for agricultural products and by-products of poor areas, and provide efficient and convenient marketing channels for agricultural products and by-products of poor areas.

### **4. MOF published a supplementary circular on the *Interim Administrative Measures for Subsidizing Local Funds with Vehicle Purchase Tax Revenues***

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On June 10, MOF published a supplementary circular on the *Interim Administrative Measures for Subsidizing Local Funds with Vehicle Purchase Tax Revenues*, which provided the following. First, for the highway projects of Liangshan Prefecture,

Nujiang Prefecture and Linxia Prefecture, the subsidies for national-level expressways are 50% of the project construction costs, the subsidies for ordinary national-level highways are 100% of the project construction costs and the subsidies for village-level hard-surface roads are 700,000 RMB/km. Second, for the toll road projects built by PPP model, the subsidies from introduced capital and the investment subsidies, sourced from the Vehicle Purchase Tax revenue, are subject to the upper limit of the project subsidy standard of the local government toll road projects. Third, for the areas without special policies, the subsidy standard for non-toll ordinary national-level highway projects shall not exceed the project construction costs, and the subsidy standard for ordinary national-level highway projects shall not exceed that for the local national-level highway project. Fourth, the port railway projects undergoing double-track transformation and electrification are included into the scope of subsidies, with the subsidy standard referring to the single-track railway and the upper subsidy limit subject to no more than 20% of the total project investment. Fifth, the purchase of emergency materials and the development of information system for the storage center of regional road traffic emergency equipment and materials are included into the scope of subsidies funded by vehicle purchase tax revenues. Sixth, the road construction of state-owned forest farms is included in the scope of subsidies funded by vehicle purchase tax revenues. Seventh, the construction of hard-surface roads in border villages is included in the scope of

subsidies funded by vehicle purchase tax revenues. Eighth, subsidy standard for road disaster recovery and repair projects is implemented according to the disaster classification and level. Ninth, the vehicle purchase tax revenues used for rural road construction projects must be distributed and managed in strict accordance with regulations, and the restrictive provisions regarding the mandatory assessment of poor counties and the intended use of special funds will be removed to further support the needs of poor counties on consolidating agriculture-related funds. Tenth, strengthen budget performance management. Eleventh, the above standards are to be timely adjusted and refined according to the decisions of the CPC and the State Council and the changes of costs.

## **5. MOF published a circular on strengthening the use of funds for the renovation of dilapidated rural houses to help implement the task of poverty reduction**

On June 10, MOF published a circular on strengthening the use of funds for the renovation of dilapidated rural to help implement the task of poverty reduction, which provided the following. First, implement the responsibility for funding the renovation of rural dilapidated houses. The renovation of rural dilapidated houses is the joint fiscal mandate of the central and local governments, with the local government assuming the principal responsibility, the provincial (autonomous region



and municipality) government assuming the overall responsibility, the city (prefecture) and county government working on the implementation, and the central government providing guidance and subsidies. The central fiscal subsidy funds shall be strictly used in accordance with the regulations for the renovation of dilapidated houses of such targeted groups as documented poor households, the construction of rural collective public rental housing and other basic housing projects for the rural poor people who meet the policy criteria. Second, increase the support for the renovation of rural dilapidated houses in extremely poor areas. The central government will separately increase subsidies for the renovation of rural dilapidated houses in extremely poor areas such as the “three regions and three prefectures”. The finance and housing authorities of all provinces (autonomous regions and municipalities) shall timely allocate the central fiscal subsidy funds in accordance with the requirements, and make coordinated arrangements for local fiscal subsidy funds, giving priority to the extremely poor areas such as the “three regions and three prefectures”. Third, continue to support the consolidation of agriculture-related funds in poverty-stricken counties. The increase of central fiscal funds for renovation of rural dilapidated houses allocated by the relevant provinces (autonomous regions and municipalities) to poor counties shall be no smaller than the average increase of such funds, and shall be allocated in tranches without projects specified for the use of funds or requirements unrelated to poverty reduction. Fourth, continuously strengthen

the standardized management of funds for the renovation of rural dilapidated houses. The local finance and housing authorities shall implement the regulations related to the management of central fiscal funds for renovation of rural dilapidated houses and the requirements for the regulation of poverty reduction funds, regulate the management of the use of central fiscal funds for renovation of rural dilapidated houses, and disburse the funds in full and on time in accordance with regulations. The information regarding the allocation and payment of funds should be promptly entered into the dynamic monitoring platform for poverty reduction funds.

## **6. The CPC Central Committee and the State Council published the *Circular on Improving the Work of Local Government Special Bond Issuance and Project Supporting Financing***

On June 10, the General Office of the CPC Central Committee and the General Office of the State Council published the *Circular on Improving the Work of Local Government Special Bond Issuance and Project Supporting Financing*, which provided the following. First, the overall requirements and basic principles. With the guidance of the Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era, adhere to the basic principles of maintaining appropriate issuance, keeping effective coordination, highlighting key points, preventing and controlling risks, and

stabilizing expectations, and resolutely prevent and resolve major risks. Second, support the financing of special bond projects. Reasonably clarify the criteria of financial support for special bond projects; accurately focus on key areas and major projects; actively encourage financial institutions to provide financing support; allow special bonds to be used as eligible capital for major projects; and ensure the fulfillment of debt repayment obligations. Third, further improve the management of special bonds and supporting measures. Vigorously enhance the promotion of special bond projects; ensure the match between special bond project financing and solvency capacity; strengthen credit rating and differential pricing; make local government bond issuance pricing more market-based; diversify the local government bond investor base; reasonably increase long-term special bond maturity; and speed up the issuance and use of special bonds. Fourth, promote major project financing in accordance with laws and regulations. Support the market-oriented financing of major projects; reasonably ensure the follow-up financing of necessary ongoing projects; and raise capital for major projects through multiple channels. Fifth, strengthen organization. Strictly implement work responsibilities; strengthen departmental cooperation on supervision; promote bond project disclosure; establish a positive incentive mechanism; provide waiver from liability in accordance with laws; and strengthen follow-up evaluation and supervision.

## **7. MOF published a circular on the release of the optimized and adjusted list for the national scientific and technological resource sharing service platforms**

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On June 11, MOF published a circular on the release of the optimized and adjusted list for the national scientific and technological resource sharing service platforms, which provided the following. First, to regulate and manage the national scientific and technological resource sharing service platforms, improve the scientific and technological resource sharing service system, and promote the open sharing of scientific and technological resource to the society, MOST and MOF optimized and adjusted the original national platform. Through the recommendation by government departments and consultation with experts, 20 national scientific data centers such as the National High Energy Physics Science Data Center and 30 national centers for biological germplasm and experimental materials such as the National Center for Important Wild Plant Germplasm Resources are created. Second, relevant departments should further strengthen the management of national platforms, formulate a five-year development and operation plan for the national platforms, further clarify the functional positioning and objectives of the national platforms, sort out the systemic structure of scientific and technological resources in this field, channel the scientific and technological resources in relevant fields to the national platforms,

strengthen the development and application of scientific and technological resources, and enhance the efficiency of the use of scientific and technological resources and the innovation capacity. Improve the infrastructure needed for the storage, management and security of scientific and technological resources, improve the network security assurance system, innovate the operational and management mechanism, strengthen the administration of evaluation and assessment, carry out international exchanges and cooperation, give full play to the main responsibility of legal entities, and provide high-quality scientific and technological resources sharing services for scientific research, technological progress and social development.

## 8. MOF published a circular on the central fiscal support for the 2019 “Maker China” SMEs Innovation and Entrepreneurship Contest

On June 11, MOF published a circular on the central fiscal support for the 2019 “Maker China” SMEs Innovation and Entrepreneurship Contest, which provided the following. First, the objectives. Actively leverage the central government’s fiscal funds to support local governments to use the “Maker China” Contest as a platform to effectively connect with businesses, foster an enabling social atmosphere, further stimulate the vitality of SMEs, and promote the healthy development of SMEs. Second, the funding arrangement. In

2019, the central government will use the special fund for SMEs development and provide rewards and subsidies to support the local promotion of the “Maker China” Contest. In terms of the use of funds, the central government’s rewards and subsidies will be disbursed to the provincial-level finance departments and be used in coordination with the SMEs authorities at the same level. Third, the working mechanism. MIIT will provide guidance for and conduct performance monitoring of local contests. MOF, together with MIIT, will conduct performance evaluation on the overall use of rewards and subsidies, and the evaluation results will serve as an important basis for future budgetary arrangements of rewards and subsidies.

## 9. MOF published the *Opinions on Promoting the Sustainable and Healthy Development of Private Hospitals*

On June 12, MOF published the *Opinions on Promoting the Sustainable and Healthy Development of Private Hospitals*, which provided the following. First, increase government support for private hospitals. Expand the space for private hospitals; increase the supply of land; promote government procurement of services; and implement tax incentives. Second, streamline administration, delegate powers and simplify the access approval services. Improve the efficiency of access approval; standardize review and evaluation; further relax planning restrictions; and allow record-filing management of pilot clinics.

Third, cooperation between public hospitals and private hospitals. Enable the third-tier public hospitals to play a leading role; explore a variety of cooperation models for medical institutions; and expand talent services. Fourth, optimize operational and management services. Optimize testing services; optimize the professional title evaluation; improve clinical services and academic capacity; and step up training efforts. Fifth, improve the medical insurance support policy. Optimize medical insurance management services; support the development of “Internet + health” by private hospitals; and support the development of commercial health insurance. Sixth, improve the comprehensive supervision system. Implement departmental supervision responsibilities; strengthen medical quality and safety management; establish and improve credit system; and give play to the self-discipline functions of industry organizations.

## **10. MOF and MOA jointly published the *Measures for the Performance Management of Agriculture-related Transfer Payment Funds***

On June 18, MOF and MOA jointly published the *Measures for the Performance Management of Agriculture-related Transfer Payment Funds*, which provided the following. First, the general principles. Agriculture-related transfer payments refer to agricultural production and development funds, subsidy funds for agricultural resource and

ecological protection, animal epidemic prevention subsidies, and farmland construction subsidies. The performance management of agriculture-related transfer payment funds should follow the principles of scientific norms, result orientation, promotion of integration, and tiered management. Second, performance target setting, review and monitoring. The performance targets of agriculture-related transfer payment funds are divided into overall performance targets and regional performance targets. The performance targets should clearly reflect the expected output and effect of agricultural-related transfer payments, correspond to the number of tasks, match the amount of funds, and be refined in terms of quantity, quality, timeliness, cost, economic, social and ecological effects, sustainable impact, satisfaction level and other aspects. The agricultural and rural affairs authorities at all levels are responsible for designing the performance indicators according to the performance targets. Third, performance evaluation and results application. The overall performance evaluation work is organized and implemented by MOF in conjunction with MOA. The regional performance evaluation is overseen by the provincial finance departments and the agricultural and rural affairs departments. In principle, performance evaluation is conducted on an annual basis. Interim performance evaluation can be carried out in light of the needs of work. The provincial finance departments and the agricultural and rural affairs departments are responsible for the authenticity of the provincial self-assessment results and materials related to

performance evaluation. Fourth, organization and implementation. The provincial finance departments, along with the agricultural and rural affairs authorities, in light of the local circumstances, the annual implementation plan of the agriculture-related transfer payment (task list), the performance targets and the performance evaluation results of the previous year, and the budget released in advance, should study the design of regional performance targets for agriculture-related transfer payment funds in the current year, submit the targets to MOF and MOA by the end of January in each year, and copy them to the local regulatory bureaus of MOF. Fifth, the supplementary provisions. The provincial finance departments and the agricultural and rural affairs departments shall formulate implementation rules in accordance with the Measures, submit them to MOF and MOA for record-keeping, and send a copy to the local regulatory bureaus of MOF. If the agriculture-related transfer payment funds are used to support the poverty-stricken counties to carry out the pilot consolidation of agriculture-related funds, the budget performance management would be implemented in accordance with the relevant regulations during the period of poverty alleviation.

## 11. MOF, SAMR and FDA jointly issued the *Interim Measures for the Administration of Subsidy Funds for Food and Drug Supervision*

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On June 19, MOF, SAMR and FDA jointly issued the *Interim Measures for the Administration of Subsidy Funds for Food and Drug Supervision*, which provided the following. First, the subsidy funds for food and drug supervision mentioned in the Measures refer to the subsidy funds arranged by the central government's special transfer payment in support of the market supervision by local governments, the food and drug supervision and management by drug regulatory authorities, and the capacity building. Second, the implementation period of the subsidy funds is 5 years. Whether to continue and extend the time limit shall be determined according to the relevant provisions of the State Council and the circumstances of food and drug supervision. Third, MOF is responsible for reviewing the proposal for the allocation of subsidy funds, preparing and approving the subsidy fund budget, organizing the whole process of budget performance management, and guiding local efforts to strengthen the management of subsidy funds. Fourth, the subsidy funds are mainly used for expenses such as food and drug supervision and management, spot check and inspection, as well as expenditures of equipment purchase, operation and maintenance, and personnel development related to food and drug supervision capacity building. Fifth, the subsidy funds are allocated by the factor method. The distribution factors include basic factors, business factors, performance factors and financial factors. Sixth, MOF will release the estimated amount of subsidy funds for the next year to the provincial finance departments before October 31 of each year, and disburse to

the provincial finance departments within 90 days after the approval of budget by NPC. Seventh, the provincial market supervision departments and drug regulatory departments would set their own performance targets for their administrative region. After review by the finance departments at the same level, they would report the targets to MOF and the central competent authorities before the end of March in each year, and send a copy to the local regulatory bureaus of MOF. Eighth, local finance, market supervision, and drug regulatory authorities at all levels should make overall arrangements for the use of relevant funds allocated from the same level and the higher level. Ninth, the local finance authorities at all levels should cooperate with the market supervision and drug regulatory authorities, as well as the specific users of subsidy funds at the same level to strengthen the management of fund usage and regulate budget execution.

## **12. MOF published a supplementary circular on the *Interim Measures for the Administration of Special Funds for Renewable Energy Development***

On June 20, MOF published a supplementary circular on the *Interim Measures for the Administration of Special Funds for Renewable Energy Development*, which provided the following. First, the implementation period of special funds for renewable energy development is 2019 to 2023. Among them, the central fiscal subsidies for the efficiency enhancement and

expansion of rural hydropower projects during the 13th Five-Year Plan period will be ended after the expiry of the policy in 2020. Second, special funds for renewable energy development would support the efficiency enhancement and expansion of rural hydropower projects. The efficiency enhancement and expansion of rural hydropower projects will be accounted for on the basis of actual settlement, and rewards will be provided for the increase of the installed capacity of power station (including the new ecological retrofitting) during the 13th Five-Year Plan period. Third, special funds for renewable energy development will support the exploitation and utilization of unconventional natural gas such as coal-bed methane (mine gas), shale gas and tight gas. In 2018, the subsidy standard is 0.3 RMB/cubic meter. Starting from 2019, subsidies are no longer provided according to the fixed standard. In accordance with the principle of “more subsidies for greater output”, if the mining and utilization volume exceeds that of the previous year, tiered rewards and subsidies will be provided according to the excess degree; correspondingly, if the mining and utilization volume falls short of that of the previous year, rewards and subsidies will be deducted according to the degree of shortfall. At the same time, for the increment of unconventional natural gas produced during the heating season, special subsidies for the winter season will be provided. Fourth, the rewards and subsidies will be pre-allocated and post-settled, with MOF releasing budget in advance and disbursing funds to central and local enterprises according to the data provided by the

NEA, the local regulatory bureaus of MOF, central enterprises and local governments.

### 13. MOF and MNR jointly published a circular on the issuance of the *Measures for the Administration of Budget for Land Reserve Projects (Trial)*

On June 21, MOF and MNR jointly published a circular on the issuance of the *Measures for the Administration of Budget for Land Reserve Projects (Trial)*, which provided the following. First, the first batch of pilot areas of MOF include 7 provinces (cities) of Beijing, Tianjin, Hebei, Henan, Shandong (including Qingdao), Zhejiang (including Ningbo) and Xiamen, with the scope of the pilot gradually expanding in the future. Pilot areas can select cities and counties (districts) on their own to carry out pilot projects. Other regions that meet the conditions are encouraged to select cities and counties (districts) to carry out pilot projects. Second, when allocating the special debt limits, provinces may properly offer preferential treatment to the cities and counties (districts) that carry out pilot projects. Third, the cities and counties (districts) that carry out pilot projects should strengthen their staffing and make overall arrangements for the funding to ensure the smooth implementation of the pilot work. Fourth, the pilot areas should regularly evaluate the performance of the pilot work. Significant matters shall be reported to MOF and MNR in a timely manner.

### 14. MOF and MOA jointly published the *Measures for the Administration of Farmland Development Subsidy Funds*

On June 21, MOF and MOA jointly published the *Measures for the Administration of Farmland Development Subsidy Funds*, which provided the following. First, the general principles. Farmland development subsidy funds refer to the joint-mandate transfer funds for the development of farmland-related projects to support the stabilization and optimization of farmland layout and comprehensively improve farmland quality. The implementation period of farmland development subsidy funds is up to 2022. After the end of the period, MOF and MOA will conduct an assessment according to the relevant provisions of the State Council and the needs of farmland development, and make adjustments on the basis of the results of assessment. Second, the scope of the expenditure of funds. The scope of the expenditure of farmland development subsidy funds includes: project material expenses, equipment purchase expenses and construction expenditure, project pre-construction expenses, project bidding and tendering expenses, project supervision expenses and necessary project management expenses. Farmland development subsidy funds shall not be used for the construction of office buildings and halls or make up for budgetary expenditure gaps and other expenditures unrelated to farmland development. Third, allocation and disbursement of funds. Farmland development subsidy funds are allocated according to the factor method. The



factors of fund allocation mainly include basic resource factors, work performance factors and other factors, among which the basic resource factors account for 70%, the work performance factors account for 20%, and other factors account for 10%. Before March 15 of each year, MOA will propose the allocation of farmland development subsidy funds among provinces and send a letter to MOF. Within 30 days after the approval of budget by NPC, MOF will release the budget for farmland development subsidy funds and copy it to MOA and the relevant regulatory bureaus of MOF. Fourth, the use and management of funds. The farmland development subsidy funds enforce the management model of “special program + task list”. Local governments may, in light of the local conditions, mobilize farmland development funds from different channels for the development of high-standard farmland. Fifth, the supervision, inspection and performance evaluation. The competent finance and agricultural and rural affairs authorities at all levels shall strengthen the supervision and inspection over the allocation and management of farmland development subsidy funds, and promptly rectify the identified problems. The performance evaluation system is adopted for the management of farmland development subsidy funds, and the evaluation results serve as an important basis for the allocation of farmland development subsidy funds. Sixth, the supplementary provisions. The provincial finance authorities shall, in conjunction with the agricultural and rural affairs authorities, formulate implementation rules in accordance

with the Measures and the actual conditions of the region, submit the implementation rules to MOF and MOA, and send a copy to the local regulatory bureaus of MOF.

### **15. MOF and NFSRA jointly published the opinions on the in-depth implementation of the Quality Grain Project**

On June 24, MOF and NFSRA jointly issued the opinions on the in-depth implementation of the Quality Grain Project, which provided the following. First, strengthen the overall requirements and innovate the implementation method of the Quality Grain Project. Give full play to the role of incentives and promote the “five linkages” of quality production, quality purchase, quality storage, quality processing and quality selling. All localities should further refine the three-year implementation plan and set detailed tasks for demonstration counties (cities), demonstration enterprises and related projects, in line with the target of achieving full coverage of the post-production services in all the major grain-producing counties, expanding the coverage of the grain quality and safety inspection and monitoring system to 60%, and raising the percentage of quality grain by 30%. Second, highlight demands and optimize the layout and function of the post-production services system. Scientifically arrange the post-production services centers and strive to provide full coverage for major grain-producing counties, in light of regional grain output,



production concentration, and service scope. Third, expand functions and improve the capacity of food quality and safety inspection and monitoring. Allow the existing institutions affiliated to the food and strategic reserves authorities to play their principal role supplemented by the key food enterprises and related universities, in order to improve the network of inspection and monitoring institutions at the national, provincial, city and county levels. Fourth, highlight brand promotion and play a leading role in the “China Good Grain and Oil” campaign. Select demonstration counties (cities) and demonstration enterprises on a merit basis, with due consideration to the major grain-producing counties and grain-and-oil producing counties with special features. Support demonstration enterprises to form a community of shared interests with the model of “company + cooperative + base + farmers”, carry out order-based purchase, build planting and processing bases, increase the production of high-quality grain and oil products, and enable farmers to continue to increase their income. Fifth, conduct meticulous organization and build synergy to ensure effective implementation. The finance authorities shall, under the leadership of government at all levels, coordinate the multiple tasks of project planning, enforcement organization, operation, and supervision and assessment.

## **16. MOF and SAT jointly published an announcement on subjecting individual’s relevant income to the**

### **taxable income items of individual income tax**

On June 25, MOF and SAT jointly published an announcement on subjecting individual’s relevant income to the taxable income items of individual income tax, which provided the following. First, individual’s income obtained from providing guarantees for units or other individuals is subject to individual income tax under the “accidental income”. Second, if the owner of housing property donates housing property rights to others, the recipients’ income obtained from such donation is subject to individual income tax under the “accidental income”. Third, in the business promotion, advertising and other activities of enterprises, the gifts (including online red envelopes) randomly offered to individuals outside enterprises, the gifts offered to individuals outside enterprises during annual meetings, symposiums, celebrations and other activities, as well as the personal income obtained from gifts are subject to individual income tax under the “accidental income”, except for such gifts as coupons and vouchers with price discount offered by enterprises. Fourth, for the individual pension income obtained from tax-deferred commercial pension insurance, 25% of such income is exempted from tax, and the remaining 75% is subject to individual income tax at a rate of 10%. The tax is included in the “salary and wage income” and shall be fully paid at the location where the insurer sells the tax-deferred pension insurance after the withholding of taxes by the insurer. Fifth, this announcement is

implemented starting from January 1, 2019.

## II. Facts & Figures

### 1. China's PMI in May was 49.4%

The data published by NBS on May 31 showed that China's PMI in May was 49.4%, down by 0.7 percentage point month on month. In breakdown of enterprises, PMI was 50.3% for large-sized ones, down by 0.5 percentage point month on month; 48.8% for medium-sized ones, down by 0.3 percentage point month on month; and 47.8% for small-sized ones, down by 2.0 percentage points month on month. In specific terms, the production index was 51.7%, down by 0.4 percentage point month on month; the new order index was 49.8%, down by 1.6 percentage points month on month; the raw material inventory index was 47.4%, up by 0.2 percentage point month on month; the employee index was 47.0%, down by 0.2 percentage point month on month; and the supplier delivery time index was 50.9%, up by 1.0 percentage point month on month.

### 2. China's CPI rose by 2.7% year on year in May

The data published by NBS on June 12 showed that

China's CPI rose by 2.7% year on year in May. In breakdown, the figure rose by 2.7% year on year in urban areas, and 2.8% year on year in rural areas; increased by 7.7% year on year for food prices and 1.6% year on year for non-food prices; rose by 3.2% year on year for consumer goods, and 1.9% year on year for services. The data also showed that China's CPI in May was flat month on month. Among them, the figure was flat month on month in urban areas, and rose by 0.1% month on month in rural areas; increased by 0.2% month on month for food prices and stayed flat for non-food prices; rose by 0.1% month on month for consumer goods and fell by 0.1% month on month for services.

### 3. China's PPI rose by 0.6% year on year in May

The data published by NBS on June 12 showed that China's PPI in May rose by 0.6% year on year and 0.2% month on month. In terms of the year-on-year changes, the price of production materials rose by 0.6% year on year. Among them, the price of mining industry rose by 6.1%, the price of raw material industry fell by 0.6%, and the price of processing industry rose by 0.5%. The price of living materials rose by 0.9%. Among them, the food price rose by 2.2%, the apparel price rose by 1.5%, the price of general daily goods rose by 0.4%, and the price of consumer durables fell by 0.8%. In terms of month-on-month changes, the price of production materials rose by 0.2% month on month. Among them, the price of mining industry

rose by 1.9%, the price of raw material industry went up by 0.2%, and the price of processing industry stayed flat. The price of living materials rose by 0.1%. Among them, the food price rose by 0.4%, the apparel price stayed flat, the price of general daily goods rose by 0.1%, and the price of consumer durables fell by 0.2%.

#### **4. China's general public budget revenue registered a year-on-year increase of 3.8% from January to May**

According to the news released by MOF on June 14, China's general public budget revenue was 8.9919 trillion RMB from January to May, a year-on-year increase of 3.8%. In breakdown, the general public budget revenue of the central level was 4.3397 trillion RMB, an increase of 3.6% year on year; the general public budget revenue of the local level was 4.6522 trillion RMB, an increase of 3.9% year on year. The tax revenue was 7.8493 trillion RMB, a year-on-year increase of 2.2%; the non-tax revenue was 1.1426 trillion RMB, a year-on-year increase of 16.1%. In terms of general public budget expenditures, China's general public budget expenditure was 9.3023 trillion RMB from January to May, a year-on-year increase of 12.5%. Among them, the general public budget expenditure of the central level was 1.3439 trillion RMB, an increase of 12.5% year on year; the general public budget expenditure of the local level was 7.9584 trillion RMB, an increase of 12.5% year on year. In terms of government fund budget

revenue and expenditure, China's government fund budget revenue was 2.4744 trillion RMB, down by 3.8% year on year; and the government fund budget expenditure was 2.7857 trillion RMB, a year-on-year increase of 32.8%.

#### **5. China issued 304.3 billion RMB of local government bonds in May**

According to the news released by MOF on June 17, China issued 304.3 billion RMB of local government bonds in May. Among them, 146.4 billion RMB were general bonds and 157.9 billion RMB were special bonds; according to the purpose of use, 165.7 billion RMB were new bonds, 138.6 billion RMB were swapped bonds and refinanced bonds. The average maturity of local government bonds is 12.0 years, including 10.4 years for new bonds and 13.9 years for refinanced bonds. As of the end of May 2019, the outstanding nationwide local government debts were 19.8953 trillion RMB, which was controlled within the limit approved by NPC. Among them, the general debts were 11.671 trillion RMB, and the special debts were 8.2243 trillion RMB; the government bonds were 19.5802 trillion RMB, and the stock of government debts that are not in the form of government bonds amounted to 315.1 billion RMB. The average remaining maturity of local government bonds is 4.5 years, including 4.5 years for general bonds and 4.6 years for special bonds; the average interest rate is 3.52%, including 3.51% for general bonds and 3.52% for

special bonds.

## 6. Total operating income of SOEs in China from January to May increased by 7.7% year on year

The data published by MOF on June 21 showed that the total operating income of SOEs in China from January to May was 23.773 trillion RMB, a year-on-year increase of 7.7%; the total operating cost was 22.92401 trillion RMB, a year-on-year increase of 7.8%; the total profit was 1.3929 trillion RMB, a year-on-year increase of 8.7%; net profit after tax was 1.02808 trillion RMB, up by 9.3% year on year; tax payable was 1.90431 trillion RMB, up by 1.2% year on year. The data also showed that at the end of May, the total assets of SOEs were 192.86409 trillion RMB, up by 8.8% year on year; the total liabilities were 124.36378 trillion RMB, up by 8.5% year on year; and the total owner's equities were 68.50031 trillion RMB, up by 9.3% year on year.

## 7. China's lottery sales totaled 35.523 billion RMB in May

The data released by MOF on June 25 showed that nationwide lottery sales in May were 35.523 billion RMB, down by 12.7% year on year. The welfare lottery sales were 16.493 billion RMB, down by 15.7% year on year. The sports lottery sales were 19.03 billion RMB, down by 10.0% year on year.

By type, the lotto lottery sales were 19.035 billion RMB, down by 22.9% year on year; the toto lottery sales were 9.55 billion RMB, down by 5.7% year on year; the instant lottery sales were 2.602 billion RMB, up by 42.5% year on year; the video lottery sales were 4.321 billion RMB, up by 6.8% year on year; and the keno lottery sales were 15 million RMB, up by 47.8% year on year.

### III .MOF Events

1. On May 27, Finance Minister Liu Kun met with Takehiko Nakao, President of the Asian Development Bank.

2. On May 31, Vice Finance Minister Zou Jiayi met with K. V. Kamath, President of the New Development Bank, in Shanghai.

3. From June 8 to 9, Finance Minister Liu Kun attended and addressed the G20 Finance Ministers and Central Bank Governors' Meeting in Fukuoka, Japan. Vice Finance Minister Zou Jiayi also attended the Meeting.

4. From June 8 to 9, during the G20 Finance Ministers and Central Bank Governors' Meeting in Fukuoka, Japan, Finance Minister Liu Kun met with UK Chancellor of the Exchequer Philip

Hammond and Argentine Treasury Minister Nicolas Dujovne.

5. On June 11, Finance Minister Liu Kun met with World Bank President David Malpass at MOF.

## IV. Local Finance

### **1. The Finance Bureau of Changzhou City in Jiangsu Province improved the business environment for SMEs through the Service Platform for Business Startup and Innovation**

According to the news released by the Finance Department of Jiangsu Province on June 3, Changzhou City in Jiangsu Province has further optimized and improved the functions of the Service Platform for Business Startup and Innovation, and enhanced the eight sections of “policy services, talent services, financial services, technology services, business startup counseling, market development, management consulting, and procurement”, in order to concentrate efforts on the development, align to the first-class service standards, and provide effective services. First, focus on funds and promote “one-stop window” for handling corporate-related funds. With the support of “Internet + Government Services”,

the Service Platform for Business Startup and Innovation integrated all city-level corporate-related fiscal funds into unified management, and implemented a unified reporting platform, a unified reporting window, and a unified approval process. Second, focus on capital and expand the financing channels for SMEs. As of the end of April 2019, there were 80 online financing products, and 151 registered intermediary service agencies and 54,745 member enterprises on the platform. Third, focus on resources and build a national property rights trading platform. Changzhou has made efforts to build a national Internet trading platform: e-transaction. At the same time, in order to implement the Strategy for Rural Revitalization Changzhou also built a rural property rights trading platform.

### **2. The Finance Department of Guangxi Zhuang Autonomous Region actively supported the development of automobile industry to promote high-quality and green growth**

According to the news released by the Finance Department of Guangxi Zhuang Autonomous Region on June 4, in order to speed up the development of new business models and new growth drivers of the automobile industry, Guangxi Finance authorities, with the aim of building a modern automobile industry with special features of Guangxi, made great efforts to develop new-energy vehicles and accelerate

the structural adjustment, transformation and upgrading of the automobile industry. First, focus on strengthening the leading players in the automobile industry. Guangxi finance authorities raised 270 million RMB of funds through various channels and concentrated the resources on vigorously supporting the development of leading enterprises in the automobile industry. Strengthen technological innovation and accelerate the pace of product upgrading, with Shanghai General Motors Wuling (SGMW) as the leading player. Second, strengthen the industrial chain of automobile industry. Guangxi finance authorities raised 100 million RMB of funds through multiple channels, vigorously supported the lacking or relatively weak links in the auto parts industrial chain, and accelerated the localized production or upgraded the technical level and scale of products. Third, foster clusters of automobile industry. Guangxi finance authorities raised 2.432 billion RMB of funds through various channels to support the development of modern industrial parks and promote the development of automobile industry clusters. Fourth, cultivate the brand of the automobile industry. Guangxi finance authorities raised 719 million RMB of funds to carry out quality enhancement actions to develop products with famous trademarks and brands in Guangxi. Fifth, promote innovation to remove the “bottlenecks” of the automobile industry. Strengthen technological innovation, new product research and development, and application and commercialization of findings, enhance core competitiveness, and continuously introduce new

models for marketable vehicles. Sixth, expand the market and extend the “network” of the automobile industry. Guangxi finance authorities raised 2.376 billion RMB of funds through multiple channels to support the development of automobile market and enhance the influence of automobile companies.

### **3. The Finance Bureau of Loudi City of Hunan Province adopted multiple measures to make sure it is halfway through the fiscal and taxation targets in the first half of the year**

According to the news released by the Finance Department of Hunan Province on June 10, the Finance Bureau of Loudi City has adopted stronger measures, enhanced accountability, and intensified efforts to make sure it is halfway through the fiscal and taxation targets in the first half of the year. First, concentrate efforts on mobilizing fiscal revenues. Give full play to the data analysis and real-time monitoring functions of the comprehensive taxation platform in order to ensure the taxes are fully collected. Second, ensure sound spending. Strictly reduce the general expenditures by no less than 5%, and strengthen the review of the “three public expenses”. Third, continue to strengthen the cultivation of financial resources. Establish the expert review mechanism, project monitoring mechanism and dynamic management mechanism for project pipeline, and offer preferential policy and financial support to the enterprises or projects included in the pipeline.

Fourth, optimize and improve the business environment. Establish a special fiscal fund management platform, offer preferential policy to enterprises that meet the criteria for financial support, and allow for online project declaration and fund disbursement. Fifth, conduct strict assessment and improve management performance. Improve the incentive mechanism, strengthen performance management, and effectively prevent debt risks.

#### **4. The Finance Bureau of Jiangmen City in Guangdong Province accelerated the reform of budget preparation, implementation, supervision and management**

According to the news released by the Finance Department of Guangdong Province on June 12, the Finance Bureau of Jiangmen City has accelerated the reform of the city-level budget preparation, implementation, supervision and management. In 2019, Jiangmen City has fully integrated the reform requirements into budget preparation, and 60% of the projects are refined into specific executable projects in advance, in order to make the budget execution smoother. First, carry out the consolidation of projects and streamline the number of projects. Promote the coordinated use of fiscal funds, leverage major departments and platforms, consolidate the dispersed and small projects, and adjust the catalogues of city-level special funds. Second,

implement tiered and classified management and establish a “three-item list”. With the aim of clarifying powers and responsibilities, the city-level fiscal projects are divided into operational and developmental projects. Operational projects and general developmental projects are mainly funded by the expenses of the departments in performing their functions, therefore, the administration is streamlined, powers are delegated and the approval authority is decentralized to allow the departments to make approval and use the funds on their own. Third, improve the project management process and enhance operability. Reform the budgeting procedures and government procurement processes while enhancing the flexibility and operability of budget execution.

#### **5. The Finance Department of Jiangsu Province took an important step towards the centralized and unified management of provincial-level state-owned financial capital**

According to the news published by the Finance Department of Jiangsu Province on June 17, it recently issued the *Circular on Implementing the Centralized and Unified Management of Provincial-level State-owned Financial Capital*, in order to make specific arrangements for the centralized management of provincial-level state-owned financial capital. First, highlight key points and conduct comprehensive management, with the scope of management covering all

provincial-level state-owned financial capital. The Finance Department of Jiangsu, authorized by the Jiangsu Provincial Government, fulfills the duties of investor in provincial-level state-owned financial capital, and is responsible for the centralized and unified management of provincial-level state-owned financial capital in accordance with the laws. Second, conduct effective and proportionate management, with management methods tailored to management matters. The Finance Department of Jiangsu will formulate a list of management matters, refrain from intervening in the daily operation and management of enterprises, fully delegate and decentralize, and organize the implementation of basic management, budget execution, performance appraisal, salary calculation, and compensation management of responsible persons. Third, ensure sound and sustainable management, with a package of implementation rules to be introduced during the year. Effectively strengthen the design of the supervision system, firmly establish the service awareness, conscientiously implement the requirements of “effectively managing people and money, and building a rule-based firewall”, put the implementation rules on the agenda, and ensure full discharge of duties, in order to effectively stimulate and unleash the vitality of state-owned financial institutions and promote the preservation and appreciation of the value of state-owned financial capital.

## 6. The Finance Department of Guangxi Zhuang Autonomous Region took

### multiple measures to enhance the role of scientific and technological innovation in serving the “agriculture, rural areas and farmers”

According to the news released by the Finance Department of Guangxi Zhuang Autonomous Region on June 18, it attaches great importance to the key role of scientific and technological innovation in serving the “agriculture, rural areas and farmers”, and has taken various measures to enhance the service capacity of science and technology in order to promote the development of modern agriculture and boost the income of farmers in the region. First, continue to intensify the research and development efforts in agricultural science and technology projects. Focus on the development of modern agricultural industry, and identify “the supporting of advantageous agriculture with special features” as the key direction of research projects funded by public finance. Second, enhance the ability of science and technology personnel in helping the poor. In 2018, the finance authorities of Guangxi raised a total of 30.307 million RMB to support the selection and appointment of 2,873 science and technology commissioners in poverty-stricken villages. The science and technology commissioners in poverty-stricken villages who carry out public-welfare (free) technology services will be offered work subsidies for rural science and technology work. Third, enhance the role of science and technology in driving the development of agricultural industry. In each year, 34 million RMB of special funds are



allocated to support the Guangxi Innovation Team of the National Technology System for Modern Agricultural Industry. Fourth, focus on improving the scientific literacy of farmers. Each year, a special fund of 4.6 million RMB will be arranged to support the Special Action Plan for Improving Scientific Literacy and Revitalizing Villages in Guangxi, in order to support the scientific research personnel to carry out work for enhancing rural scientific literacy at the grassroots level. Fifth, build a complete scientific research service system of the Academy of Agricultural Sciences. Starting from 2015, the finance authorities of Guangxi have arranged a five-year program which allocates 9.9 million RMB per year for the cooperation between the Guangxi Academy of Agricultural Sciences and the Agriculture Department of Guangxi to enhance the coverage of scientific and technological services.

## **7. The Finance Department of Hubei Province streamlined government procurement to deliver better service for enterprises**

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According to the news released by the Finance Department of Hubei Province on June 17, Wuhan City of Hubei Province has actively responded to the needs of enterprises and continued to optimize the business environment. First, implement a negative list system to create a fair and equitable market environment. Study and release the Negative List of Wuhan Government Procurement,

which clearly stipulates that in the government procurement activities, purchasers and procurement agencies shall not set such qualification conditions as the supplier's scale, specific administrative regions, industry performances, and awards in the bidding documents, nor shall they illegally restrict the supplier's ownership form, organization form or location, impose differential or discriminatory treatment on suppliers under other unreasonable terms, in order to create a fair and equitable government procurement market environment. Second, cancel the deposits for government procurement bidding and reduce the operating costs of enterprises. Implement the policy of cancelling the deposits for government procurement bidding, and stipulate that purchasers and agencies shall not collect bid deposits for the government procurement bidding activities that use fiscal funds in Wuhan. All procurement agencies are required to comprehensively clean up the bid deposits collected before November 2018 and refund them. Third, standardize the complaint handling procedures and reduce the time limit for reviewing complaints. Reduce the time limit for reviewing complaints from 5 working days to 3 working days after the receipt by finance authorities of written complaints from supplier, and improve the efficiency for handling complaints. Fourth, implement the government procurement credit commitment system and promote the construction of an integrity system. Establish and improve the credit registration system for government procurement bidding suppliers, and incorporate the supplier credit commitment into the credit record

of the market player, which may serve as the main basis for interim and ex-post supervision and classified oversight over market entities, in order to promote ethical operation of suppliers. Fifth, promote “Internet + government procurement” and continuously improve service efficiency. Fully draw on the experiences of advanced cities, build and improve an electronic trading platform covering the city’s centralized procurement catalogue, and realize the electronic tendering, bidding and bid evaluation of government procurement. Upgrade and improve the Wuhan Government Procurement Information Release System, set up a disclosure section for government procurement complaints, pilot the parallel online and offline mechanism for government procurement complaints, broaden the online complaint-filing channels for suppliers, and continuously improve the relief mechanism.

## **8. The Finance Department of Jiangxi Province ensured “three guarantees” to accelerate the implementation of policies related to tax and fee cut**

According to the news released by the Finance Department of Jiangxi Province on June 25, the Finance Bureau of Pingxiang City of Jiangxi Province has firmly ensured “three guarantees” and fully implemented all the policies and measures of tax and fee cut, so that enterprises and general public can truly feel the benefits of the tax and fee cut policy. First, establish mechanisms and strengthen learning to ensure that the work is

progressing in an orderly manner. Establish a leading group for the implementation of tax and fee cut, with the director of the Finance Bureau of Pingxiang as the head, the deputy directors as the deputy heads, and the chiefs of budget, treasury, non-tax management, performance, and discipline inspection and supervision divisions as the members. Clarify the work responsibilities of the relevant functional divisions to promote sound division of labor and coordination. Attach great importance to the study of various policies on tax and fee cut, and lay a solid foundation for the orderly implementation of tax and fee cut. Second, carry out extensive publicity work and conduct strict supervision to ensure the implementation of the policy. Further increase the publicity and interpretation of the tax and fee cut policy, and deploy a mix of traditional media, new media and other platforms to carry out various forms of policy publicity activities. Strictly supervise the implementation of the policies by the finance authorities of counties (districts). Third, open sources and reduce expenditures, focus on performance, and ensure budget balance. Recognize the importance of “tightening the belt” and provide funding for the supply-side structural reform, the fight of three major battles, the protection and improvement of people’s livelihood, and the major decisions of the city Party committee and government, under the premise of sticking to the bottom line of “three guarantees”. Strengthen the fiscal budget performance management and continuously expand the channels of financial resources.

## V. Remarks & Opinions

### 1. Yu Yongding: six possibilities of trade war escalation by the US

Yu Yongding, Member of the Chinese Academy of Social Sciences, recently said that the United States has breached the bottom line of China in terms of “quantitative target, sovereignty and dignity”, which China cannot accept. At present, Sino-US trade negotiations have stalled, and there are six possibilities of trade war escalation by the US. First, the tariff escalation. The tax hike would make the United States suffer certain losses in the early period, but China would suffer even greater losses in the later period. Second, the investment war. Foreign-funded enterprises would speed up their withdrawal from China, and some Chinese companies may also leave. For the US capital, we should make our best efforts to meet their reasonable requirements and retain them, rather than jumping from one extreme to the other. Third, the United States may cut off the global value chain to stifle China’s high-tech industries. China should allow high-tech enterprises to make their own choices, while the government should listen to the opinions of various enterprises, coordinate the positions of

different parties, and strive for as much time as possible for the adjustment of enterprises. Fourth, the foreign exchange rate war. China may be vilified by the United States as the “manipulator of foreign exchange rate”. Fifth, the financial sanctions. Once China is included in the US Specially Designated Nationals and Blocked Persons List, it will be kicked out of the settlement system by the United States. Not only would it be unable to use the US dollar, but its US dollar assets may even be seized. We must consider the countermeasures. Europe used the “blocking statute” to deal with US financial sanctions. Although the effect is not necessarily obvious, they had, at least, laws to follow. China should push forward the relevant legislation to protect the interests of its domestic enterprises. Sixth, freeze China’s overseas assets, including foreign exchange reserves. Therefore, in the short run, China should actively negotiate, but should not accept ultimatums or sacrifice its sovereignty and dignity. Instead, China should pursue proactive fiscal policies and accommodative monetary policies to offset the adverse effects of trade war on the Chinese economy; promote the reform of the exchange rate system and improve the management of cross-border capital flows; and further improve the competitive environment of foreign capital and try to retain foreign capital in China. In the long run, we should adjust our long-term strategy, develop more domestic markets, and reduce external dependence. At the same time, the government should offer companies the necessary support to ease the

difficulties companies face in adjusting their position in the global industrial chain.

## 2. Liu Kun: high-quality infrastructure investment should be development-oriented

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From June 8 to 9, the G20 Finance Ministers and Central Bank Governors' Meeting was held in Fukuoka, Japan. Finance Minister Liu Kun attended the meeting and delivered a speech. Liu Kun pointed out that the uncertainties in the world economy have increased, and protectionism is still a major challenge facing the world. All parties should pay close attention to potential downside risks, jointly safeguard the rule-based multilateral system, and deal with trade disputes in an equal and rational way. At present, global imbalances are mainly concentrated in advanced economies, and these countries should play a greater role in addressing imbalances. Adopting trade protectionist measures on bilateral occasions would not help address the imbalance under the multilateral system, but would harm the world economic growth. This year, China's economy has maintained a steady momentum of growth. The Chinese government will take a series of major measures related to reform and opening up to promote higher-level opening up and advance the high-quality development of China's economy and the prosperity of the global economy. Liu Kun stressed that development financing is the main bottleneck faced by low-income countries.

G20 should fully respect the national conditions and financing needs of LICs and improve their debt sustainability in a constructive manner. High-quality infrastructure investment should be development-oriented, fully respect the national conditions of each country, pay equal attention to quantity and quality, and fully integrate the concept of sustainable development into high-quality infrastructure investment. China is willing to work with all parties to support the development of high-quality, sustainable, resilient, reasonably priced, inclusive and accessible infrastructure to enable countries to better integrate into global supply chain, industrial chain and value chain to achieve inter-connected economic development.

## 3. Jia Kang: fiscal and tax research should be forward-looking

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In his recently published article, Jia Kang, President of the China Academy of New Supply-side Economics, said that China's fiscal and tax research should recognize the general trend of the merging between online and offline, and develop broader and more forward-looking knowledge framework and vision. First, positively acknowledge the role of the digital economy in spearheading global development and China's development, while paying attention to the prevention of risks. In real life, P2P has already induced unexpected distortions in China, bringing some negative effects to the economy and society. That said, we must not deny the correctness

of the direction of Internet+, instead, we must comply with the Internet + and the future trend of mobile Internet and Internet of Things. Second, recognize the late-comer advantage of China in the development of digital economy. In the application of the original technology provided by Silicon Valley, China has huge market potential. Guided by the global thinking, China's e-commerce giants have developed in an extraordinary way, made various contributions to China's economy and society, including GDP, tax and employment growth, and helped drive the economic development and prosperity of some remote rural areas. Third, focus on building a sustainable, healthy and policy-based financing support mechanism underpinned by public finance. To this end, the finance authorities should provide "policy funds, market-oriented operations, professional management, and leveraged amplification", and explore approaches such as subsidized interest, credit guarantee and industrial guidance funds.

#### **4. Xie Fuzhan: economic and trade frictions provoked by US are groundless**

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On June 20, Xie Fuzhan, President of the Chinese Academy of Social Sciences, said in his published article that since March last year, some people in the United States have deliberately provoked China-US economic and trade frictions and assertively claimed that the US is "being taken advantage of", accusing China of "unfair

trade", "forced technology transfer", "stealing US technology", and "not fulfilling WTO commitments". These accusations are groundless and simply untenable. First, the bilateral trade surplus is on China's side but the benefits are shared by both sides. The US trade deficit with China is a reflection of the division of labor in the global value chain and the resulting layout of supply chain and industrial chain, which are formed in the process of economic globalization. Discussing the bilateral trade imbalances in this context requires understanding the multilateral factors behind it, and it is obviously one-sided to talk about trade imbalances from a bilateral perspective. China-US economic and trade cooperation is essentially mutually beneficial and win-win. The so-called "US is being taken advantage of" is not in line with reality. For the US, China-US economic and trade cooperation will not only help it achieve static gains such as trade and investment growth, but also bring about dynamic gains in economic growth and industrial upgrading. Second, the US accusation against China's technological progress is contrary to the facts. China's scientific and technological progress is mainly due to independent innovation, and foreign companies fully recognize the protection of intellectual property rights in China. The suppression of Chinese high-tech enterprises by some people in the US will seriously undermine the innovation ecology of global open cooperation. Third, China is a top student among the members of WTO. The current US government's evaluation of China's accession to the WTO is politically motivated and not objective. Some people in the

US accuse China's economic model of harming the interests of other WTO members. The fact is that since China's accession to the WTO, its average contribution to world economic growth has approached 30%, making it an important engine for driving world economic growth. At a time when the WTO and other members of the WTO recognize China's performance after its accession to the WTO, the US, in order to come to the conclusion about China's non-compliance with WTO rules, can only move to judge China's performance on the basis of its own standards set higher than WTO rules and whether the US benefits the most from it. This is obviously unreasonable. Fourth, the

economic and trade frictions provoked by US go against the trend of the times. Peace, development, cooperation, and win-win are the trend of the times. The economic and trade frictions provoked by US are contrary to the trend of the times and have been resolutely opposed by the people of China and US as well as the people of the world. Unilateralism and protectionism harm both oneself and others, and would only lead to a dead end. Some people in the US should abandon their wrong practices and meet China halfway to jointly promote the China-US relations based on coordination, cooperation and stability, and enhance the well-being of the people of the two countries and the world.

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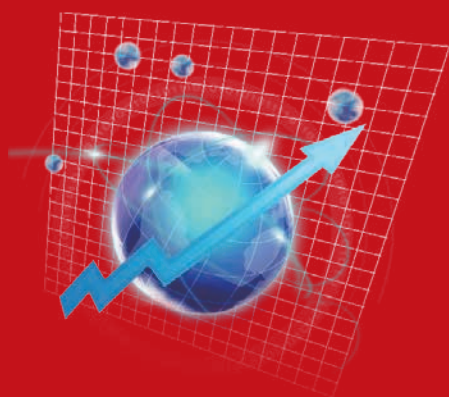
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