

1 China

Zhang Hui

I. Introduction

China has one of the world's oldest civilizations and has the oldest continuous civilization. It has archaeological evidence dating back over 5,000 years. It also has one of the world's oldest written language systems and is viewed as the source of many major inventions. The People's Republic of China was proclaimed with Mao Zedong as chairman on October 1st, 1949. Since initiating the reforms and open policy in 1978, China has achieved tremendous success. Growth of about 9.7 percent per annum since the late 1970s has helped to lift several hundred million people out of absolute poverty, with the result that China alone accounted for over 75 percent of poverty reduction in the developing world over the last 20 years. China has become one of the world's fastest growing economies and the world's second largest exporter and the third largest importer of goods. The Summer Olympic Games were held in Beijing, China in August 8, 2008, which was the third time that it was held in Asia. World's Fairs, Expo2010, will be held in Shanghai, China from May 1 to Oct. 31, 2010. It is expected to generate the largest number of visitors in the history of the world's fairs in terms of gross numbers. However, there is still a long way to go to build a better world.

State Structure and Government Organizations

According to the Chinese Constitution, the State organs of China are comprised of the National People's Congress (NPC), the President, the State Council, the Central Military Commission, the Supreme People's Court, and the Supreme People's Procuratorate. The President of the People's Republic of China is the Head of State as well as the supreme representative of China. China's system of the head of state is a system of collective leadership. The president is subordinate to the NPC and directly receives instructions from the supreme organ of State power.

The NPC of the People's Republic of China is the highest organ of state power. The Standing Committee of the NPC is the permanent organ of the NPC. The term of office of the NPC and its Standing Committee are five years. The NPC and its Standing Committee are empowered with the rights of legislation, decision, supervision, election and removal.

The State Council of the People's Republic of China, namely the Central People's Government, is the highest executive organ of State power, as well as the highest organ of State administration. The State Council is composed of a premier, vice-premiers, State councilors, ministers in charge of ministries and commissions, the auditor-general and the secretary-general. The premier of the State Council is nominated by the president, reviewed by the NPC, and appointed and removed by the president. There are 27 Ministries and Commissions under the State Council, 16 Organizations directly under the State Council, 4 Administrative Offices under the State Council, 14 Institutions directly under the State Council and 22 Administrations and Bureaus under the Ministries & Commissions.

The Communist Party of China (CPC), which is established on July 1st 1921 in Shanghai, has been the party in power in the country since the foundation of the People's Republic of China in 1949. Apart from the Communist Party of China (CPC), there are eight democratic parties in China. Multi-party cooperation and political consultation under the leadership of the CPC is the basic political system in China.

Administrative Divisions

At the moment, China is divided into twenty-third provinces; five autonomous regions (Tibet, Xinjiang, Ningxia, Inner Mongolia and Guangxi), each with a designated minority group; four municipalities (Beijing, Shanghai, Tianjin and Chongqing) directly under the Central Government; and two special administrative regions (HongKong and Macao) that enjoy considerable autonomy. A

province or an autonomous region is subdivided into autonomous prefectures, counties, autonomous counties and /or cities. A county or an autonomous county is subdivided into townships, ethnic townships and/or towns. There are 333 regions at prefecture level, 2859 regions at county level and 40813 regions at townships level till the end of 2007.

Geography and Climate

Located in the east of the Asian continent, on the western shore of the Pacific Ocean, the People's Republic of China has a land area of about 9.6 million square kilometers. A total of 5,400 islands dot China's territorial waters. With a land boundary of some 22,800 km, China is bordered by Korea to the east; Mongolia to the north; Russia to the northeast; Kazakhstan, Kyrgyzstan and Tajikistan to the northwest; Afghanistan, Pakistan, India, Nepal and Bhutan to the west and southwest; and Myanmar, Laos and Vietnam to the south. Across the seas to the east and southeast are the Republic of Korea, Japan, the Philippines, Brunei, Malaysia and Indonesia.

With highlands in the west and plains in the east, China has a varied topography. There are a vast land of lofty plateau, large plains, rolling land and big and small basins surrounded by lofty mountains. All the five basic topographic types in the world exist in China to create the conditions for developing industry and agriculture. Mountainous land and very rough terrains make up 2/3 of Chinese territory, and this has created some problems in transport and in the development of agricultural production. However such topographical features are conducive to the development of forestry, mineral and hydropower resources and tourism.

Extending over 50 latitudes from north to south, the territory of China embraces 6 climate zones including the tropics, the subtropics, the warm temperate zone, the moderate temperate zone, the cold temperate zone and Qinghai-Tibet plateau zone. In view of the types of climate, the east region of China has a strong feature of monsoon weather, the northwest region of China falls into temperate and continental weather, Qinghai-Tibet plateau belongs to Frigid Zone. In winter northwest wind from Siberia prevails in China, bringing cold and dry, and the temperature of the whole country differs far from the north to the south. From September to April the following year, the dry and cold winter monsoons blow from Siberia and the Mongolian Plateau, resulting in cold and dry winters and great differences between the temperatures of north and south China. From April to September, warm and humid summer monsoons blow from the seas in the east and south, resulting in overall high temperatures and plentiful rainfall, and little temperature difference between north and south China. In terms of temperature, the nation can be sectorized from south to north into equatorial, tropical, subtropical, warm-temperate, temperate, and cold-temperate zones. Precipitation gradually declines from the southeastern to the northwestern inland area, and the average annual precipitation varies greatly from place to place. In southeastern coastal areas, it reaches over 1,500 mm, while in northwestern areas it drops to below 200 mm.

Resources

In China today, 130.04 million hectares of land are cultivated, mainly on the Northeast Plain, the North China Plain, the Middle-Lower Yangtze Plain, the Pearl River Delta and the Sichuan Basin. Forests cover only 175 million hectares of China. Grasslands in China cover an area of 400 million hectares, stretching more than 3,000 km from the northeast to the southwest. China's cultivated lands, forests and grasslands are among the largest in terms of sheer area in the world. But due to China's large population, the per-capita areas of cultivated land, forest and grassland are small, especially in the case of cultivated land -- only one third of the world's average.

China is rich in mineral resources, and all the world's known minerals can be found here. To date, geologists have confirmed reserves of 158 different minerals, putting China third in the world in terms of total reserves. Reserves of the major mineral resources, such as coal, iron, copper, aluminum, stibium, molybdenum, manganese, tin, lead, zinc and mercury, are in the world's front rank.

China is one of the countries with the greatest diversity of wildlife in the world. There are more than 6,266 species of vertebrates, 10 percent of the world's total. Among them 2,404 are terrestrials and 3,862 fishes. There are more than 100 wild animal species unique to China including such well-known rare

animals as the giant panda, golden-haired monkey, South China tiger, brown-eared pheasant, red-crowned crane, red ibis, white-flag dolphin and Chinese alligator.

China is also one of the countries with the most abundant plant life in the world. There are more than 32,000 species of higher plants, and almost all the major plants that grow in the northern hemisphere's frigid, temperate and tropical zones are represented in China. In addition, there are more than 7,000 species of woody plants, including 2,800-odd tree species. The metasequoia, Chinese cypress, Cathay silver fir, China fir, golden larch, Taiwan fir, Fujian cypress, dove-tree, eucommia and camptotheca acuminata are found only in China.

Demographics and Language

At the end of 2008, there are 1,328.02 million people in the PRC. About 19% of the population is 14 years old or younger, 73% of the population is between 15 and 64 years old, and 8% of it is over 65 years old. The natural growth rate of population for 2007 is 0.517%. There are 56 distinct ethnic groups, the largest of which is the Han Chinese, who constitute about 91.9% of the total population. Large ethnic minorities include the Zhuang, Manchu, Hui, Miao, Uyghur, Yi, Tujia, Mongols, Tibetans, Buyei, and Koreans.

Table 1: Composition of Population (2008)

Items	Population (Year-end figure)	Unit: 10,000 persons
		Percentage (%)
National Total	132802	100.0
Of which: Urban	60667	45.7
Rural	72135	54.3
Of which: Male	68357	51.5
Female	64445	48.5
Of which: 0-14 years	25166	19.0
15-59 years	91647	69.0
60 years	15989	12.0
Of which: 65 years and over	10956	8.3

Source: National Bureau of Statistics of China

Language system can be divided into Standard Chinese or Mandarin (Putonghua, based on the Beijing dialect), Yue (Cantonese), Wu (Shanghainese), Minbei (Fuzhou), Minnan (Hokkien-Taiwanese), Xiang, Gan, and Hakka dialects, as well as minority languages. Mandarin is official language in China and Chinese is also one of six official languages in United Nation. There are more than 80 languages in 56 ethnic groups because local residents use more than one language. Since some of ethnic groups have their own characters, there are about 30 characters all over China.

Religion and Culture

China is a country of great religious diversity and freedom of religious belief. It has over 100 million followers of various faiths, more than 100,000 sites for religious activities, about 300,000 religious personnel and over 3,000 religious associations. These associations run 76 religious schools and colleges to train religious personnel. In China, all regular religious activities - such as worshipping Buddha, chanting scriptures, praying, expounding on scriptures, baptism, initiation into monk- or nun-hood, Ramadan and observance of religious festivals - are all managed by the religious personnel and adherents themselves, are protected under the law and are free from interference. The holy books of each religion are published and distributed by religious associations. Each religion in China has its own national periodical, which is also circulated abroad.

The main religions are Buddhism, Islam, Roman Catholic and Protestant Christianity, China's indigenous Taoism, Shamanism, Eastern Orthodox Christianity and the Naxi people's Dongba religion. The Hui, Uyghur, Kazak, Kirgiz, Tatar, Uzbek, Tajik, Dongxiang, Salar and Bonan peoples adhere to Islam; the Tibetan, Mongolian, Lhoba, Monba, Tu and Uyghur, to Tibetan Buddhism (also known as Lamaism),

and the Dai, Blang and Deang to Hinayana Buddhism. Large numbers of Miao, Yao and Yi are Catholic or Protestant Christians. Religious Han Chinese tends to practice Buddhism, Christianity, or Taoism.

With the economic development that started in the 1980s, Chinese media have become more diversified as they extend their reach throughout China through multiple transmissions, including satellites, wireless and wired systems. Today, there are over 2,000 newspapers, over 8,000 magazines, 282 radio stations and 374 TV stations in China.

Chinese characters evolved from pictures and signs, and the Chinese art of calligraphy developed naturally from its unique writing system. Every dynasty had its great calligraphers, whose calligraphic styles became symbolic of their times, and the Chinese people's love of calligraphy has been handed down to the present day.

China boasts more than 300 kinds of traditional opera, mainly using singing and dancing to express the plot. At present, thousands of plays are performed on the stage every year, adding variety to people's cultural life. The Plum Blossom Award founded in 1983 is China's highest prize for opera performers of young and middle age.

There are many traditional sports. Chinese dragon boat racing occurs during the Duan Wu festival. In Inner Mongolia, Mongolian-style wrestling and horse racing are popular. Physical fitness is highly regarded. It is common for the elderly to practice Tai Chi Chuan and qigong in parks.

II. Overview of Macroeconomic Activity

In 2008, due to the remarkable shocks from the catastrophic natural disasters and global financial crisis, the economic performance in China reversed from a sustained growth since 2003 to a gradual decline. Especially after September, global financial crisis became worse, external demand in the international markets shrank dramatically. The domestic output, production and price level accordingly declined rapidly, and it resulted that Chinese economic downside risks increased remarkably. Faced with the complicated and severe economic situation both at domestic and international level, in line with the changing situation, the CPC Central Committee and the State Council, giving priority to expand effective domestic demand in particular consumption demand, adjusted macro-policy orientation in a timely manner to implement the proactive fiscal policy and moderately give a loose to monetary policy and formulated a package of plans which aimed at promoting stable and relatively rapid economic development. These plans include following items such as expanding government expenditure in a large scale, carrying out structural tax reduction, launching the 2-year 4 trillion yuan investment plan, increasing interest rate-cut frequencies and injecting liquidity in the banking system, implementing industrial adjustment and revival plan in a large scale to promote industrial structure adjustment and upgrade, promoting technology innovation and technical reform in great efforts and substantially enhancing social safety net. All of the measures played a crucial role to promote stable economic development and to maintain stability of financial market.

The downturn has also affected corporate profits and increased financial stress, particularly in the real estate and export-related sectors and in sectors where overcapacity has built up in recent years. Growth in corporate profits has slowed since late 2007 across virtually all sectors, and the situation became worse in early 2009. Signs of distress have emerged in particular sectors (e.g. real estate, steel, heavy machinery, textiles, toys, automobiles) where firms have been adjusting by running down inventories, cutting prices, and laying off workers. The layoffs mainly involve migrant workers, and are thus not fully reflected in the measured unemployment rate, which covers only registered urban workers. There have been anecdotal reports of pay cuts and wage arrears in some areas and of distress among smaller firms.

II. 1 Macroeconomic Activity

II.1.1 International Environment

A. Trade Balance

The total value of imports and exports in 2008 reached 2,561.6 billion US dollars, up 17.8 percent over the previous year. Of this total, the value of exports was 1,428.5 billion US dollars, up 17.2 percent, and the value of imports was 1,133.1 billion US dollars, up 18.5 percent. China had a trade surplus (exports minus imports) of 295.5 billion US dollars, an increase of 32.8 billion US dollars over the previous year.

Table 2: Total Value of Imports and Exports and the Growth Rates (2008)

Item	Value	Unit: 100 million USD
		Increase over 2007 (%)
Total imports and exports	25616	17.8
Exports	14285	17.2
Of which: General trade	6626	22.9
Processing trade	6752	9.3
Of which: Mechanical and electronic products	8229	17.3
High & new-tech products	4156	13.1
Of which: State-owned	2572	14.4
Foreign-funded	7906	13.6
Others	3807	27.9
Imports	11331	18.5
Of which: General trade	5727	33.6
Processing trade	3784	2.7
Of which: Mechanical and electronic products	5387	7.9
High & new-tech products	3419	4.3
Of which: State-owned	3538	31.1
Foreign-funded	6200	10.8
Others	1593	25.7
Trade surplus	2955	---

Source: National Bureau of Statistics of China

There are great diverse in export commodities, such as coal, rolled steel, textile articles, furniture, and electronic equipment. The products with label Made in China can be seen all over the world nowadays, from laptop computer to all kinds of daily products, such as clothing and toys. Though the volume of certain export items decreased in 2008 due to the influence of the financial crisis, the overall export value kept a positive increase. In table3, the volume of exported coal decreased in 2008, but the value increased by 58.9% over 2007.

Table 3: Main Export Commodities in Volume and Value and the Growth Rates (2008)

Item	Unit	Volume	Increase over 2007 (%)	Value (100 million USD)	Increase over 2007 (%)
Coal	10000 tons	4543	-14.6	52	58.9
Rolled steel	10000 tons	5923	-5.5	634	43.8
Textile yarns and textile articles	----	--	--	654	16.6
Clothes and clothing accessories	----	--	--	1198	4.1
Footwear	----	--	--	297	17.2
Furniture	----	--	--	269	21.5
Automatic data processing machines and components	10000 sets	143236	-1.2	1350	9.1
Handheld mobiles and car telephones	10000 sets	53284	10.2	385	8.2
Containers	10000 units	303	-3.3	91	3.6
Integrated circuit	1 million units	48477	19.1	243	3.3
Liquid crystal display panels	10000 units	202666	7.8	224	13.9
Motor vehicles (including a complete set of spare sets)	10000 sets	64	9.4	89	32.5

Source: National Bureau of Statistics of China

Table 4: Main Import Commodities in Volume and Value and the Growth Rates (2008)

Item	Volume (10000 tons)	Increase over 2007 (%)	Value (100 million USD)	Increase over 2007 (%)
Cereals and cereal flour	154	-1.0	7	37.0
Soybean	3744	21.5	218	90.1
Edible vegetable oil	816	-2.6	90	44.0
Natural rubber (including latex)	168	2.0	43	32.0
Synthetic rubber (including latex)	120	-15.0	33	17.5
Iron ore	44356	15.9	605	79.1
Aluminum oxide	459	-10.5	18	-9.7
Crude oil	17888	9.6	1293	62.0
Petroleum products refined	3885	15.0	300	82.7
Plastics in primary forms	1771	-6.7	341	5.3
Paper pulp	952	12.4	67	20.9
Rolled steel	1543	-8.6	234	14.0
Copper and copper alloys	264	-5.1	192	-2.3

Source: National Bureau of Statistics of China

The most of products are exported to developed countries, such as European Union, United States and Japan in 2008. The imported items are mainly from Japan, European Union and The Association of Southeast Asian Nations (ASEAN). The increase of imports and exports by major countries and regions in 2008 shows positive increase over 2007 in Table 5.

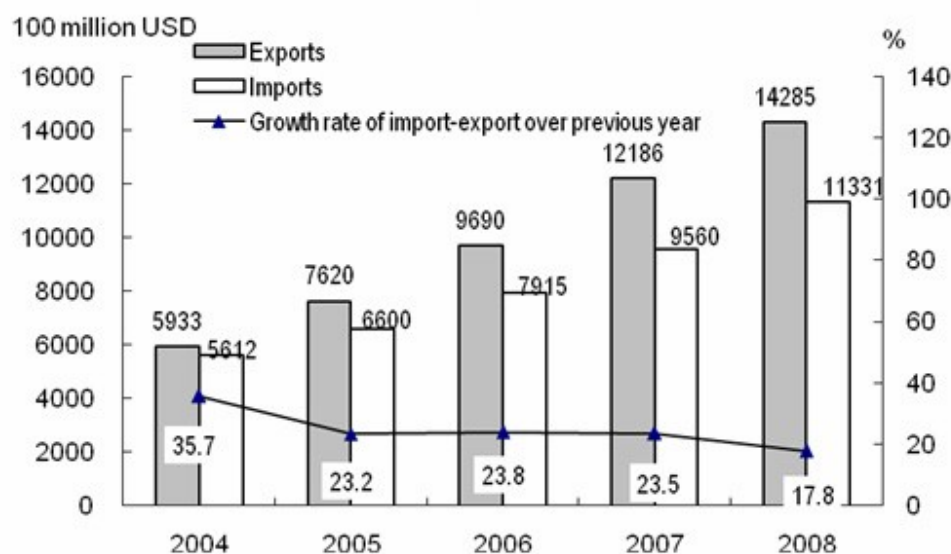
Table 5: Imports and Exports by Major Countries and Regions and the Growth Rates (2008)

Country or region	Exports	Increase over 2007 (%)	Imports	Unit: 100 million USD Increase over 2007
				(%)
European Union	2929	19.5	1327	19.6
United States	2523	8.4	814	17.4
Hong Kong, China	1907	3.4	129	0.9
Japan	1161	13.8	1507	12.5
ASEAN	1141	20.7	1170	7.9
Republic of Korea	740	31.0	1122	8.1
Russia	330	15.9	238	21.0
India	315	31.2	203	38.7
Taiwan, China	259	10.3	1033	2.3

Source: National Bureau of Statistics of China

The overall exports and imports value has kept on an increase since 2004. The value of exports increases almost 4 times from 593.3 billion US dollar in 2004 to 1428.5 billion US dollar in 2008. However, the growth rate of import-export over previous years decreases from 35.7 % in 2004 to 17.8% in 2008.

Figure 1: Imports and Exports and the Growth Rates (2004-2008)



Source: National Bureau of Statistics of China

B. Current Account Balance

The statistics, which is from China's Balance of Payments (BOP) Statement for the year 2008 released by the State Administration of Foreign Exchange(SAFE), reveal that the current account and the capital and financial account both showed a positive trend in 2008, and international reserves maintained a growing momentum.

In 2008, China's surplus under the current account totaled US\$ 426.1 billion, an increase of 15% year on year. Specifically, according to the statistical coverage of the balance of payments, the surpluses in goods, income, and current transfers reached US\$ 360.7 billion, US\$ 31.4 billion, and US\$ 45.8 billion, respectively, whereas the deficit in services amounted to US\$ 11.8 billion.

Meanwhile, China's surplus under the capital and financial account totaled US\$ 19 billion in 2008, a decrease of 74% year on year. In particular, the net inflows of direct investments and portfolio investments amounted to US\$ 94.3 billion and US\$ 42.7 billion respectively, whereas the net outflows of other investments reached US\$ 121.1 billion.

Furthermore, China's international reserves continued to grow. At the end of 2008, China registered a total of US\$ 1.946 trillion in foreign exchange reserves, an increase of USD\$417.8 billion over that at the end of 2007.

In addition, the BOP Analysis Team of the SAFE released China's Balance of Payments Report for the year 2008 in order to facilitate understanding of the data and analysis of China's balance of payments among all groups in the society.

Table 6: Balance of Payment (2008) *

Items	US dollars (thousands)		
	Balance	Credit	Debit
I. Current Account	426,107,395	1,725,893,261	1,299,785,866
A. Goods and Services	348,870,456	1,581,713,188	1,232,842,732
a. Goods	360,682,094	1,434,601,241	1,073,919,146
b. Services	-11,811,638	147,111,948	158,923,586
B. Income	31,437,960	91,614,872	60,176,912
C. Current Transfers	45,798,979	52,565,201	6,766,222
II. Capital and Financial Account	18,964,877	769,876,094	750,911,218
A. Capital Account	3,051,448	3,319,886	268,439
B. Financial Account	15,913,429	766,556,208	750,642,779
1. Direct Investment	94,320,092	163,053,964	68,733,872
2. Portfolio Investment	42,660,063	67,708,045	25,047,982
3. Other Investment	-121,066,726	535,794,199	656,860,925
III. Reserves Assets	-418,978,429	0	418,978,429
IV. Net Errors and Omissions	-26,093,843	0	26,093,843

* This BOP statement employs rounded-off numbers.

Source: State Administration of Foreign Exchange

C. Exchange Rate and Exchange System

Starting from July 21, 2005, China reformed the exchange rate regime by moving into a managed floating exchange rate regime based on market supply and demand with reference to a basket of currencies. Recent years, the People's Bank of China (PBC) has continued to improve the managed floating exchange rate reform based on market demand and supply with reference to basket of currencies and to maintain the RMB exchange rate broadly stable in a self-initiated, controllable and gradual manner.

In 2008, RMB exchange rate movement remained stable. In the first half of 2008, the exchange rate of RMB against the U.S. dollar appreciated by 6.5 percent. The spot rate of RMB against the U.S. dollar fluctuated broadly in the band of 6.81~6.85 since July. In 2008, the RMB cumulatively appreciated by 6.88 percent against the U.S. dollar, and 10.43 percent against the Euro, but depreciated by 15.32 percent against the Japanese Yen.

Table 7: Exchange Rate of Renminbi Yuan (Period Average)

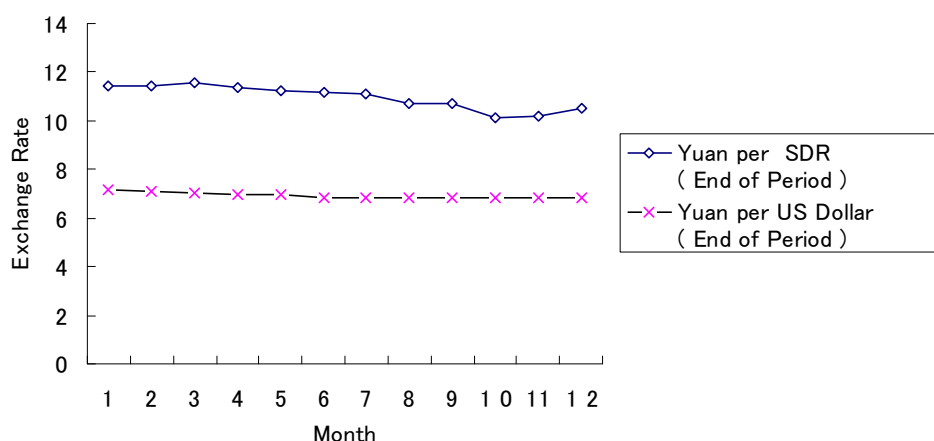
Year	(RMB yuan)			
	100 US Dollars	100 Japanese Yen	100 Hong Kong Dollars	100 Euros
1994	861.8700	8.4370	111.53	
1995	835.1000	8.9225	107.96	
1996	831.4200	7.6352	107.51	
1997	828.9800	6.8600	107.09	
1998	827.9100	6.3488	106.88	
1999	827.8300	7.2932	106.66	
2000	827.8400	7.6864	106.18	
2001	827.7000	6.8075	106.08	
2002	827.7000	6.6237	106.07	800.58
2003	827.7000	7.1466	106.24	936.13
2004	827.6800	7.6552	106.23	1029.00
2005	819.1700	7.4484	105.30	1019.53
2006	797.1800	6.8570	102.62	1001.90
2007	760.4000	6.4632	97.46	1041.75

Source: China Statistical Yearbook 2008

Table 8: Exchange Rate in 2008

Month Item	1	2	3	4	5	6	7	8	9	10	11	12
Yuan per SDR (End of Period)	11.46	11.44	11.54	11.36	11.25	11.20	11.08	10.72	10.71	10.15	10.17	10.52
Yuan per US Dollar (End of Period)	7.18	7.10	7.019	7.00	6.94	6.85	6.83	6.83	6.81	6.82	6.83	6.83

Source: the People's Bank of China

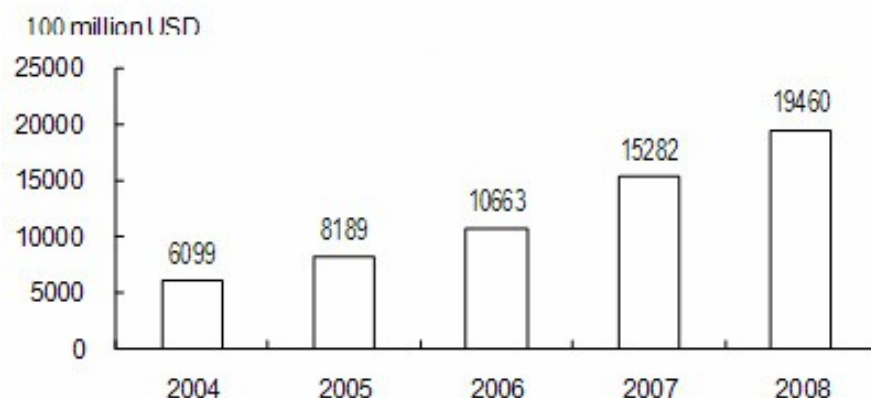
Figure 2: Exchange Rate in 2008

Source: the People's Bank of China

The Regulations on the Foreign Exchange System of the People's Republic of China was amended to strengthen administration on foreign exchange inflow and sale in August 2008. The new regulations have removed the mandatory requirements for transfer and settlement of foreign exchange. Under the new law, the foreign exchange income of a domestic institution or individual may be transferred back into China (either to be reserved in a foreign exchange account or sold to qualified financial institutions) or deposited overseas. The abandonment of mandatory settlement policy is intended to slow down the growth of foreign exchange reserves and to ease the RenMinBi appreciation. A distinct shift of supervision focus can be seen in the clauses on the new penalty imposed on illegal collection and settlement of foreign exchange. Unauthorized collection and settlement of foreign exchange (such as hot money poured into China without due approval or filing) is subject to the same penalty as unauthorized purchase of foreign exchange and remittance offshore: 30% of the amount of violation. To verify the legality of such cross-border foreign exchange, the supervision authority applies the authenticity and lawfulness of underlying transaction test. The new law also strengthens the control over use of settled foreign exchange, which should be strictly in line with the purpose as approved by the foreign exchange administration authority or qualified financial institution. The new law specifies that in certain emergencies, such as serious unbalance of payment or economic crisis, the state may take necessary protection or control measures. In addition, the new law give rights for domestic financial institutions to provide commercial loans to offshore entities, though implementing rules and registration requirements are still pending.

At the end of 2008, China's foreign exchange reserves reached 1,946.0 billion US dollars, an increase of 417.8 billion US dollars as compared with that at the end of the pervious year. At the end of the year, the exchange rate was 6.8346 RMB to 1 USD, an appreciation by 6.9 percent over that at the end of 2007.

Figure 3: Year-end China's Foreign Exchange Reserves, 2004-2008



Source: National Bureau of Statistics of China

D. Foreign Direct Investment

The year 2008 witnessed the establishment of 27,514 enterprises with foreign direct investment in non-financial sectors, down by 27.3 percent; and the foreign capital actually utilized was 92.4 billion US dollars, up by 23.6 percent over 2007. Of the total foreign direct investment actually utilized, the share of investment in manufacturing was 22.1 percent over the previous year, the real estate was 8.8 percent over the previous year, leasing and business service 25.9 percent, wholesales and retail trade were 65.6 percent and transportation, storage and post service were 42.1 percent.

Table 9 : Total Value of Foreign Direct Investment and the Growth Rates (2008)

Sector	Enterprises	Increase over 2007 (%)	Actually Utilized Value (100 million USD)	Increase over 2007 (%)
Total	27514	-27.3	924.0	23.6
Farming, Forestry, Animal Husbandry and Fishery	917	-12.5	11.9	28.9
Mining and Quarrying	149	-36.3	5.7	17.0
Manufacturing	11568	-39.7	498.9	22.1
Production and Supply of Electricity, Gas and Water	320	-9.1	17.0	58.1
Construction	262	-14.9	10.9	151.6
Transport, Storage, Post and Telecommunication Services	523	-20.5	28.5	42.1
Information Transmission, Computer Services and Software	1286	-7.6	27.7	86.8
Wholesales & Retail Trade	5854	-7.6	44.3	65.6
Lodging & Catering Services	633	-32.5	9.4	-9.9
Banking	25	-51.0	5.7	122.5
Real Estate	452	-68.7	185.9	8.8
Leasing and Business Services	3138	-11.3	50.6	25.9
Scientific Research, Technical Services and Geological Prospecting	1839	7.2	15.1	64.2
Water Conservancy, Environment Protection and Public Facilities Management	138	-10.4	3.4	24.7
Services to Households and Other Services	205	-24.1	5.7	-21.1
Education	24	60.0	0.4	12.2
Health, Social Security and Social Welfare	10	-23.1	0.2	63.1
Culture, Sports and Entertainment	170	-17.9	2.6	-42.8
Public Management and Social Organization	1	--	0.0	--
International Organization	--	--	6.0	--

Source: National Bureau of Statistics of China

E. Borrowing From Aboard

At the end of 2008, China's outstanding external debt (excluding that of Hong Kong SAR, Macao SAR, and Taiwan Province) reached US\$ 374.661 billion, an increase of US\$ 1.043 billion, or 0.28%, compared with that at the end of 2007. Specifically, the outstanding long- and medium-term external debt reached US\$ 163.876 billion, an increase of US\$ 10.342 billion, or 6.74%, compared with that at the end of 2007, accounting for 43.74% of the total outstanding external debt. The outstanding short-term external debt totaled US\$ 210.785 billion, a decrease of US\$ 9.299 billion, or 4.23%, compared with that at the end of 2007, accounting for 56.26% of the total outstanding external debt.

Among the outstanding registered external debt of US\$ 260.561 billion, the outstanding sovereign debt borrowed by ministries under the State Council totaled US\$ 33.287 billion, accounting for 12.78%; the outstanding debt of Chinese-funded financial institutions was US\$ 82.810 billion, accounting for 31.78%; the outstanding debt of foreign-funded enterprises was US\$ 96.133 billion, accounting for 36.89%; the outstanding debt of foreign-funded financial institutions in China was US\$ 43.530 billion, accounting for 16.71%; the outstanding debt of Chinese-funded enterprises was US\$ 4.471 billion, accounting for 1.72%; and the outstanding debt of other institutions was US\$ 330 million, accounting for 0.12%.

The amount of long-term and medium-term external debt in 2008 was US\$ 36.307 billion, an increase of US\$ 291 million, or 0.81%, over that of the previous year. The principal repayment for long- and medium-term external debt was US\$ 23.291 billion, an increase of US\$ 3.024 billion, or 14.92%, over that in the previous year. The interest payment was US\$ 4.154 billion, a decrease of US\$ 804 million, or 16.22%, compared with that in the previous year.

Initial calculations reveal that the debt service ratio in 2008 was 1.78%, the ratio of the outstanding external debt to foreign exchange income was 23.69%, the ratio of outstanding external debt to GDP was 8.65%, and the ratio of the short-term external debt to foreign exchange reserves was 10.83%. All of these indexes are within the safe range of international standards. Table 10 shows the major indicators of foreign debts from 2001 to 2007.

Table 10 Major Indicators of Foreign Debts

Item \ Year	2001	2002	2003	2004	2005	2006	2007
Total Foreign Debts (Billion USD)	170.11	171.36	193.63	228.60	281.05	322.99	373.62
Balance of Long-term Debts	119.53	115.56	116.59	124.29	124.90	139.36	153.53
Share in the Total, (%)	(70.3)	(67.4)	(60.2)	(54.4)	(44.4)	(43.2)	(41)
Balance of Short-term Debts	50.58	55.80	77.04	104.31	156.14	183.63	220.08
Share in the Total, (%)	(29.7)	(32.6)	(39.8)	(45.6)	(55.6)	(56.8)	(59)
Ratio of Debt Service to Exchange Earning (%)	7.5	7.9	6.9	3.2	3.1	2.1	2.0
Ratio of Debt Balance to Exchange Earning (%)	56.8	46.1	39.9	34.9	33.6	30.4	27.8
Ratio of Debt Balance to GDP (%)	14.7	13.6	13.7	13.9	12.6	12.3	11.5

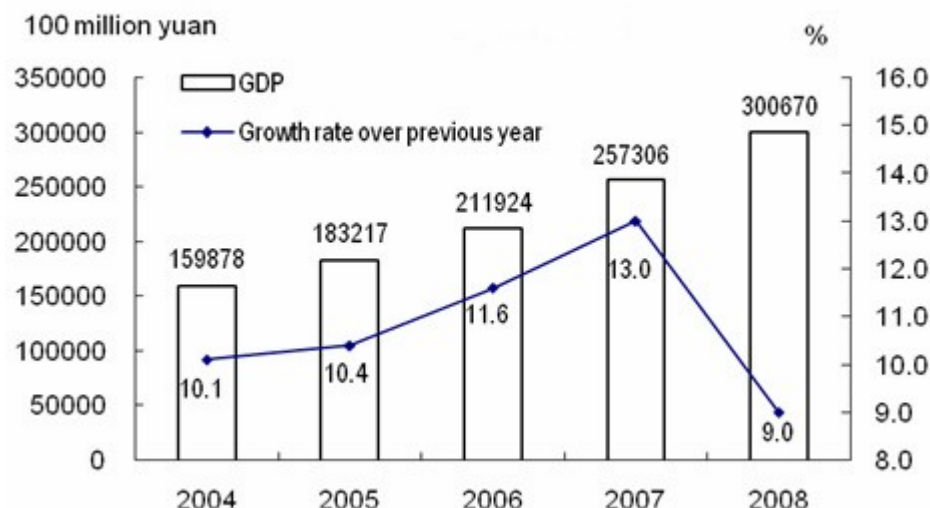
Source: 1. National Bureau of Statistics of China
2. State Administration of Foreign Exchange

II.1.2 Domestic Environment

A. Economic Growth Rate

In 2008, the gross domestic product (GDP) of the year was 30,067.0 billion yuan, up by 9.0 percent over the previous year. Analyzed by different industries, the value added of the primary industry was 3,400.0 billion yuan, up by 5.5 percent, that of the secondary industry was 14,618.3 billion yuan, up by 9.3 percent and the tertiary industry was 12,048.7 billion yuan, up by 9.5 percent. The value added of the primary industry accounted for 11.3 percent of the GDP, up by 0.2 percentage point over that in the pervious year, that of the secondary industry accounted for 48.6 percent, up by 0.1 percentage point, and that of the tertiary industry accounted for 40.1 percent, down by 0.3 percentage point.

Figure 4: Gross Domestic Product and Its Growth, 2004 -2008



Source: National Bureau of Statistics of China

Table 11: Main Indicators of GDP

Item	2001	2002	2003	2004	2005	2006	2007
GDP (Billion Yuan)	10965.5	12033.3	13582.3	15987.8	18386.8	21087.1	24953
Primary Industry	1551.6	1623.9	1706.8	2095.6	2307.0	2473.7	2809.5
Secondary Industry	4951.2	5389.7	6243.6	7390.4	8704.7	10316.2	12138.1
Tertiary Industry	4462.7	5019.7	5631.8	6501.8	7296.8	8297.2	10005.4
GDP per capita (Yuan)	8622.0	9398.0	10542.0	12336.0	14040.0	16084.0	18934
GDP Growth Rate (%)	8.3	9.1	10.0	10.1	10.4	11.1	11.9

Note: Data in this table are calculated at current prices.

Source: *China Statistical Yearbook 2008*, National Bureau of Statistics of China

B. Inflation Rate

In February 2008, China's inflation hit 8.7 percent, representing a 12-year-high that alarmed both companies and consumers. Oil and food price drops in the second half of 2008 enabled China's yearly inflation rate to reach an annual rate of 5.9 percent. In November and December, inflation rose only 2.4 and 1.2 percent, respectively.

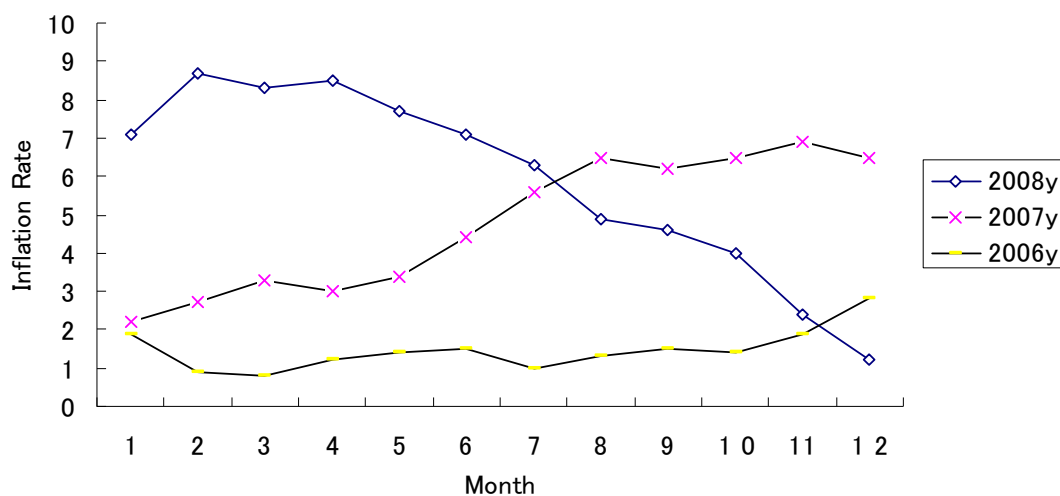
Table 12: China Inflation Rate

Year \ Month	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2008	7.10	8.70	8.30	8.50	7.70	7.10	6.30	4.90	4.60	4.00	2.40	1.20
2007	2.20	2.70	3.30	3.00	3.40	4.40	5.60	6.50	6.20	6.50	6.90	6.50
2006	1.90	0.90	0.80	1.20	1.40	1.50	1.00	1.30	1.50	1.40	1.90	2.80

Source: National Bureau of Statistics of China

Figure 5 shows an increasing trend of inflation rate from 2006 to 2008 as a whole. However, the inflation rate was a decreasing trend after February, 2008.

Figure 5: Inflation Rate (2006-2008)

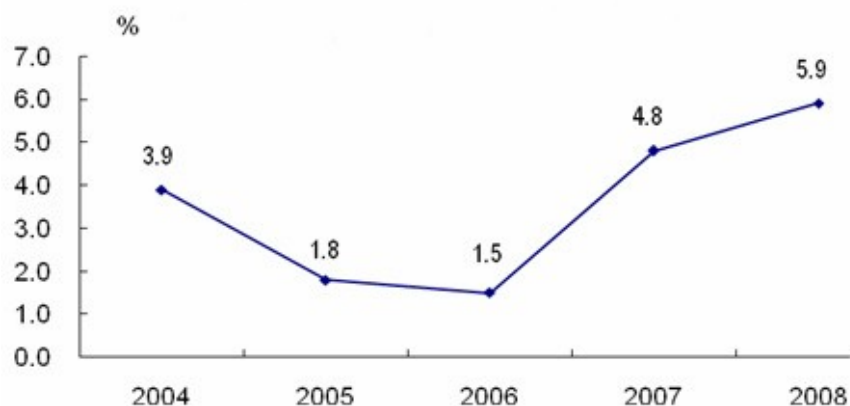


Source: National Bureau of Statistics of China

C. Consumption

The general level of consumer prices in China was up by 5.9 percent over the previous year. Of this total, the prices for food went up by 14.3 percent. The prices for investment in fixed assets were up by 8.9 percent. The producer prices for manufactured goods increased by 6.9 percent, of which, the prices for means of production increased by 7.7 percent, and for means of subsistence grew by 4.1 percent. The purchasing prices for raw materials, fuels and power went up by 10.5 percent. The producer prices for farm products were up by 14.1 percent. The prices for means of agricultural production were up by 20.3 percent. The sales prices for housing in 70 large and medium-sized cities were up by 6.5 percent, of which, that for new residential buildings went up by 7.1 percent, for second hand housing grew by 6.2 percent, and the prices for rental and leasing were up by 1.4 percent. Figure4 shows that the consumer price has been kept on increase after 2006.

Figure 6: Changes in Consumer Prices, 2004-2008



Source: National Bureau of Statistics of China

Table 13: General Level of Consumer Prices (2008)

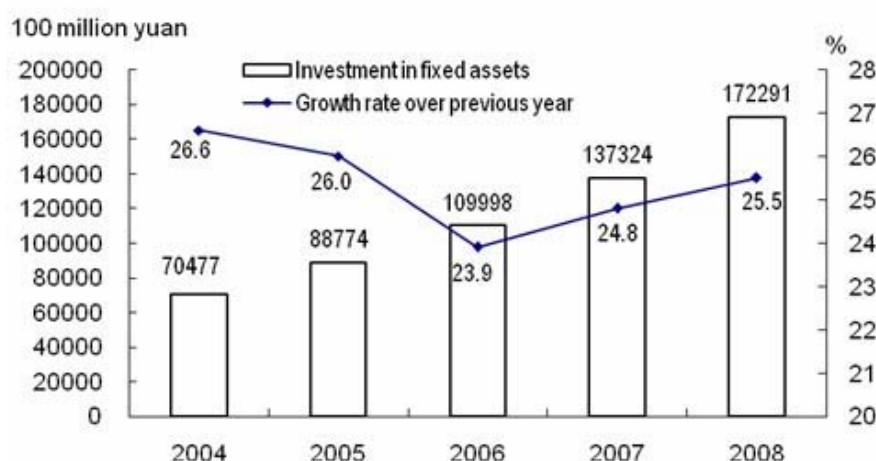
Item	Unit: %		
	National Average	Urban	Rural
General level of consumer prices	5.9	5.6	6.5
Food	14.3	14.5	14.0
Of Which: Grain	7.0	7.2	6.7
Meat, poultry and related products	21.7	22.6	20.0
Oil	25.4	24.9	25.9
Fresh eggs	3.7	3.8	3.6
Fresh vegetables	10.7	10.5	11.3
Fresh fruits	9.0	8.9	9.3
Tobaccos and alcohols	2.9	3.1	2.6
Clothing	-1.5	-1.8	-0.6
Household appliances and services	2.8	3.0	2.4
Medical, health and personal articles	2.9	2.8	3.2
Transportation and telecommunications	-0.9	-1.6	0.7
Recreational, educational, cultural articles and services	-0.7	-0.9	-0.1
Housing	5.5	4.3	8.2

Source: National Bureau of Statistics of China

Table 13 shows the increase and decrease of general level of consumer prices of 2008 compared with 2007. The most of prices keep increasing, while the prices of clothing, transportation and telecommunication, educational, cultural article and services show the negative trend.

D. Investment

The completed investment in fixed assets of the country in 2008 was 17,229.1 billion yuan, up by 25.5 percent over the previous year. Of the total investment, that in urban areas was 14,816.7 billion yuan, up by 26.1 percent; and that in rural areas reached 2,412.4 billion yuan, up by 21.5 percent. An analysis by regions showed that the investment in east areas was 8,741.2 billion yuan, up by 20.9 percent over the previous year, in central areas was 4,538.4 billion yuan, a growth of 32.6 percent, and in western areas 3,583.9 billion yuan, a growth of 26.9 percent.

Figure 7: Investment in Fixed Assets and Its Growth, 2004-2008

Source: National Bureau of Statistics of China

In 2008, the capacity increased in the following field through fixed assets investment, such as power transformer equipment, railways, electrified railways, lines of optical-fiber cable and digital cellular mobile phone switchboards.

Table 14: Newly Increased Production Capacity through Fixed Assets Investment (2008)

Item	Unit	Volume
Newly increased power generating capacity	10,000 kilowatts	9051
Power transformer equipment with a capacity of over 220 kilovolts	10,000 kilovolt-amperes	23222
New railways put into operation	Kilometer	1719
Double-track railways put into operation	Kilometer	1935
Electrified railways put into operation	Kilometer	1955
New highways	Kilometer	99851
Of which: Expressways	Kilometer	6433
New cargo-handling capacity of berths for over 10000-tonnage ships	10,000 tons	33099
New lines of optical-fiber cables	10,000 km	99
New capacity of digital cellular mobile phone switchboards	10,000 subscribers	28855

Source: National Bureau of Statistics of China

In the urban areas, the investment in the primary industry was 225.6 billion yuan, up by 54.5 percent; that in the secondary industry was 6,503.6 billion yuan, up by 28.0 percent; and that in the tertiary industry was 8,087.5 billion yuan, up by 24.1 percent.

Table 15: Fixed Assets Investment in Urban Areas and Its Growth by Sector (2008)

Sector	Investment	Unit: 100 million yuan
		Increase over 2007 (%)
Total	148167	26.1
Agriculture, Forestry, Animal Husbandry and Fishing	2256	54.5
Mining	6913	31.5
Of Which: Mining and Washing of Coal	2411	33.6
Extraction of Petroleum and Natural Gas	2715	22.0
Manufacturing	46345	30.6
Of Which: Processing of Food from Agricultural Products	2058	25.7
Manufacture of Foods	1137	17.8
Textile Industry	1534	1.3
Manufacture of Textiles, garments, shoes and hats	896	19.0
Processing of Petroleum, Coking, Processing Nuclear Fuel	1832	29.4
Manufacture of Raw Chemical Materials and Chemical Products	4787	35.5
Manufacture of Non-Metallic Mineral Products	4113	46.6
Smelting and Pressing of Ferrous Metals	3240	23.8
Smelting and Pressing of Non-Ferrous Metals	1854	43.1
Manufacture of Metal Products	2189	38.5
Manufacture of General Machinery	3224	38.3
Manufacture of Special Purpose Machinery	2265	34.1
Manufacture of Transport Equipment	3787	39.1
Manufacture of Electric Machinery and Equipment	2334	45.1
Manufacture of Communication Equipment, Computers and Other Electronic Equipment	2463	17.6
Production and Supply of Electricity, Gas and Water	10484	15.4
Of Which: Production of Electric Power and Heat Power	9045	14.4
Construction	1294	30.4
Transport, Storage and Post	15552	19.7
Information Transmission, Computer Services and Software	2130	17.1
Wholesale and Retail Trade	3166	29.2
Lodging and Catering Services	1735	30.5
Banking	247	62.6
Real Estate	35215	23.0
Leasing and Business Services	1296	50.6
Scientific Research, Technical Service and Geologic Prospecting	708	35.9
Water Conservancy, Environment and Public Facilities Management	12262	32.2
Services to Households and Other Services	316	34.2
Education	2355	6.0
Health, Social Security and Social Welfare	1057	30.6
Culture, Sports and Entertainment	1423	26.0
Public Management and Social Organization	3411	23.2

Source: National Bureau of Statistics of China

In 2008, the investment in real estate development was 3,058.0 billion yuan, up by 20.9%. Analyzed by engineering purposes, the investment in commercial residential buildings reached 2,208.1 billion yuan, an increase of 22.6%, that in office buildings was 111.2 billion yuan, up by 7.4 percent, and that in buildings for commercial business was 320.0 billion yuan, up by 14.9 %.

Table 16: Main Indicators for Real Estate Development and Sales (2008)

Item	Unit	Volume	Increase over 2007 (%)
Finished Value of Investment	100 million yuan	30580	20.9
Of which: residential buildings	100 million yuan	22081	22.6
Of which: under 90 square meters	100 million yuan	6416	50.7
Of which: economic housing	100 million yuan	983	19.7
Floor space of houses under construction	10000 square meters	274149	16.0
Of which: residential buildings	10000 square meters	216671	16.0
Floor space of houses newly started	10000 square meters	97574	2.3
Of which: residential buildings	10000 square meters	79889	1.4
Floor space of houses completed	10000 square meters	58502	-3.5
Of which: residential buildings	10000 square meters	47750	-4.2
Sales of commercial buildings	10000 square meters	62089	-19.7
Of which: residential buildings	10000 square meters	55886	-20.3
Sources of capital this year	100 million yuan	38146	1.8
Of which: domestic loans	100 million yuan	7257	3.4
Individual mortgage	100 million yuan	3573	-29.7
Land space purchased this year	10000 square meters	36785	-8.6
Land space developed this year	10000 square meters	26033	-5.6
Purchase of land	100 million yuan	5795	10.9

Source: National Bureau of Statistics of China

E. Stock Market

The first stock exchange of China was founded in Shenzhen in 1990. Up to now two stock exchanges have been set up: one is Shenzhen Stock Exchange, the other is Shanghai Stock Exchange. The stock market in China experienced a dramatic development with inflation and depression in turn.

Funds which were raised in 2008 by enterprises through issuing stocks and share rights on stock market amounted to 339.6 billion yuan, a decline of 394.7 billion yuan over the previous year. Of this total, 75 A-shares were issued, receiving 106.6 billion yuan worth of capital altogether, a decline of 348.7 billion yuan. The refinancing of A-shares (including rationing shares, public newly issued, nonpublic newly issued and warrants) received 133.2 billion yuan worth of capital altogether, a decrease of 104.6 billion yuan over 2007. The listed companies financed 99.8 billion yuan through convertible bonds, bonds with attached warrants and corporate bonds, an increase of 58.7 billion yuan.

Until 2007, 868 billion yuan were raised from stock market, increased 308.6 billion yuan. Of which, 41.3 billion issued A shares (including reissued shares and convertible debts) raised 772.3 billion yuan, grown by more than 3 times; 22.4 billion issued H shares brought 95.7 billion yuan. 2007 saw the issue of Band H shares much less than A Shares. By the end of 2007, the quantities of listed companies (A shares and H shares) in China have reached to 1550 with the total market value of 32714.1 billion yuan, which is more than 3 times over the last year. Table 17 shows a dramatic growth of stock market from 2001 to 2007 in China.

Table 17: General Statistics on Stock Market 2001-2007

Year	Raised Capital (Billion Yuan)			Quantities of Listed Companies	Total Market Value of Stocks(Billion Yuan)
	Total	A Shares	B and H Shares		
2001	125.2	118.2	7.0	1160	4352.2
2002	96.2	78.0	18.2	1224	3832.9
2003	135.8	82.0	53.7	1287	4257.8
2004	151.1	83.6	67.5	1377	3705.6
2005	188.3	33.8	154.5	1381	3243.0
2006	559.4	246.3	313.1	1434	8940.4
2007	868.0	772.3	95.7	1550	32714.1

Source: China Statistical Yearbook 2008

F. Money Supply

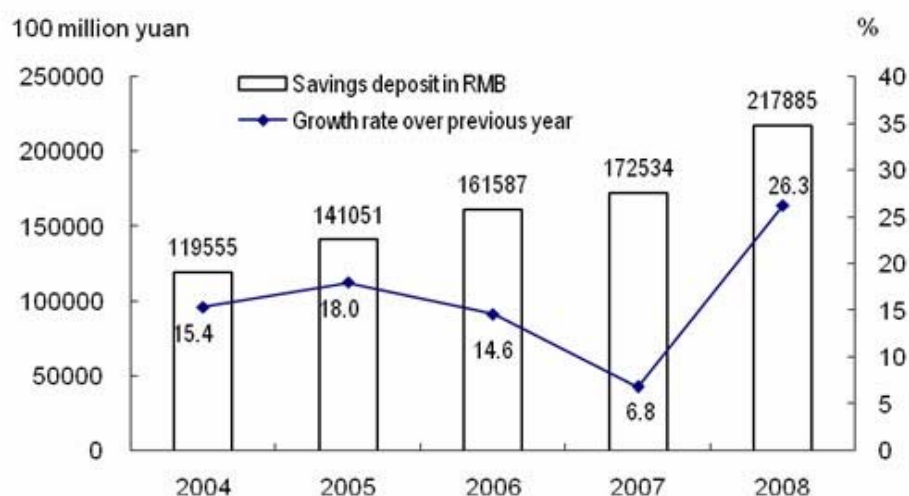
By the end of 2008, money supply of broad sense (M_2) was 47.5 trillion yuan, reflecting a year-on-year increase of 17.8 percent. Money supply of narrow sense (M_1) was 16.6 trillion yuan, up 9.1 percent. Cash in circulation (M_0) was 3.4 trillion yuan, up 12.7 percent. Savings deposit in Renminbi and foreign currencies in all items of financial institutions totaled 47.8 trillion yuan at the end of 2008, up 19.3 percent. Loans in Renminbi and foreign currencies in all items of financial institutions reached 32.0 trillion yuan, up 17.9 percent.

Table 18: Savings Deposit and Loans in RMB and Foreign Currencies in All Financial Institutions and the Growth Rates (2008)

Item	Year-end figure	Unit: 100 million yuan
		Increase over 2007 (%)
Savings deposit	478444	19.3
Of which: By enterprises	164386	13.5
By urban and rural households	221503	25.7
Of which: Deposits in RMB	217885	26.3
Loans	320049	17.9
Of which: Short-term	128571	12.3
Medium and long-term	164160	20.2

Source: National Bureau of Statistics of China

Figure 8: Urban and Rural Households` Savings Deposit in RMB and Its Growth, 2004-2008



Source: National Bureau of Statistics of China

Loans in Renminbi from rural financial cooperation institutions (i.e. rural credit cooperatives, rural cooperation banks, and rural commercial banks) totaled 3.7 trillion yuan by the end of 2008, an increase of 590.8 billion yuan as compared with the beginning of 2008. The loans in Renminbi for consumption use from all financial institutions totaled 3.7 trillion yuan, an increase of 460.9 billion yuan. Of all consumption loans, short-term loans for individuals totaled 0.4 trillion yuan, an increase of 103.5 billion yuan, and medium- and long-term loans for individuals reached 3.3 trillion yuan, an increase of 357.5 billion yuan.

The total corporate bonds issued throughout the year reached 2,052.0 billion yuan, an increase of 343.7 billion yuan over 2007. Of this total, the financial bonds were 1,179.7 billion yuan, a drop of 11.6 billion yuan; the enterprise (corporate) bonds were 265.5 billion yuan, an increase of 83.4 billion yuan; the short-term financing funds were 433.2 billion yuan, an increase of 98.2 billion yuan; and the medium-term notes were 173.7 billion yuan, an increase of 173.7 billion yuan.

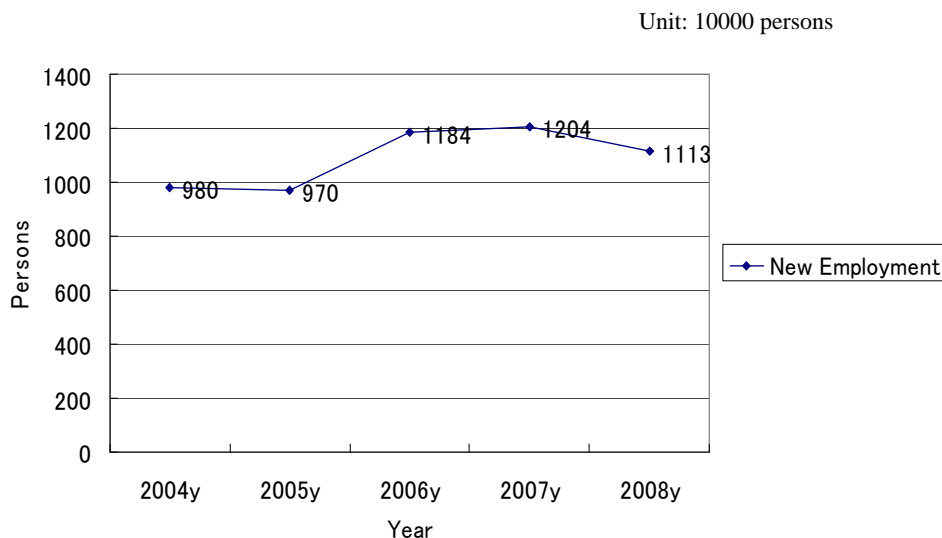
The premium received by the insurance companies totaled 978.4 billion yuan in 2008, up 39.1 percent over the previous year. Of this total, life insurance premium amounted to 665.8 billion yuan, health and casualty insurance premium 78.9 billion yuan, and property insurance premium 233.7 billion yuan. Insurance companies paid an indemnity worth of 297.1 billion yuan, of which, life insurance indemnity was 131.5 billion yuan, health and casualty insurance indemnity 23.8 billion yuan, and property insurance indemnity 141.8 billion yuan.

G. Employment

Due to the global economy crisis, the employment was not optimistic in the second half of 2008. Urban registered unemployment ratio edged up for the increase in the number of suspended or bankrupted enterprises and home-returning rural migrant workers. In December, the PMI (Purchase Management Index) employment index was 43.3 percent, below 50 percent for 3 months in a row, falling into the economic contraction zone.

National employment at year-end of 2008 stood at 774.80 million, went up 4.90 million persons year-on-year. Of the total, the employment in primary industry reached 306.54 million persons, occupied 39.6 percent of national employment; that of secondary industry amounted for 211.09 million persons, accounted for 27.2 percent; that of tertiary industry totaled 257.17 million persons, took up 33.2 percent. The employment at year-end in urban areas valued at 302.10 million persons, increased 8.60 million persons, year-on-year.

Figure 9: The New Employment in Urban Areas, 2004-2008



Source: National Bureau of Statistics of China

The migrant workers hit 225.42 million persons at year-end in 2008. Of the total, the number of migrant workers for work out side hometown totaled 140.41 million persons. At the end of 2008, there are around 217,000 foreigners with working permits in China; employment working permits in the Mainland of China amounted to 89,000 persons for Taiwan, Hong Kong and Macau.

II.2 Fiscal Position

Due mainly to the impact of the global financial crisis, economic growth slowed down and corporate profits became weakened. After a big cut in the corporate income tax rate in 2008, a series of policies to reduce or exempt taxes and fees were introduced to strengthen and improve macro-control through management of public finance and promote steady and rapid economic growth. This led to the slower growth in national revenue.

National revenue reached 6.13169 trillion yuan, an increase of 999.512 billion yuan or 19.5% over 2007 (both here and below), equivalent to 104.8% of the target. This consists of 3.267199 trillion yuan collected by the central government and 2.864491 trillion yuan collected by local governments. Added to the 110 billion yuan taken from the central budget stabilization fund, total revenue came to 6.24169 trillion yuan.

National expenditures amounted to 6.242703 trillion yuan, an increase of 1.264568 trillion yuan or 25.4%, equivalent to 101.7% of the target. This figure consists of 1.337431 trillion yuan used by the central government and 4.905272 trillion yuan used by local governments. Added to the 19.2 billion yuan set aside for the central budget stabilization fund, total expenditures amounted to 6.261903 trillion yuan.

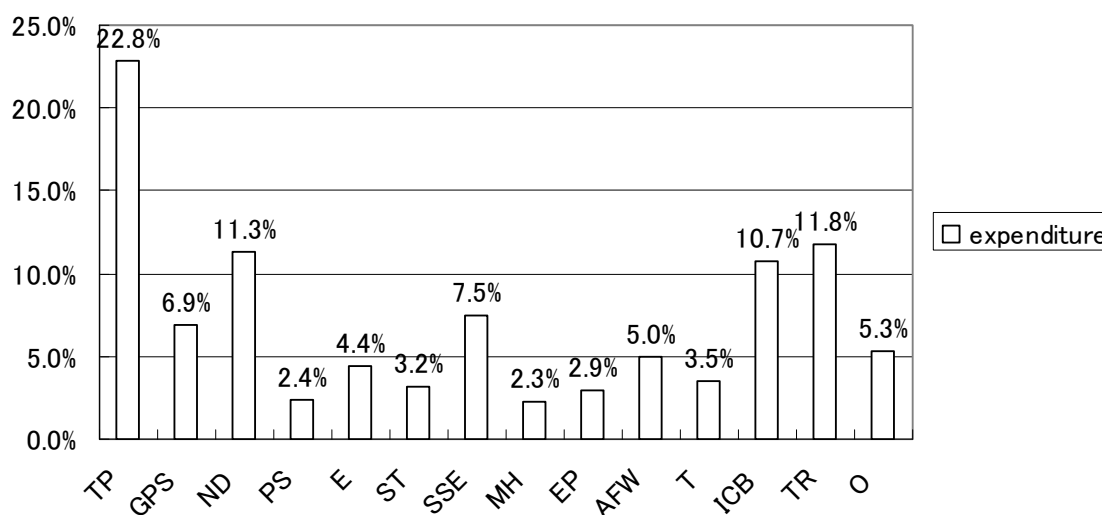
II.2.1 Government Expenditure

In 2008, total spending by the central government in areas such as education, medical and health care, the social safety net, employment, low-income housing and culture that directly affect the people's lives came to 560.364 billion yuan, an increase of 29.2%. Central government expenditures for agriculture, rural areas and farmers totaled 595.55 billion yuan, an increase of 163.7 billion yuan or 37.9%. This figure includes 226.01 billion yuan for agricultural production; 103.04 billion yuan, an increase of 100%, for direct subsidies to grain producers, general subsidies for purchasing agricultural supplies, subsidies for planting superior crop varieties and subsidies for purchasing agricultural machinery and tools; 207.28

billion yuan for social programs such as education, medical and health care, the social safety net, employment, low-income housing and culture in rural areas; and 57.62 billion yuan for expenses and interests related to stockpiles of major agricultural products.

The central government's tax rebates and fiscal transfer payments to local governments totaled 1.255932 trillion yuan, the bulk of which went to the people's wellbeing, agriculture, rural areas, and farmers.

Figure 10: Expenditure Items in the Central Budget (2008)



Note: TP-Transfer Payments to Local Governments, GPS-General Public Services, ND-National Defense, PS-Public Security, E-Education, ST-Science and Technology, SSE-Social Safety Employment, MH- Medical and Health Care, EP-Environmental Protection, AFW-Agriculture Forestry and Water conservancy, T-Transportation, ICB-Industry, Commerce and Banking, TR-Tax Rebates to Local Government, O-Others

Source: Ministry of Finance of the People's Republic of China

Figure10 shows the expenditure item chart in the central budget in 2008. The transfer payment to local governments from the central government is obvious more than other items. The expenditure for the tax rebates to local government, national defense, general public services and social safety employment keep an important role in the central government expenditure.

In the following table, the expenditure of central government and local government is showed from 1996 to 2008. The expenditure of local government has kept an overwhelming majority of the whole expenditure.

Table19: National Government Expenditure and Ratio of Central and Local Governments

	National Government(100 million yuan)			Ratio (%)	
	Expenditure	Central Government	Local Governments	Central Government	Local Governments
1996	7937.55	2151.27	5786.28	27.1	72.9
1997	9233.56	2532.50	6701.06	27.4	72.6
1998	10798.18	3125.60	7672.58	28.9	71.1
1999	13187.67	4152.33	9035.34	31.5	68.5
2000	15886.50	5519.85	10366.65	34.7	65.3
2001	18902.58	5768.02	13134.56	30.5	69.5
2002	22053.15	6771.70	15281.45	30.7	69.3
2003	24649.95	7420.10	17229.85	30.1	69.9
2004	28486.89	7894.08	20592.81	27.7	72.3
2005	33930.28	8775.97	25154.31	25.9	74.1
2006	40422.73	9991.40	30431.33	24.7	75.3
2007	49781.35	11442.06	38339.29	23.0	77.0
2008	62427.03	13374.31	49052.72	21.4	78.6

Note:

- a) The expenditure of the central and local governments refers to the expenditure disbursed by the central government and that by the local governments.
- b) Expenditures before 2000 in this table do not include the payment on the principal and interest of domestic and foreign debts and the expenditure for capital construction using foreign loans. Expenditures of central government and local governments since 2000 include all payment on the principal and interest of domestic and foreign debts.

Source: National Bureau of Statistics of China

There is great gap in economy development in different regions, which are divided into eastern, central and the western region in China. The policies and measures to develop the western region were implemented by the State Council in 2001 and it is supposed to achieve the aim during 10 years from 2001 to 2010. The central government has adopted a variety of methods to raise funds to support the development of the western region of the key projects, including: water, roads, railways, airports, pipelines, telecommunications and other infrastructure construction, ecological environment construction, features of agricultural development, water, electricity, high-quality coal, petroleum, natural gas, copper, aluminum, potassium, phosphorus and other advantages of energy, mineral resources development and utilization of urban infrastructure construction, characteristics and development of the tourism industry, and the conversion technology characteristics of high-tech industrialization.

Table 20 shows the main government expenditure by typical region varies greatly in 2007, though great effort and policies have been made to develop the economy in the western region. In the following table, Beijing and Shanghai is representative of developed region in the eastern region; Henan and Shanxi represent the cities in the central region; the data of Guizhou and Ningxia shows the economic situation in the undeveloped region in the western. The expenditure items in various field in east and middle region are distinct more than that in west region.

Table 20: Main Government Expenditure by Typical Region of East, Middle and West Zone in China (2007)

Unit: million Yuan							
Item	Region	Beijing	Shanghai	Henan	Shanxi	Guizhou	Ningxia
General Budget Expenditure		16,495,023	21,816,780	18,706,135	10,499,228	7,953,990	2,418,545
General Public Service		1,795,578	1,826,135	3,557,104	2,100,764	1,489,521	383,921
National Defense		24,756	10,120	13,169	18,051	17,458	3,136
Public Security		1,337,950	1,343,324	1,196,850	706,119	572,217	147,180
Education		2,630,041	2,833,335	3,661,231	1,812,182	1,662,714	473,068
Science and Technology		907,420	1,057,666	252,287	157,971	99,809	47,857
Culture Sport and Media		536,194	434,059	333,802	268,075	157,071	70,629
Social Security Net and Employment Effort		1,792,806	2,742,171	2,812,238	1,828,223	708,014	254,973
Medical and Health Care		1,189,527	888,313	987,788	520,956	487,893	114,174
Environment Protection		295,827	200,373	609,191	449,696	272,324	127,629
Urban and Rural Community Affairs		1,874,300	3,667,605	1,112,654	625,721	274,209	174,252
Agriculture Forestry and Water Conservancy		1,025,106	626,016	1,525,128	845,355	875,347	279,206
Transportation		330,894	162,324	402,964	281,527	488,381	84,780
Industry Commerce and Banking		1,026,015	2,894,758	1,369,050	575,616	446,480	160,234

Source: China Statistical Yearbook 2008

II.2.2 Public Borrowing

The outstanding balance of government bonds in the central budget at the end of 2008 totaled 5.327076 trillion yuan, of which domestic debts stand at 5279.932 billion yuan and foreign debts stand at 47.144 billion. It accounts 99.12% and 0.88% respectively of the total debt. The proportion of total debts to GDP maintained roughly 20 percent. The table 21 shows that there is no violent change in the proportion of total debts to GDP from 2005 to 2008.

Table 21 Central Government Debts (Billion Yuan)

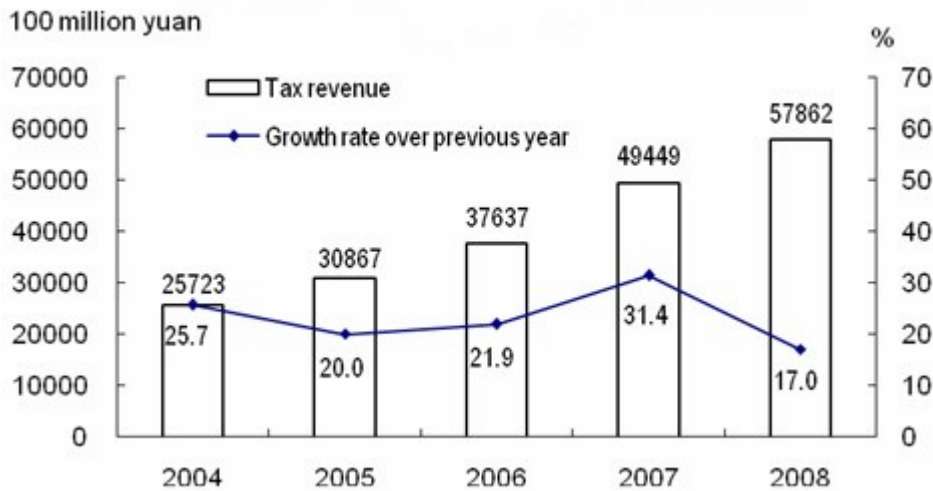
Year	Total	Domestic Debts	Foreign Debts	Proportion of Total Debts to GDP (%)
2005	3261.421	3184.859	76.552	17.7
2006	3501.528	3438.024	63.502	16.6
2007	5207.465	5146.739	60.726	20.87
2008	5327.876	5279.932	47.144	20

Source: China Statistical Yearbook 2008

II.2.3 Tax Revenue

The taxes collected in 2008 reached 5,786.2 billion yuan (excluding tariffs, farm land taxes and deed taxes), up by 17.0 percent or an increase of 841.3 billion yuan over 2007. Tax revenue keep on an increasing trend. Figure 11 shows that the growth rate decreased apparently in 2008, compared with the previous years.

Figure: 11 Tax Revenue and Its Growth, 2004-2008

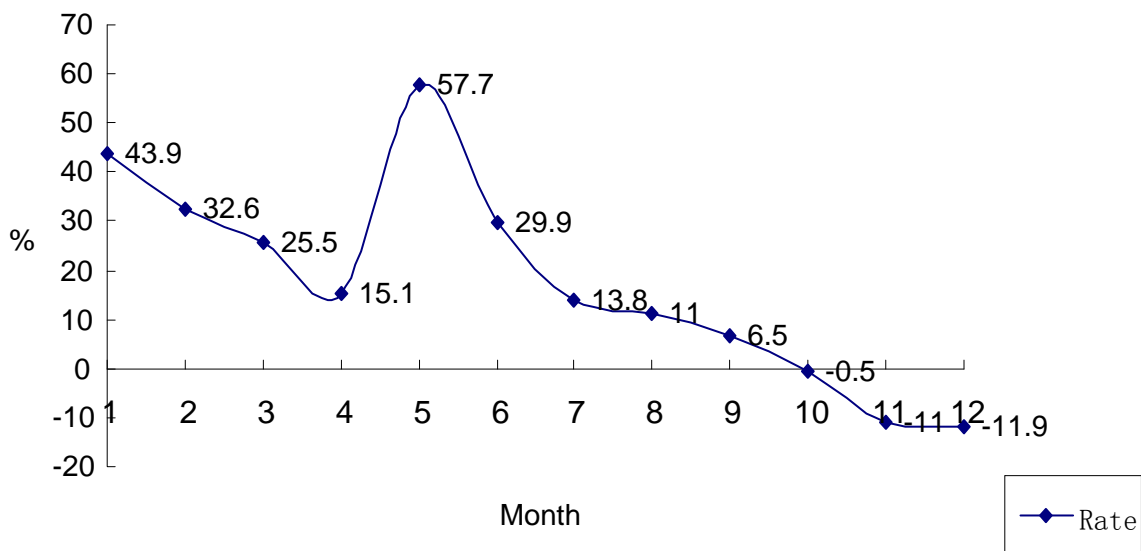


Source: Ministry of Finance of the People's Republic of China

Tax revenue keeps positive increase at the first half of 2008 because of the good economic situation and the final settlement and payment of enterprise income of 2007. However, it shows a negative growth at the second half of the year due to effect of the economy crisis. The central government practiced the tax-cut policy to stimulate the economy.

Figure 12 shows the overall decreasing rate of tax revenue in 2008, though there was a high peak in May. However, the global economic crisis had a great effect on the tax revenue after that.

Figure: 12 Growth Rate of Tax Revenue Monthly (2008)



Source: Ministry of Finance of the People's Republic of China

III. Tax Structure: Institutions and the Reality

III.1 Overview of Tax System in China

The current tax system of China was established in 1994 after comprehensive finance-tax administration system reform had been carried out. In this reform, the previous industrial and commerce tax system had been changed to a large extent to respond the requirement of socialist market economy and opening policy. This reform establishes the foundation of modern tax system, reorganizes the tax administrations, and plays an important role in financing the economic reform and social development in China.

With the development of the economy, the new laws and regulations are made in recent years to adapt to the need of society. The Law of the People's Republic of China on Enterprise Income Tax came into effect on January 1, 2008. The revised PRC Interim VAT Regulations, the revised PRC Interim Business Tax Regulations, and the revised PRC Interim Consumption Tax Regulations came into effect on 1st January 2009.

At present, there are totally 20 taxes levied in China. According to the category, they can be classified into four groups as follow:

Table 22: Types of Taxes by category

Categories of Taxes	Type of Taxes
Goods and Service Taxes (5)	Value-Added Tax, , Business Tax , Consumption Tax, Vehicle Acquisition Tax, Customs Duty
Income Taxes (3)	Enterprise Income Tax, Individual Income Tax, Land Appreciation Tax
Property Taxes (8)	House Property Tax, Urban Real Estate Tax, City and Township Land Use Tax, Farmland Occupation Tax, Deed Tax, Resource Tax, Vehicle and Vessel Usage Tax, Vessel Tonnage Tax
Other taxes (4)	Stamp Tax, City Maintenance and Construction Tax, Fixed Asset Investment Orientation Regulation Tax, Tobacco Leaf Tax

Note: The levying of the Fixed Asset Investment Orientation Regulation Tax has been suspended in order to encourage investment and expand the domestic demand since 2000.

Source: Liu Zuo, *Tax System of China*, P420, China Taxation Press, 2008

In 2008, the total tax revenue is 5421.962 billion yuan and the increase is 18.8% over the last year. Among these taxes, VAT, Business Tax, and Consumption Tax (including import VAT and Excise Tax) together have taken the prominent position (54.8%) in the total tax. Recent years, revenue of the enterprise income taxes and individual income (27.5%) has increased fast compared with the previous.

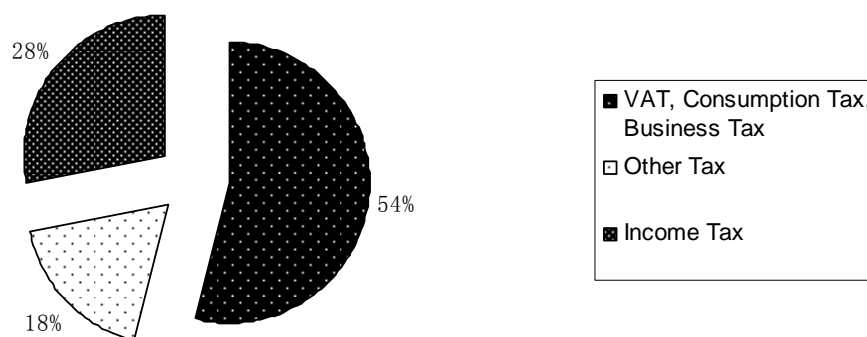
Table 23: Tax Revenue 2008 by Composition (Billion Yuan)

Item	Tax Revenue	Weight in the Total Tax Revenue (%)
Total Taxes	5421.962	100
Domestics VAT	1214.021	22.4
Consumption Tax	255.859	4.7
Import VAT and Consumption	739.107	13.6
Business Tax	762.633	14.1
Enterprise Income Tax	1117.305	20.6
Individual Income Tax	372.219	6.9
Resource Tax	30.176	0.6
Stamp Duty	97.916	1.8
City and Township Land Use Tax	81.695	1.5
Land Appreciation Tax	53.71	1.0
Vehicle Acquisition Tax	98.975	1.8
Farmland Occupation Tax	31.397	0.6
Customs Duty	176.995	3.3
Deed Tax	130.718	2.4
Other Taxes	259.236	4.8

Note: Export rebates are not counted in the total tax revenue.

Source: Ministry of Finance

Figure 13: Composition of Tax Revenue (2008)



Source: Ministry of Finance

III.2 Framework of Tax Legislation in China

In China the power of tax law legislation and tax policy formulation are concentrated in the central government. Departments under the State Council and local governments are authorized to enact the detailed regulations and local tax rules within the scope of tax laws and tax ordinances.

Currently, four levels of tax laws, ordinances and regulations are constituted as follow:

First, tax laws are enacted by the National People's Congress. Till now three tax laws have been released: Individual Income Tax Law, Tax Collection and Administration Law, and Enterprise Income Tax Law.

Second, tax ordinances are legislated by the State Council, such as the Provisional Ordinance of Value Added Tax.

Third, the departmental rules and regulations are formulated by the Ministry of Finance, the State Administration of Taxation, the General Administration of Customs, and the Tariff and Classification Committee of the State Council in accordance with tax laws and ordinances, for example, the Detailed Rules for the Implementation of the Provisional Ordinance of Value Added Tax.

Forth, local tax rules and regulations are formulated by the local People's Congresses and their Standing Committees, and local governments without conflicting with laws and ordinances.

III.3 Organizations of Tax Administration

There are three departments in charge of tax collection and administration in China: tax authorities, financial authorities, and the customs.

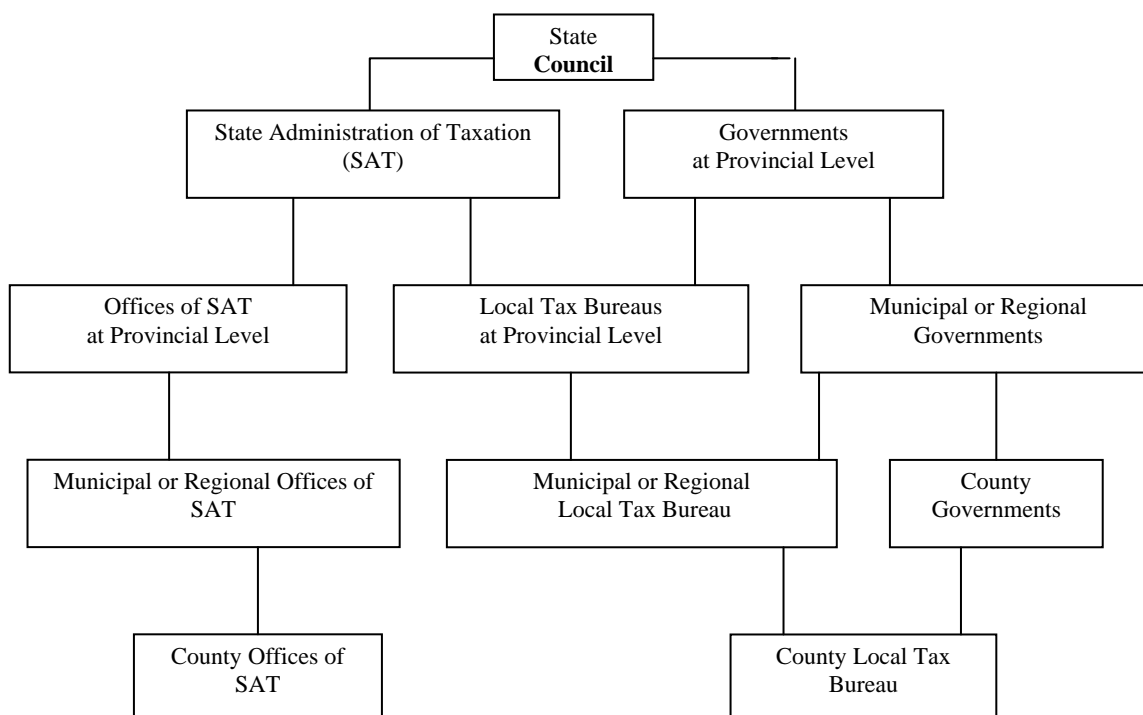
Most of taxes are collected by tax authorities, except Farmland Occupation Tax and Deed Tax are levied by local financial authorities; Customs Duty, Vessel Tonnage Tax are under the charge of the Customs. VAT and Consumption Tax on import are also collected by the Customs on behalf of tax authorities.

In addition to taxes, tax authorities are also in responsible of imposing three kinds of non-tax revenue, namely Educational Surcharge, Mining District Use Fee, and Culture Construction Fee. The provincial Governments may assign tax bureaus to collect social insurance fees (including basic pension, basic medical insurance, unemployment insurance and work injury insurance) as well.

Tax authorities are composed of national tax bureaus and local tax bureaus. National tax bureaus include four levels of organizations namely the State Administration of Taxation (the SAT, headquarter),

and offices of SAT at provincial level, city level and county level, while local tax bureaus only have three levels according to the division of administration regions. A vertical administration model is applied to national tax bureaus. It means the budget, personnel, organization and business administration of the lower office of SAT is under the control of the upper one. In respective of local tax authorities, a dual-administration system is applied in terms of executive administration and business administration. The executive administration of budget, personnel and organization of lower tax bureau is taken the charge by the upper level of government, while the business administration of lower tax bureau is guided by the upper level of local tax authority. The local tax authorities at provincial level should accept the guidance of the SAT on business administration.

Figure 14: Organization Chart of Tax Authorities in China



Note:

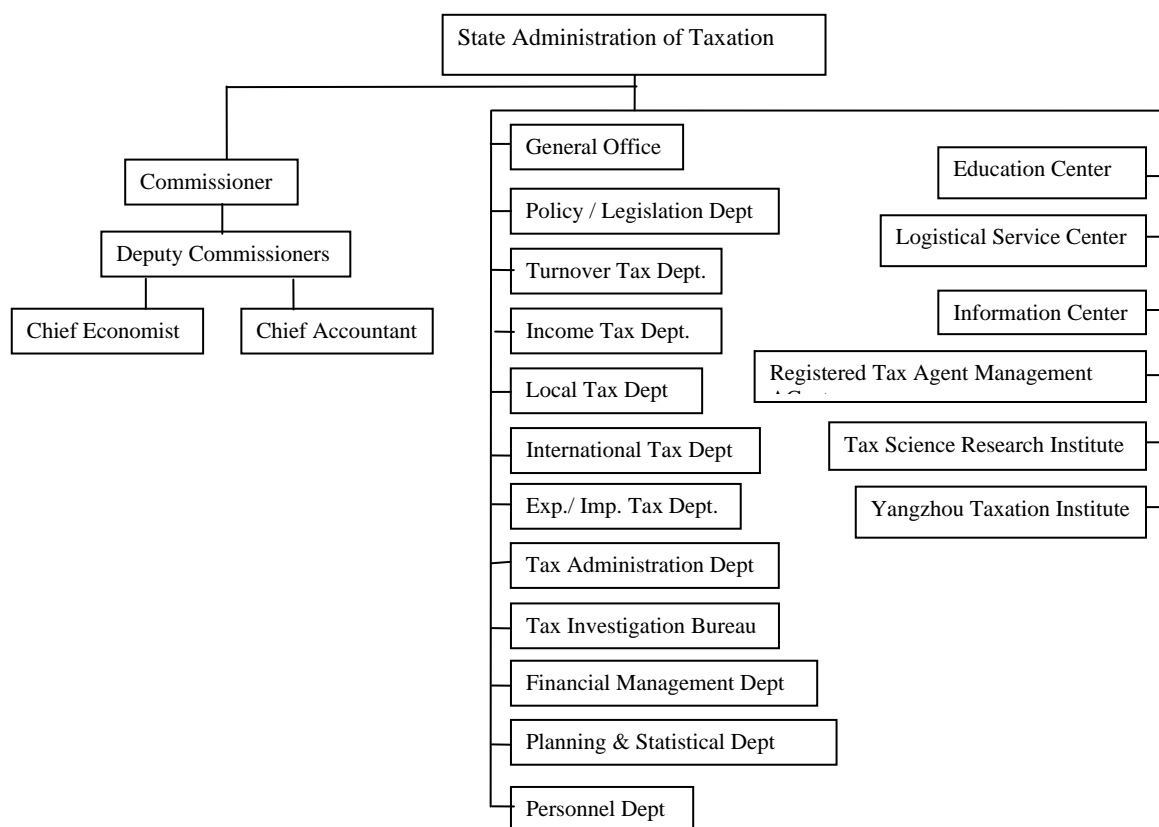
1. The Headquarter of SAT conducts vertical leadership over its offices across China, and assists provincial governments in form of dual leadership over local tax bureau.
2. The local tax bureaus below provincial level are under the dual leadership of both the higher local tax bureaus and the governments at the same level, and the former takes the predominant position.

Source: Liu Zuo, *Tax System of China 2008*, P426, China Taxation Press, 2008

Tax management in China is still in a traditional way. The inner structure of tax bureaus is organized according to types of taxes and different functions. Under the SAT, there are 12 departments in charge of different taxes and functions. Besides, 6 non-administration institutions are directly under the lead of SAT headquarter. Tax bureaus at provincial level, municipal level, and county level usually follow the organization structure of SAT.

By the end of 2006, there are totally 91 tax offices at provincial level, 945 tax offices at municipal level, 5391 tax offices at county level. In service staffs in tax authorities as a whole amounted to 854,000, of which national tax staffs and local tax staffs were 460,000 and 394,000 respectively.

Figure 15: Organization Structure of the SAT



Source: State Administration of Taxation of China

III.4 Local Tax System

The existing local tax system in China was set up in 1994 as mentioned before. From then on, the local tax system has not been changed much except the distribution of tax revenue between central government and local government.

III.4.1 Legal Foundation and Administration of Local Taxes

Two circulars released by the State Council named the Decision on Implementation of Financial Administration System of Tax Distribution (GF [1993]85) and the Notice of Implementation of Industrial and Commercial Tax Reform (GF [1993]90) are special documents on the establishment of local tax authorities and how to allocate taxation powers and taxes between central government and local government.

According to the circulars, taxes are divided into national taxes, local taxes and sharing taxes. National taxes are those good for protecting national interests and undertaking macroeconomic adjustment. Local taxes are those suitable for collection by local governments. Taxes related to national economic development directly should be shared by the central government and local government jointly at some proportion. National taxes and sharing taxes are assigned to be under the charge of national tax bureaus, while local tax bureaus are in responsible for local taxes.

III.4.2 Structure of Local Taxes and Other Taxes

In accordance with the mentioned principles, national taxes, local taxes and sharing taxes are allocated as follow:

Table 24: Composition of National Taxes, Local Taxes and Sharing Taxes

Item	Composition of Different Groups of Taxes
National Taxes (4)	Consumption Tax, Vehicle Acquisition Tax, Customs Duties, Vessel Tonnage Tax
Local Taxes (9)	House Property Tax, Urban Real Estate Tax, City and Township Land Use Tax, Farm Land Occupation Tax, Deed Tax, Vehicle and Vessel Usage Tax, Land Appreciation Tax, Tobacco Leaf Tax and Fixed Assets Investment Orientation Tax
Sharing Taxes (7)	<p>VAT: Central government and local government respectively possess 75 percent and 25 percent of the total domestic VAT, and VAT collected by Customs at import belongs to the central government.</p> <p>Business Tax: Revenue collected from the Railway Department, the headquarters of banks, and the headquarters of insurance companies goes to the central government, and the rest turns to local governments.</p> <p>Enterprise Income Tax: Except for the part belonging to the central government as ruled (The following income revenue is assigned to central government: income paid by railway companies, national postal services, Industrial and Commercial Bank of China, Agricultural Bank of China, Bank of China, Construction Bank of China, State Development Bank, Agricultural Development Bank of China, Import & Export Bank of China, China Oil and Natural Gas Company Limited, China Oil Chemical Company Limited and offshore oil and natural gas enterprises), the rest is shared by the central government and local governments at the ratio of 6:4.</p> <p>Individual Income Tax: 60% of it belongs to the central government and 40% of it belongs to local government.</p> <p>Resource Tax: The revenue from the offshore oil enterprises belongs to the central government (not levied for the time being). The rest is to local governments.</p> <p>Stamp Duty: 97% of tax on security transactions belongs to the central government, the other 3% of tax on security transactions and the rest revenue of Stamp Duty flows to local governments.</p> <p>City Maintenance and Construction Tax: Tax revenue paid by Railway Department, headquarters of banks and insurance companies is assigned to the central government, and the rest to the local government.</p>

Note: Fixed Assets Investment Orientation Tax has been suspended since 2000.

Source: Liu Zuo, *Tax System of China 2008*, China Taxation Press, 2008

Actually, when local tax system set up in China, it focused on how to distribute tax revenue between the central government and all levels of local governments as a whole with less consideration on matching different levels of local governments to different levels of local taxes. It means local taxes are essentially provincial taxes, governments below providences such as municipal governments, county governments and village governments have not their own taxes at all, they are financed by other means. This is a big issue of local tax system and financial system we have to face, and solutions are still open.

III.5 Rights and Obligations of a Taxpayer

III.5.1 Rights of a Taxpayer

To know the information about tax laws, tax regulations and tax collection procedures.

To receive professional service and assistance from tax authority.

To entrust an enrolled tax agent to handle the tax affairs on behalf of taxpayer himself or herself.

To enjoy tax preferences and tax exemptions according to tax laws or ordinances.

To postpone tax declare and tax payment when requirements are satisfied.

To request tax authority to refund over collected tax payment.

To apply for tax administrative review and conduct administrative litigation if he/she disagrees with the decision by tax authority.

To sue the tax authority to the court or apply for an arbitrament from the State Council if he/she disagrees with the tax executive review.

To request compensation for his or her unwanted loses.

To ask for tax authority to keep his or her information secret.

To make a representation or averment when necessary.

To request tax authority to hold a hearing when necessary.

To impeach and accuse tax staffs if they misuse laws.

Other rights authorized by laws.

III.5.2 Obligations of a Taxpayer

To make tax registration, alternation, or logout according to tax laws and ordinances, and use tax registration certificate as required. Subtenancy, obliteration, damage, buying and selling, or forgery of tax registration certificate is absolutely forbidden.

To set up accounting books as required. If not, it should be approved by tax authority.

To make tax declaration and submit tax returns, accounting statements, and other materials in according with tax laws and ordinances. If not, it should be allowed by tax authority.

To pay taxes within tax term. If not, it should be approved by county tax bureaus at least and tax term can be extended three months longer at most.

To keep and use invoices in compliance with tax laws and administrative regulations.

To settle his or her tax liabilities or provide guarantee to tax authority if he/she owe taxes and need to go aboard.

To accept tax examination and furnish related materials according to the facts without refusal and concealment.

To pay off taxes and delinquency charges before applying for tax administrative judge, when dispute occurs between taxpayer and tax authority.

Other obligations regulated by tax laws and rules.

These rights and obligations of a taxpayer are also applicable to withholding agents.

III.6 Tax Enforced Collection

The tax authorities shall determine the method of collection in accordance with the following principles: depositing the full amount of State taxes in the State treasury in a timely manner, making convenient arrangements for taxpayers and minimizing the cost of tax collection.

A taxpayer or withholding agent shall pay or remit tax within the time limit prescribed by the law or the administrative regulations, or as determined by the tax authorities in accordance with the law or the administrative regulations. Where a taxpayer is unable to pay tax within the prescribed time limit as a result of encountering special difficulties, it may, upon approval of a tax bureau (or a branch bureau thereof) above the county level, defer the payment of tax for a period of not more than three months

Where a taxpayer fails to pay tax within the time limit as prescribed in the preceding Paragraph or a withholding agent fails to remit tax within the time limit as prescribed in the preceding Paragraph, the tax authorities shall, in addition to ordering the taxpayer or withholding agent to pay or remit the tax within the prescribed time limit, impose a fine on a daily basis at the rate of 0.05% of the amount of tax in arrears, commencing on the day the tax payment is in default.

Taxpayers that are entitled to tax reduction or exemption under laws or administrative regulations or with the approval of a statutory examination and approval authority shall carry out tax reduction or exemption procedures with the tax authorities on the strength of the relevant documents. Taxpayers shall resume normal payment of taxes upon the conclusion of the tax reduction or exemption term.

When the tax authorities collect tax payments and the tax withheld or collected by withholding agents, tax payment receipts must be issued to the taxpayers, such as tax receipts, payment memos, tax stamps, withholding (collection) certificates and other evidence of tax payment.

In the event that one of the following circumstances should arise in respect of a taxpayer, the tax authorities shall have the right to assess the amount of tax payable by the taxpayer: accounting books are, in accordance with this Law, not kept; accounting books are required to be kept by this Law but have not been kept; although accounting books have been kept, the accounting entries have not been entered in an appropriate manner or the information on costs, receipt vouchers and expense vouchers are incomplete, causing difficulties in conducting an audit; a taxpayer who is obligated to pay tax fails to go through tax filing procedures within a prescribed time limit and, after having been ordered by the tax authorities to file tax returns within the prescribed time limit, still fails to file the tax returns within the prescribed time limit.

The tax authorities have the power to use any of the following methods to determine the amount of tax to be paid: making reference to the tax burden of a taxpayer with a similar scale of business and revenue level among enterprises in the same or a similar industry in the same locality; using the method of business revenue or cost plus reasonable expenses and profit; extrapolation or estimation on the basis of raw materials, fuel and power, which are consumed; or other reasonable methods. If the use of any single method set forth above is insufficient to determine the amount of tax to be paid, two or more methods may be used simultaneously.

III.6.1 Liens and Levies

If a taxpayer engages in production and business activities without registration to tax authority, taxes can be assessed and collected by tax authority directly. If he/she refuses to pay taxes after tax assessment, tax authority can levy on his or her goods or products equal to the value of overdue taxes for 15 days. After the taxpayer has paid taxes, tax authority must release the levied goods or products promptly and return them back to the taxpayer. If the taxpayer still pays no taxes after lien, tax authority may sell the goods or products subject to levy to satisfy tax debts by auction or other means with approval by director general of county tax bureau at least. In the case of food or other live goods, the period of levy can be shortened.

III.6.2 Tax Protective Measures

If tax authority deems the collection of taxes to be at risk, the taxpayer should be asked to pay taxes within a prescribed period before the legal tax term comes due. During this period if taxpayer is observed to escape tax payment by concealing or transferring goods, products, and other properties or income from the reach of tax authority, he/she is required to provide tax warrant to tax authority. If the taxpayer can not observe the rule, following tax protective measures should be taken with the approval of the director general of county tax bureau at least:

First, informing banks or other financial institutions to freeze an amount of money equal to the value of owed taxes from the account of taxpayer in written.

Second, goods, products or other properties of the taxpayer equal to the value of owed taxes should be levied by lien or seizure.

If the taxpayer has paid taxes during the prescribed period, the tax protective measures should be released within 1 day from the day of payment. If the prescribed period comes due however the taxpayer has not paid the owed taxes yet, tax authorities may inform banks or other financial institutions to deduct an amount of money equal to the value of the owed taxes from the frozen account, or sell the goods, products, and other properties subject to levy or seizure by auctions or other means.

If there is some money left after the payment of overdue taxes, fines, late fees and disposal charges, it should be returned to the taxpayer within 3 days.

If the taxpayer has paid taxes during the prescribed period, nevertheless the tax authority has not released tax protective measures promptly which causes damage to the rights of taxpayer, the tax authority should take the responsibility of compensation.

III.6.3 Tax Enforcement Measures

If a taxpayer engaging in production and business activities does not pay taxes or a withholding agent does turn over taxes to tax authority in stated period, furthermore the tax warrantor does not pay taxes on behalf of them on time either, the tax authority will inform the taxpayer and the withholding agent to pay taxes in a prescribed period. If he/she has not paid taxes during the time limit, tax authority may take the following tax compulsory measures after these measures have been approved by the director general of county tax bureau at least:

First, banks or other financial institutions should be informed to deduct the amount of money equal to the value of overdue taxes and late fees from the account of taxpayer or withholding agent directly.

Second, to levy, seize, auction or sell goods, products or other properties equal to the value of overdue taxes and late fees to satisfy tax debts.

When tax authority conducts the enforcement measures like lien, levy or seizure of goods, products or other properties, there must be more than two tax officials to execute the mission together. Taxpayer or his/her adult relatives or representative must be informed in advance to come to the spot. However, even if they refuse to come, the enforced actions will be executed as planning.

Tax protective measures and tax enforcement measures should be executed by tax administration within the extent of authority and in accordance with the legal procedure. Personal effects, household goods less than 5000 yuan per unit, and the residence of taxpayer and his/her dependent necessary for life are exempted from tax protective measures and tax compulsory measures. However automobiles, gold or silver jewelries or decorations, antiques, luxury houses are excluded from the necessary household goods and residences.

III.6.4 Restricted to Leave Country

If a taxpayer or legal representative of taxpayer with overdue taxes applies for going abroad, he/she must settle the owed taxes and late fees in advance or supply a receivable warrant to tax authority. Otherwise, the tax authority may inform the immigration bureau to prevent him from leaving country.

III.6.5 Retroactive Collection

If a taxpayer or withholding agent has not paid taxes or only paid fewer taxes because of the fault of tax authority, he/she will be asked to pay overdue taxes without any penalty within three years since it occurred. If such a matter happened on account of calculation errors or others caused by taxpayers, tax authority may ask them to pay overdue taxes plus late fees within three years, and it can be extended to 5 years in special cases.

III.7 Brief Introduction of Main Taxes

The main taxes are Value Added Tax, Consumption Tax, Business Tax, Individual Income Tax, and Enterprise Income Tax in China.

III.7.1 Value Added Tax

VAT taxpayers include any enterprise, unit, individual householder and other individual engaged in sales of goods, importation of goods, provision of services of processing, repairs and replacement within the territory of the People's Republic of China. The tax payable shall be the balance of output tax for the period after deducting the input tax for the period.

VAT is charged at a standard rate of 17%. The sale of certain necessity goods and the importation of certain special equipment may be exempt from VAT (zero rates) or be subject to VAT at a reduced rate of 13 percent, as specified in the VAT regulations.

Table 25: VAT Taxable Items and Rates

Coverage of collection	Rate (%)
Selling or importing goods (other than those stipulated in items bellow)	17
Exportation of goods (except otherwise stipulated By the State Council)	0
Agriculture, forestry, products animal husbandry, aquatic products; Edible vegetable oil and food grains duplicates; Tap water, heating cooling, hot applying, hot water, coal gas, liquefied petroleum gas, natural gas, methane gas, coal/charcoal products for household use; Books, newspapers, magazines (excluding the newspapers and magazines distributed by the department); Feeds, chemical fertilizers, agricultural chemicals, agricultural machinery and plastic covering film for farming; Dressing metal mineral products, dressing non-metal mineral products, coal.	13
Crude oil, mine salt and goods other than those listed above; Providing processing, repairs and replacement services	17

Source: Provisional Regulations of the People's Republic of China on Value Added Tax (2008)

Except for commodities listed in the “Catalogue for Prohibited Commodities for Processing Trade” and those whose export VAT refund entitlement have been withdrawn, most types of goods that are manufactured and exported by foreign investment enterprises are effectively tax exempt under the “exempt, credit, refund” mechanism. However, this does not mean that all input VAT will be refunded because the refund rates vary depending on the type of product. At present, the refund rates of VAT consist of 5 percent, 9 percent, 11 percent, 13 percent, and 17 percent in respect of different goods.

There are two type of tax payer: general tax payer and small-scale tax payer. The appropriate tax rate on the small-scale taxpayers selling goods or taxable services shall be 3% (after January 1, 2009). The standards for small –scale taxpayer are as follows:

(1) the sales amount liable to annual VAT is below 0.5 million yuan for a taxpayer who produces goods or the providing taxable services or who produces goods or providing taxable services as the main line and also operates wholesale or retail business as a sideline;

(2) the sales volume liable to annual VAT is below 0.8 million yuan for taxpayers who do not belong to item (1).

For small-scale taxpayers selling goods or taxable services, the tax payable shall be calculated based on the sales amount and the according rate. No input tax shall be creditable. The formula for calculating the tax payable is as follows:

Tax payable = Sales amount x tax rate

The exempted items are as follows:

- (1) the agricultural production materials as regulated;
- (2) self-produced primary agricultural products sold by agricultural producing units and individuals;
- (3) imported goods being processed for exportation;
- (4) self-use equipment imported out of the total investment for the projects with foreign investment or domestic investment which are encouraged by the State;
- (5) contraceptive medicines and devices; antique books purchased from the public;
- (6) imported materials and equipment granted by foreign governments or international organizations;
- (7) materials imported directly to support the poverty relief and charity cause donated freely by overseas natural persons, legal persons and other organizations;
- (8) articles imported directly by organizations for the disabled for exclusive use by the disabled; and
- (9) the taxable services provided by individual disable laborers

The VAT assessable period shall be one day, three days, five days, ten days, fifteen days, one month or one quarter. The actual assessable period of the taxpayer shall be determined by the competent tax authorities according to the magnitude of the tax payable of the taxpayer; tax that cannot be assessed in regular periods may be assessed on a transaction-by-transaction basis.

The State Council made a decision to implement the VAT transformation reform on a nationwide basis as from 1st January 2009. The old VAT regulations are production type VAT that did not allow the input VAT for the purchased fixed assets to be offset against output VAT, and that has resulted in double taxation and put a brake on the enterprise’s incentive for its technological improvement.

The VAT regulations have been amended in the following five areas:

The first is to allow deduction of the input VAT for purchased fixed assets. Before the amendment, input VAT is not allowed to get deducted from the output VAT. The production type VAT system is adopted and that has increased the tax burden of the enterprise buying the machinery and equipment. To reduce the tax burden, the revised VAT regulations remove the practice of such non-deduction, and allow the taxpayer to deduct the input VAT for purchased fixed assets. That helps achieve the transformation of the production type VAT system to one of consumption type.

The second is to plug the tax loophole arising from the transformation. The revised VAT regulations provide that the input VAT for consumables (like vehicles and yachts) is not allowed to get deduction from output VAT since it is easy to mix up corporate consumption with personal consumption that is not relevant to the technological improvement of the enterprise.

The third is to reduce the levy rate for small-scale taxpayer. According to the original VAT regulations, with the approval from the State Council, small-scale taxpayers carrying on production activities and non-

production activities are taxed at a levy rate of 6% and 4% respectively. The revised VAT regulations fix the levy rate at 3% across the board for the small-scale taxpayer.

The fourth is to incorporate some current VAT policies into the revised VAT regulations, mainly including the deduction rates for agricultural produce and transportation charges, the provisions for the qualifications for being recognized as the VAT general taxpayer, and the abolition of tax exemption for the equipment imported for use in export processing with supplied materials, export processing with samples, and compensation trade.

The fifth is to extend the VAT filing deadline from 10 days to 15 days after the month end in order to provide convenience to taxpayers, improve revenue service level and relieve the workload for handling VAT filing at the counter of the local tax bureaus in accordance with the practices of tax levy and administration. The revised VAT regulations also clarify the issue how to determine the tax withholding agent, the time the tax liabilities arise, the location of paying taxes and the period within which payments should be made for the taxpayer situated outside China.

III.7.2 Consumption Tax

Entities and individuals that produce, process upon commission or import the consumption goods prescribed in the Regulation in the People's Republic of China and other entities and individuals that sell the consumption goods as prescribed in the Regulation as determined by the State Council shall be consumption tax payers who shall pay consumption tax according to the Regulation.

Consumption tax shall be assessed under the rate on value method or the amount on volume method. The formula for assessing the tax amount is:

The amount of tax under the rate on value method = volumes of sales \times tax rate.

The amount of tax under the amount on volume method = volume of sales \times unit tax amount. The third way is to combine the above two method and use them together.

When Consumption Tax was introduced in 1994, it was imposed on 11 types of special consumer goods after VAT had been levied on them first. The taxpayers of Consumption Tax are the producers or distributors of consumer goods include enterprise, household businesses and individuals engaged in production, importation and /or retails of taxable consumer goods.

As the time past, domestic industrial structure and consumers' consumption standard and consumption structure have changed dramatically while Consumption Tax can not adapt to these changes any more. Some previous luxury consumer goods subject to Consumption Tax have become common commodities such as shampoo; the tax rate structure of some taxable consumer goods can not catch up with the changes of production and consumption; moreover, some environment unfriendly behaviors should be discouraged or restricted by Consumption Tax.

There have been two areas of amendments in the consumption tax regulations:

The first is to incorporate in the new consumption tax regulations the policies made and adopted since 1994, such as the adjustments made to collect the consumption tax in the retail chain for certain consumable goods (gold jewelry, platinum, diamond and diamond jewelry), the compound computation method for cigarettes and white wines, and the adjustments to consumption tax rates for some items of goods subject to the consumption tax.

The second is to achieve the linking of the consumption tax regulations with VAT regulations by extending the tax filing deadline from 10 days to 15 days, and the adjustment to the place for the payment of consumption tax.

The Consumption Tax table involving 14 taxable items is as follow:

Table 26: Table of Consumption Tax Taxable Items and Rates

Taxable items	Tax rates (tax amount per unit)
1. tobacco	
(1) Grade A Cigarettes	(1) 0.03 Yuan per piece + sales value \times 45%
(2) Grade B Cigarettes	(2) 0.03 Yuan per piece + sales value \times 30%
(3) Cigars	(3) 25%
(4) Cut tobacco	(4) 30%
2. alcoholic drinks and alcohol	
(1) white spirits	(1) 0.5 Yuan per Jin or 500ml + factory price \times 20%
(2) yellow spirits	(2) 240 Yuan per ton
(3) beer of class one	(3) 250 Yuan per ton
(4) beer of class two	(4) 220 Yuan per ton
(5) other alcoholic drinks	(5) 10%
(6) alcohol	(6) 5%
3. cosmetics	30%
4. precious jewelry, pearls, precious jade and stones	
(1) gold and silver jewelry, diamond and decoration thereof	(1) 5%
(2) other jewelry, pearls, precious jade and stones	(2) 10%
5. firecrackers and fireworks	15%
6. finish oil products	
(1) gasoline: a. unleaded; b. leader	(1.a) 0.2 Yuan per litre (1.b) 0.28 Yuan per litre
(2) diesel oil, fuel oil, aviation oil	(2) 0.10 Yuan per litre
(3) naphtha, solvent-oil, lubricating oil	(3) 0.20 Yuan per litre
7. motor vehicle tires	3% ¹
8. motor-cycles	
(1) cylinder capacity less than 250 ml	(1) 3%
(2) cylinder capacity over 250 ml	(2) 10%
9. cars	
(1) passenger cars (with 9 seats or less)	1%, 3%, 5%, 9%, 12%, 25%, 40% ²
(2) medium and light commercial cars (with 10 to 23 seats)	5%
10. golf and tools	10%
11. high-class watches	20%
12. yachts	10%
13. wood chopsticks for use only once	5%
14. wood floor	5%

Note:

¹ Meridian tyres and renovated tyres are excluded.

² Rate applied to cars is based on the cylinder capacity of the car in item 9.

Source: Interim Regulation of the People's Republic of China on Consumption Tax (2008)

From January 2009, new regulations on consumption tax are effective. In view of the fact that the VAT has a co-relationship with and consumption tax, it is necessary to amend the PRC interim consumption tax regulations accordingly in order to achieve the effective links among the relevant tax policies.

III.7.3 Business Tax

Business tax is imposed on services, transfer of intangible assets and immovable property taking place within China, which is the main tax source of local governments.

Table 27: Taxable Items and Rates of Business Tax

Taxable items	Tax rates (%)
1. communications and transportation	3
2. construction	3
3. financial and insurance businesses	5
4. post and telecommunications	3
5. culture and sports	3
6. entertainment	5-20
7. services	5
8. transfer of intangible assets	5
9. sales of immovable properties	5

Source: Interim Regulation of the People's Republic of China on Business Tax (2008)

III.7.4 Individual Income Tax

Taxpayers of Individual Income Tax refer to individuals who have a “place of abode” in China, who are subject to individual income tax on their worldwide income. For this purpose, “individuals have a place of abode” in China means those who maintain a place of residence in China because of their legal residence status, family, or economic ties.

Individuals who do not have a “place of abode” in China are taxed in accordance with their length of residency in China, as follows.

First, non-residents or resident foreign expatriates who reside in China for less than one year will be taxed only on their China-source income.

Second, foreign expatriates who reside in China for more than one year but not more than five years will be subject to tax on both their China-source income and their foreign-source income. However, upon application to and approval from the tax authorities, the taxation of foreign-source income can be limited to that received from Chinese enterprises, Chinese establishments, Chinese economic organizations, and Chinese individuals.

Third, foreign expatriates who reside in China for more than five consecutive years will be subject to tax on their worldwide income from the sixth year onward.

Forth, foreign expatriates who travel in China and derive income from an overseas employer with no permanent establishment in China will be tax exempt if they do not physically stay in China, consecutively or cumulatively, for more than 90 days in a calendar year. The 90-day test is extended to 183 days if the individual is a tax resident of a country/region that has executed a taxation treaty/arrangement with China.

Taxable income of an individual has been classified into 11 items as following:

- (1) Wages and salaries;
- (2) Income derived by industrial or commercial households from production or business operation;
- (3) Income from contracted or leased operation of enterprises or institutions;
- (4) Income from labor service payment;
- (5) Income from author's remuneration;
- (6) Income from royalties;
- (7) Income from interest, dividends, bonuses;
- (8) Income from lease of property;
- (9) Income from transfer of property;
- (10) Occasional income; and
- (11) Other income specified as taxable by the finance department of the State council

All individuals are allowed a standard deduction of RMB2000 per month from wages and salaries since March 1, 2008. Tax rates for wages and salaries are progressive, varying from 5 percent to 45 percent at 9 blankets. Income from production and business of individual industrialists and merchants and income from contracted or leased operation of enterprises or institutions shall be taxed at progressive rates ranging from 5 percent to 35percent. Income from author's remuneration, applying to proportional rate, shall be taxed at a flat rate of 20percent. The amount of tax payable however shall be reduced by 30percent. Income from remuneration for labor service, applying to proportional rate, shall be taxed at a rate of 20percent, where a

specific payment of income from remuneration for personal service is excessively high, additional tax can be levied at a rate to be specifically determined by the State Council. Income from royalties, interest, dividends, bonuses, lease of property and transfer of property, as well as contingent income and other income, applying to proportional rate, shall be taxed at a rate of 20percent.

Table 28: Individual Income Tax Rate (applicable to income from wages and salaries)

Grade	Taxable Income of the Month (yuan)	Tax Rate (%)	Quick Deduction
1	Less than 500	5	0
2	The portion of income in excess of 500 to 2,000	10	25
3	The portion of income in excess of 2,000 to 5,000	15	125
4	The portion of income in excess of 5,000 to 20,000	20	375
5	The portion of income in excess of 20,000 to 40,000	25	1,375
6	The portion of income in excess of 40,000 to 60,000	30	3,375
7	The portion of income in excess of 60,000 to 80,000	35	6,375
8	The portion of income in excess of 80,000 to 100,000	40	10,375
9	The portion of income in excess of 100,000	45	15,375

Note: "The taxable income of the month" in this table refers to the amount of a monthly income after deduction of 2,000 yuan for expenses or additional deductions for expenses.

Source: Liu Zuo, *Tax System of China 2008*, P148, China Taxation Press, 2008

Table 29: Individual Income Tax Rate (Applicable to income of individual industrial or commercial operators from production and business operation or income from business operations leased or contracted from an enterprise or undertaking)

Grade	Taxable Income of the Year (yuan)	Tax Rate (%)	Quick Deduction
1	Not exceeding 5,000	5	0
2	The portion of income in excess of 5,000 to 10,000	10	250
3	The portion of income in excess of 10,000 to 30,000	20	1,250
4	The portion of income in excess of 30,000 to 50,000	30	4,250
5	The portion of income in excess of 50,000	35	6,750

Note: The "taxable income of the year" in the table refers to the taxable income based on the gross income of a tax year after the deductions for costs, expenses and losses.

Source: Liu Zuo, *Tax System of China 2008*, P156, China Taxation Press, 2008

The following categories of income shall be exempted from individual income tax:

(1) Awards for achievements in science, education, technology, culture, public health, physical culture and environmental protection granted by the Provincial People's Governments, Ministries and Commissions under the State Council, the People's Liberation Army Units at army level and above and by foreign or international organizations;

(2) Interest income on saving deposits and national debt obligations and other financial debentures issued by the state;

(3) Subsidies and allowances received under the state uniform provisions;

(4) Welfare benefits, survivor pensions and relief payments;

(5) Insurance indemnities;

(6) Military severance pay and demobilization pay received by members of the armed forces;

(7) Settlement payment, severance payment, retirement payment and retirement living allowances received by public servants and workers under state uniform provisions;

(8) Income derived by the diplomatic agents and consular officers and other personnel who are exempt from tax under the provisions of the relevant Laws of China;

(9) Income exempt from tax as stipulated in the international conventions to which the Chinese Government is a party and in agreements it has entered into;

(10) Income exempt from tax with the approval of the finance department of the State Council.

For individual income tax, the income earner shall be the taxpayer and the paying unit or individual shall be the withholding agent. The tax withheld by the withholding agent on monthly basis, and the tax paid by the self-reporting individual, shall be paid to the state treasury within the first seven days of the following month together with the tax returns filed with the tax authorities. A handling fee of 2% of the

amount of tax withheld shall be paid to the withholding agent.

In general, individual income tax payers do not need to file the tax return because almost all kinds of income have been withheld by withholding agents. However, the following taxpayers are obliged to declare their income to tax authorities:

- (1) Individuals gain annual income more than RMB120000.
- (2) Individuals earn salaries or wages from more than two sources within China.
- (3) Individuals derive income from outside China.
- (4) Individuals earn income without withholding agents.

III.7.5 Enterprise Income Tax

The new Law of the People's Republic of China on Enterprise Income Tax came into effect on January 1, 2008. Before this, there were two different enterprise income tax regimes, one (so-called Income Tax on Foreign Enterprises and Enterprises with Foreign Investments Foreign) is applicable to foreign investment enterprises and foreign enterprises and the other (named Enterprise Income Tax) applicable to domestic enterprises.

Taxpayers of enterprise income tax shall be enterprises and other organizations that obtain income within the People's Republic of China and shall pay enterprise income tax. Enterprises are divided into resident enterprises and non-resident enterprises.

The rate of enterprise income tax shall be 25 percent. For non-resident enterprises, the applicable tax rate shall be 20 percent. Small-scale Enterprises with minimal profits that are qualified are subject to the applicable enterprise income tax rate with a reduction of 20 percent. High and new technology Enterprises that require key state support are subject to the applicable enterprise income tax rate with a reduction of 15 percent.

The taxable income is the balance derived from the total income in each taxable year of enterprises, after deduction of the non-taxable income, tax exempted income, other deductions and the making up of losses of previous years.

The payable tax of enterprises shall be the balance derived from the taxable income of enterprises multiplies the applicable rate and minus the tax amount of tax reduction and exemption pursuant to the preferential tax treatment hereof. The following income from the total income shall not be taxable:

- (1) Financial funding;
- (2) Administrative fees and government funds obtained and included in financial management in accordance with the law; and
- (3) Other non-taxable income prescribed by the State Council.

The following expenses may not be deducted from the taxable income:

- (1) Income from equity investment paid to investors such as dividend and bonus;
- (2) Payment of enterprise income tax;
- (3) Late payment fines;
- (4) Penalties; fines and losses from confiscated property;
- (5) Expenses from donations other than those prescribed in Article 9 hereof;
- (6) Sponsorship fees;
- (7) Expenses for non-verified provisions; and
- (8) Other expenses irrelevant to the income obtained.

Where Enterprises compute the taxable income, the depreciation of fixed assets calculated in accordance with provisions may be deducted. However, no depreciation may be deducted for the following fixed assets:

- (1) Fixed assets other than premises and buildings which have not been used yet
- (2) Fixed assets leased from other parties by means of business lease;
- (3) Fixed assets leased to other parties by means of lease financing;
- (4) Fixed assets that have been depreciated in full but are still in use;
- (5) Fixed assets that are irrelevant to business activities;
- (6) Land credited as fixed assets after independent price valuation;

(7) Other fixed assets whose depreciation may not be calculated.

The industries and projects with key support and under encouraged development by the State may be given preferential enterprise income tax treatment. Tax reduction and exemption treatments are targeted primarily towards: agriculture, forestry and animal-husbandry, fishery projects; basic infrastructure projects; environment protection projects and energy/water conservative projects; qualified technology transfer. Moreover, "Super deduction" is allowed for R&D expenses for new technology, new products, and new craftsmanship. Taxable income may be reduced by a deemed deduction calculated as a percentage of investment amounts for venture capital businesses engaged in encouraged industries. Shorter tax depreciation life or accelerated depreciation is allowed for particular types of fixed assets due to advancement of technology.

The following income of Enterprises shall be tax-exempted income:

- (1) Income from interests on government bonds;
- (2) Income from equity investment income such as dividend and bonus between qualified resident enterprises;
- (3) Income from equity investment such as dividend and bonus obtained from resident enterprises by non-resident enterprises that have set up institutions or establishments in China with an actual relationship with such institutions or establishments;
- (4) Income of qualified non-profit organizations.

The following income may be subject to exempted or reduced enterprise income tax:

- (1) Income from engaging in projects of agriculture, forestry, animal husbandry and fisheries by Enterprises;
- (2) Income from investment and operation of infrastructure projects with key state support such as harbor, pier, airport, railway, highway, electricity and hydroelectricity by Enterprises;
- (3) Income from engaging in qualified projects of environmental protection and energy and water conservation;
- (4) Income from qualified transfer of technology by Enterprises.

The business transactions between Enterprises and their affiliates that reduce the taxable income or income of such Enterprises and their affiliates not in compliance with independent transaction principle, the taxation authority has the right to make an adjustment in accordance with reasonable methods. The cost incurred in joint development and transfer of intangible assets, or joint provision and acceptance of labor services by Enterprises and their affiliates shall be shared under the independent transaction principle in computing the taxable income. Enterprises may report to the tax authority the pricing principle and calculation method of the transactions between their affiliates. Upon negotiation and confirmation with the Enterprises, the tax authority may reach the advance pricing arrangement.

Enterprise income tax shall be calculated in accordance with the taxable year which starts from 1 January to 31 December of a calendar year. Enterprise income tax shall be prepaid on a monthly or quarterly basis. Enterprises shall submit a prepaid enterprise income tax return to the tax authority within 15 days of the completion of the month or the quarter to make tax prepayment and submit an annual enterprise income tax return to the tax authority within five months of the completion of the year and make the settlement of the payable and refundable tax payment.

IV. Country-Specific Fiscal Issues

View from the impact of the crisis. It is harder for the economy to maintain steady and rapid development because of the global financial crisis and global economic slowdown, coupled with cyclical adjustments in the domestic economy, as well as the interaction between short-term difficulties and long-term problem shave. It is extremely difficult for public finance to stretch revenue to cover all expenditures. With GDP growth in China set to slow to 6.5 percent and output expected to decline in key partner countries, the corporate sector outlook for 2009 is difficult. The real estate sector is likely to remain weak as the overhang of vacancies, fall-off in mortgage growth, and the gap between rental and mortgage rates could presage a continued softness in the sector in 2009. Manufacturing investment could weaken if inventories continue to be run down and falling profits drive down retained earnings. Corporate weakness could intensify further if significant overcapacity emerges in certain industries or global demand falters further or protectionist barriers emerge. Defaults on informal lending, through inter-enterprise credit and loans to customers, could be an additional source of risk.

View from the standpoint of revenue. Revenue sources have significantly decreased due to the impact of economic slowdown and the problems facing national economic development have become more numerous when enterprise profits are down. In addition, structural tax reductions will be carry out and a proactive fiscal policy must be followed in order to ensure continued steady and rapid economic development. This also reduces the revenue. In recent years, special factors have contributed to the rapid increase in government revenue, but these factors will either diminish or be entirely absent in 2009, thus it will become even more difficult to increase revenue.

View from the standpoint of expenditures. It is necessary to increase the scale of government spending to maintain and improve the wellbeing of the people, support key areas in economic and social development, such as agriculture, rural areas and farmers, education, the social safety net and employment, medical and health care, energy conservation and emissions reduction. Meanwhile, expenditures are needed to alleviate the operating difficulties experienced by some industries and enterprises and support post-disaster reconstruction efforts. The base figure for total government expenditures is fairly large and there is little leeway. This also puts pressure on government spending.

V. Conclusion: Where We Stand and Where We Go?

Taking into consideration developments and changes in global and domestic economic situations, the priority for economy in China is to maintain a steady and rapid development. A proactive fiscal policy will be followed to increase government spending, carry out structural tax reductions, adjust the pattern of national wealth distribution, improve the structure of government expenditures, effectively maintain and improve the people's wellbeing, carry out reform of the fiscal and taxation systems, support scientific and technological innovation, energy conservation and emissions reduction, and promote economic growth, economic restructuring and balanced regional economic development. It is necessary to keep financial management in a scientific and efficient way. To have sound and rapid economic and social development, government funds should be utilized more effectively and the role of public finance should be used sufficiently.

First, it is very important to **expand government spending and focus on key areas** to boost domestic consumption and maintain steady and rapid economic development. The funds will be allocated in public spending, such as developing agricultural infrastructure and improving the wellbeing of rural residents. Meanwhile, funds will be used to develop low-income housing and finance education, medical and health care and other social programs. Other investment items are on energy conservation, emissions reduction and ecological conservation; making independent innovation and technological upgrading in enterprises; developing infrastructure such as railways, highways, airports and ports.

Second, policies would be implemented to **carry out reform of taxes and fees and implement structural tax reductions**. To perform reform and improve the taxation system, structural tax reductions will be implemented to lighten the tax burden on enterprises and the tax payers, to encourage enterprises to increase their investment and to boost consumption. A consumption VAT will be implemented sufficiently to reduce the tax burden on enterprises and to encourage them to increase spending on independent innovation and technological upgrading.

Third, it is the responsibility of the country to **increase the income of the low-income population and strongly promote consumption demand**. The distribution of national wealth should be adjusted to increase the proportion of individual incomes in national income distribution. The proportion of the primary distribution of income should be increased to go directly to wages and salaries to increase the consumption capacity of residents and to strengthen the effect consumption to promote economic growth. The role of fiscal and taxation policies should be maximized to increase the government assistance. Meanwhile, the more attentions should be paid to the income of the low- and middle-income population.

Fourth, **improve the structure of budgetary expenditures and maintain and improve the people's wellbeing**. Rural reform and development should be supported continuously. Fund should be allocated for education, medical and health care, the social safety net, employment, low-income housing and culture that are directly related to the people's wellbeing. Regular expenditures should be strictly controlled and administrative overhead further reduced.

Fifth, it is necessary to **give a strong support to innovation in science and technology, energy conservation and emissions reduction**. To achieve this aim, there is a need for promoting economic restructuring and transformation in the pattern of economic development. It is beneficial to increase spending on science and technology, especially to accelerate technological upgrading and advances in enterprises. For better development of society, it is also vital to accelerate improvement of the industrial structure, to strengthen the ability to engage in independent innovation and to promote the transformation of the pattern of economic development.

At last, **strengthen management and oversight of public finance**. Enactment of the Regulations on Managing Transfer Payments will be expedited. Administrative law enforcements should be standardized by financial authorities and the procedures for administrative examination and approval should be improved. The system for dynamic monitoring of budget implementation should be improved by financial departments at all levels. Pilot performance evaluations will be expanded. The aware of risks should be built during the works to improve related systems, tighten debt management and fend off financial risks. A financial oversight system should be created to cover all government funds and all areas of public finance,

with the focus on strengthening oversight, inspection and evaluation of government investment funds, to prevent redundant development and diversion of funds and ensure that they are used more effectively. Transparency in government should be promoted vigorously in handling financial affairs.

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