

1 China

Deng Yang

I. Introduction

China is the third largest country in the world in area (after the USSR and Canada) which is located in eastern Asia on the western shore of the Pacific Ocean, with an area of 9.6 million square kilometers. Now it is the largest country in terms of population, more than 1.3 billion, which makes up a quarter of the world population totally.

China is one of the oldest countries in the world, with a very early civilization and a long and rich history. The compass, gunpowder, the art of paper-making and block printing invented by the ancient Chinese have contributed immensely to the progress of mankind. The Great Wall, Grand Canal and other projects built by the Chinese people are regarded as engineering feats in the world.

The People's Republic of China was founded on October 1, 1949. New China has experienced a rapid economic and social development since economic reforms began in 1978. According to recent estimates by the World Bank¹, 600 million people have been lifted out of poverty in China attribute to GDP growth average 10 percent a year. With a new way to calculate (GDP with Purchasing Power Parity), China's economy ranks second in the world behind the United States, and ahead of Japan, the UK, and Germany. If current trends persist, China in 2036 need have the biggest economy in the world. In 2011, however, it ranks 114 in the world in GDP/ per capita of \$4940, and over 170 million people still live below the international poverty line. This means, China remain a developing country and poverty reduction remains a fundamental challenge, despite China recently became a powerful economy and is increasingly playing an important and influential role in the global economy.

National Flag, Emblem and Anthem

National flag: Red flag with five stars. On September 27, 1949, the First Plenary Session of the Chinese People's Political Consultative Conference (CPPCC) approved the proposal for using the red five-star flag as the national flag of the People's Republic of China (PRC). The red color of the flag symbolizes revolution and the yellow color of the stars the golden brilliant rays radiating from the vast red land. The design of four smaller stars surrounding a bigger one signifies the unity of the Chinese people under the leadership of the Communist Party of China (CPC).

National emblem: Tiananmen Gate tower under five stars, encircled by ears of grain and with a gear wheel below. On June 18, 1950, the Second Session of the First CPPCC National Committee adopted the design and illustration of the national emblem of the PRC. On September 27 that year, Chairman Mao Zedong ordered the promulgation of the national emblem. Composed of patterns of the national flag, the Tiananmen Rostrum, a wheel gear and ears of wheat, it symbolizes the New-Democratic Revolution of the Chinese people since the May 4th Movement (1919) and the birth of New China under the people's democratic dictatorship led by the working class on the basis of the worker-peasant alliance.

National anthem: March of the Volunteers, written in 1935, with lyrics by the poet Tian Han and music by the composer Nie Er, honoring those who went to the front to fight the Japanese invaders in northeast China in the 1930s. Decided upon as the provisional national anthem of the new China on September 27, 1949, at the First Plenary Session of the Chinese People's Political Consultative Conference ("CPPCC"), the song was officially adopted as the national anthem of the PRC on December 4, 1982, by the NPC.

¹ <http://www.worldbank.org/en/country/china>

Geography, Climate and Resources

Geography

China is bordered by seas and waters eastward, with the East China Sea, Korea Bay, Yellow Sea, Taiwan Strait, and South China Sea, and bordered by landmasses on its three other sides, from North Korea to Vietnam. China is a very diverse land including deserts, mountains and fertile river basins. The geographic features of China are higher in the west and lower in the east with numerous mountains, lakes and rivers spreading over the whole land, which result in a beautiful scenery. The highlands and hill regions account for 65 percent of the country's total land mass, and there are more than 2,000 lakes. The highest mountain peak is Everest, the highest in the world, 8,848 meters above sea level; the lowest point is the Turpan Basin, 154 meters below sea level. Rivers also play a major role in China, both for transportation and for irrigation. Among the rivers totaling 220,000 kilometers in length in China, the Yangtze River and the Yellow River are world known. China's continental coastline extends for about 18,000 kilometers, and its vast sea surface is studded with more than 5,000 islands, of which Taiwan and Hainan are the largest.

Climate

China is characterized by a continental climate. The latitude spans nearly 50 degrees. Extending across six climate zones- equatorial belt, tropical zone, subtropical zone, warm temperate zone, temperate zone, cold zone, the climate of China is complex and diverse. The greater part of the Chinese territory is situated in the Temperate Zone, its southern part in the tropical and subtropical zones, and its northern part near the Frigid Zone. Temperatures differ therefore rather strikingly across the country. The northern part of Heilongjiang Province has long winters but no summers; while the Hainan Island has long summers but no winters. The Huaihe River valley is marked by distinctive seasonal changes, but it is spring all year round in the south of the Yunnan-Guizhou Plateau. In the northwest hinterland, the temperature changes dramatically. China high tundra zone is situated in the Qinghai-Tibet, where the temperature is low in all four seasons. Some desert areas are dry all year round.

Resources

China abounds in natural resources. It is one of a few countries where mineral deposits are rich and varieties are fairly complete. China has deposits of every one of the 158 minerals found so far in the natural world, of these, more than 20 ranks in the forefront of the world. Ranking first in the world, in proven deposits, are 12 minerals: tungsten, antimony, titanium, vanadium, zinc, rare earth, magnetite, pyrite, fluorite, barite, plaster stone and graphite. China is the world's top producer of steel, aluminum, rare earths, barite and tungsten; and the third largest producer in the world of iron ore. In absolute terms, China indeed abounds in natural resources of various kinds. However, owing to its huge population, its per-capita natural resources, such as land, water and mineral resources, are not rich.

The complex and varied climate, terrains, and landforms have created a natural paradise for biodiversity in China. It is home to 32,800 higher plant varieties and 104,000 animal varieties. Among them, many are native to China, such as giant panda, snub-nosed golden monkey, and Chinese alligator. Also, China's dawn redwood and *Cathaya argyrophylla* are known as the living fossils of ancient plants. To protect the nation's native animals and plants, especially the endangered species, China has established more than 700 nature reserves.

Demographics and Language

Demographics

China is a united multi-ethnic nation of 56 ethnic groups. By the end of 2011, the total number of Chinese population at the mainland reached 1,347.35 million, an increase of 6.44 million over that at the end of 2010. Of this total, urban population numbered 690.79 million, accounting for 51.3 percent, the first time for the proportion to exceed 50 percent (see Table1). As the majority, 91.5 percent of the

population is Han ethnic group, China's other 55 ethnic groups are customarily referred to as ethnic minorities, about 8.5 percent of total population. In China, 18 ethnic minorities have a population of over one million. They are Zhuang, Manchu, Hui, Miao, Uyghur, Yi, Tujia, Mongols, Tibetans, Buyei, Koreans, and so on. Of these the Zhuang ethnic group has the biggest population, numbering 16.2 million while the Lhoba ethnic group, at 2,965 has the smallest population.

Table 1 Population and Its Composition by the end of 2011

(Unit: 10,000 persons)

Items	Population	Percentage (%)
National Total	137815	100.0
Of which: Mainland of China	134735	97.7
Hong Kong Special Administrative Region	709	0.5
Macao Special Administrative Region	55	0.1
Taiwan	2316	1.7
Mainland of China	134735	100.0
Of which: Urban	69079	51.3
Rural	65656	48.7
Of which: Male	69068	51.3
Female	65667	48.7
Of which: 0-14 years	22164	16.5
15-59 years	94072	69.8
60 years	18499	13.7
65 years and over	12288	9.1

Source: National Bureau of Statistics of China (2011)

Language

Because of the numerous ethnic groups, many distinct languages and dialects are spoken in mainland China. The Chinese language dialect, Mandarin, is the most widely spoken (by 70% of Chinese) and is the official language in Taiwan and the People's Republic of China. Mandarin is taught in all schools; therefore, even those who speak other dialects understand some Mandarin. Cantonese, another major dialect, is spoken in Hong Kong, Vietnam, Malaysia, Singapore, Christmas Island, and the Guangdong province of mainland China. The Hakka dialect is spoken in Malaysia, Indonesia, and Brunei; the Hokkien dialect is spoken in Malaysia and Singapore. Though all dialects are written using the same characters, not all dialects are mutually intelligible.

Religion and Culture

Religion

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. In China, all regular religious activities 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 in China are Atheism, Buddhism, Islam, Roman Catholic and Protestant Christianity, China's indigenous Taoism, which coexist harmoniously with each other. Religious Han Chinese tends to practice Buddhism, Christianity, or Taoism.

Culture

The Chinese culture is one of the oldest and most complex cultures in the world. Chinese literature, music, painting, calligraphy, dancing, architecture, natural sciences are all unique in the world. Meanwhile, the culture of China has been influenced by China's long history and by its diverse ethnic groups which customs and traditions could vary greatly between towns, cities and provinces. In addition, the Chinese culture has been dominated by the Confucian value system since its foundation by Confucius 2000 years ago. It is a complex system of moral, social behavior, political, philosophical and quasi-religious thought

that has had tremendous influence on the culture and history of China. However, Chinese culture can be understood by foreigners are those traditional festival or classical symbols, such as the Spring festival, Peking opera, Kung Fu, embroidery, cheongsam, red lantern and the dragon dance.

Politic System, State Structure and Administrative Divisions

Politic System

The people's congress system is China's fundamental political system. The Constitution of the P.R China provides that state power belongs to the people. The people's congresses have four main functions and powers: legislation, supervision, appointment and removal of officials, and making decisions on major issues. The NPC (National People's Congress) and local people's congresses at all levels are organs representing the people in exercising state power. China's party system is distinct from the multi-party or two-party systems in Western capitalist countries, as well as the one-party system in a few countries. The Communist Party of China (CPC) is the party in power in the country. The CPC has both central and local organizations. At the top is the Central Committee and, while when it is not in session, the Political Bureau and its Standing Committee exercise the power of the Central Committee. Except the CPC, there are others democratic parties in China which participate in the discussion and management of state affairs, in cooperation with the CPC. Multi-party cooperation and political consultation under the leadership of the CPC constitute is the basic party system in China and an important instrument of democracy in the nation's political life as well.

State Structure

According to the Chinese Constitution, the NPC is the highest organ of state power in China. The primary organs of state power are six authorities: 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 term of office of the NPC and its Standing Committee is five years. The NPC and its Standing Committee are empowered with the rights of legislation, decision, supervision, election and removal. Every five year, all NPC commissaries vote to decide the president of People's Republic of China who can only extend another five years' time if he gets a strong agreement from the NPC. The presidency of China, as the head of the states, is an independent organ of the state which as an office of state power itself does not decide on state affairs, but exercise its power according to decision of the NPC and its Standing Committee.

The state administrative organs of the People's Republic of China include the central and local administrative organs. The central administrative organ is the Central People's Government, better known as the State Council. In 1998, the State Council underwent a major reform of its structure. Now it is composed of the General Affairs Office, 28 ministries and commissions (including the People' Bank of China and the National Auditing Office), 17 directly affiliated organs and 7 working offices, in addition to a number of directly administered institutions. 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. Among which, the premier of the State Council is appointed and nominated or removed by the president. He is responsible for the president but also be reviewed by the NPC.

Administrative Divisions

Under the Central Government, local people's governments of China based on a four-tier system: the provinces (autonomous regions and centrally administered municipalities), cities and prefectures, counties and townships. Currently, China has 5 autonomous regions (Inner Mongolia, Guangxi, Tibet, Ningxia, Xinjiang), 4 centrally-administered municipalities (Beijing, Shanghai, Chongqing & Tianjin), 2 special administrative regions (Hong Kong & Macau) and 23 provinces. Beijing, which is situated in the North China, is its capital.

A province or an autonomous region is subdivided into autonomous prefectures, counties, autonomous counties and /or cities. A prefecture or a large city is subdivided into districts and counties. A county or an

autonomous county is subdivided into townships, ethnic townships and/or towns. Autonomous regions, autonomous prefectures and autonomous counties are all ethnic autonomous areas. There are 333 regions at prefecture level, 2862 regions at county level and 41636 regions at townships level till the end of 2011.

II. Overview of Macroeconomic Activity and Fiscal Position

In 2011, the Chinese economy slowed markedly and it recorded one of its slowest expansions in a decade. Nonetheless, by world standards, the growth rate of 9.2% was exceptional and was achieved against the backdrop of a weak and uncertain global economic environment. This marked the tenth consecutive year the economy has notched up annual growth above 9%, almost tripling the size of Chinese GDP in a decade. It marked another step towards China's goal of becoming a well-off society in an all-around way and consolidating its position as a key engine of the global economy. Indeed, China is estimated to have contributed around one third of global growth in PPP (Purchasing Power Parity) terms while the major advanced economies continued to uneven growth, and grapple with other serious economic challenges – such as high unemployment, a heavy public debt burden and falling asset prices.

II.1 International Environment

II.1.1 Trade Balance

The total value of imports and exports in 2011 reached 3,642.1 billion US dollars, up by 22.5 percent over the previous year. Of this total, the value of goods export was 1,898.6 billion US dollars, increased by 20.3 percent, and the value of goods import was 1,743.5 billion US dollars, up by 24.9 percent. The balance of imports and exports was (exports minus imports) 155.1 billion US dollars, a decrease of 26.4 billion US dollars over the previous year.

Table 2: Total Value of Imports and Exports and the Growth Rates in 2011

Item	(100 million USD)	
	Value	Increase over 2010 (%)
Total import and export of goods	36421	22.5
Exports	18986	20.3
Of which: General trade	9171	27.3
Processing trade	8354	12.9
Of which: Mechanical and electronic products	10856	16.3
High & new-tech products	5488	11.5
Of which: State-owned	2672	14.1
Foreign-funded	9953	15.4
Others	6360	32.2
Imports	17435	24.9
Of which: General trade	10075	31.0
Processing trade	4698	12.5
Of which: Mechanical and electronic products	7533	14.1
High & new-tech products	4630	12.2
Of which: State-owned	4934	27.1
Foreign-funded	8648	17.1
Others	3852	42.9
Trade surplus (exports minus imports)	1551	—

Source: National Bureau of Statistics of China (2011)

The main export commodities and import commodities were totally different in 2011. Based on total value, the top five export commodities were Automatic data processing machines and components, clothes and clothing accessories, textile yarns and textile articles, handheld mobiles and car telephones and rolled steel. In contrast, crude oil, Iron ore, plastics in primary forms, copper and copper alloys and petroleum products refined listed on the top import goods in 2011.

In table 3, the export situation showed more positive in some extent. Most of indicators of the export goods witnessed a significant increase trend compare to last year except a slight decrease on the volume of coal. Automatic data processing machines and components was the number one item of export commodities, reached 176.3 billion US dollars and increased by 7.5%. The fast increase commodity of

export was Containers, up by 57.7% even if witnessed a small volume and value. In contrast, the import situation was weaker than export. Seen from table 4, more than half items' imports based on volume decreased slightly compared to last year, some even in a significant decline such as aluminum oxide. However, the general trend of import trade was rising.

Table 3: Main Export Commodities in Volume and Value and the Growth Rates in 2011

Item	Unit	Volume	Increase over 2010(%)	Value (100 million USD)	Increase over 2010 (%)
Coal	10000 tons	1466	-23.0	27	20.6
Rolled steel	10000 tons	4888	14.9	513	39.2
Textile yarns and textile articles	----	—	—	947	22.9
Clothes and clothing accessories	----	—	—	1532	18.3
Footwear	----	—	—	417	17.1
Furniture	----	—	—	379	15.0
Automatic data processing machines and components	10000 sets	183427	10.1	1763	7.5
Handheld mobiles and car telephones	10000 sets	87509	15.5	628	34.3
Containers	10000 units	324	29.6	114	57.7
Liquid crystal display panels	10000 units	244141	8.5	295	11.5
Motor vehicles (including a complete set of spare sets)	10000 sets	82	52.2	99	60.5

Source: National Bureau of Statistics of China (2011)

Table 4: Main Import Commodities in Volume and Value and the Growth Rates in 2011

Item	Volume (10000 tons)	Increase over 2010 (%)	Value (100 million USD)	Increase over 2010 (%)
Cereals and cereal flour	545	-4.6	20	33.8
Soybean	5264	-3.9	298	18.9
Edible vegetable oil	657	-4.4	77	28.0
Iron ore	68608	10.9	1124	40.9
Aluminum oxide	188	-56.4	8	-48.1
Coal	18240	10.8	209	23.6
Crude oil	25378	6.0	1967	45.3
Petroleum products refined	4060	10.1	327	45.5
Plastics in primary forms	2304	-3.7	472	8.3
Paper pulp	1445	27.1	119	35.3
Rolled steel	1558	-5.2	216	7.3
Copper and copper alloys	407	-5.1	368	12.0

Source: National Bureau of Statistics of China (2011)

In 2011, European Union, United States and Hong Kong were the major three countries and regions for China to export goods while the top three import countries and regions were European Union, Japan and the Association of Southeast Asian Nations (ASEAN). In which, European Union was the top one trading partner of China subjected to both import and export trading volume in 2011. Japan was witnessed rank at five of the export countries list and second place on the import list closely follow EU. It is worth noticed that the trade between China and Russia showed a significantly increase trend both in export and import in 2011 compared to the year of 2010, the figure is 31.4% and 55.6% respectively. (See table 5)

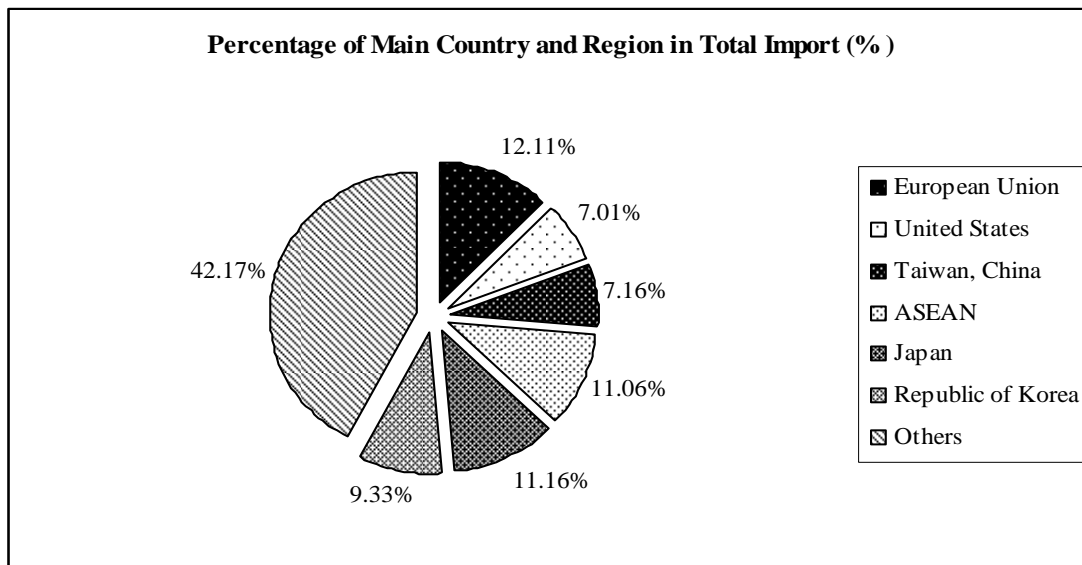
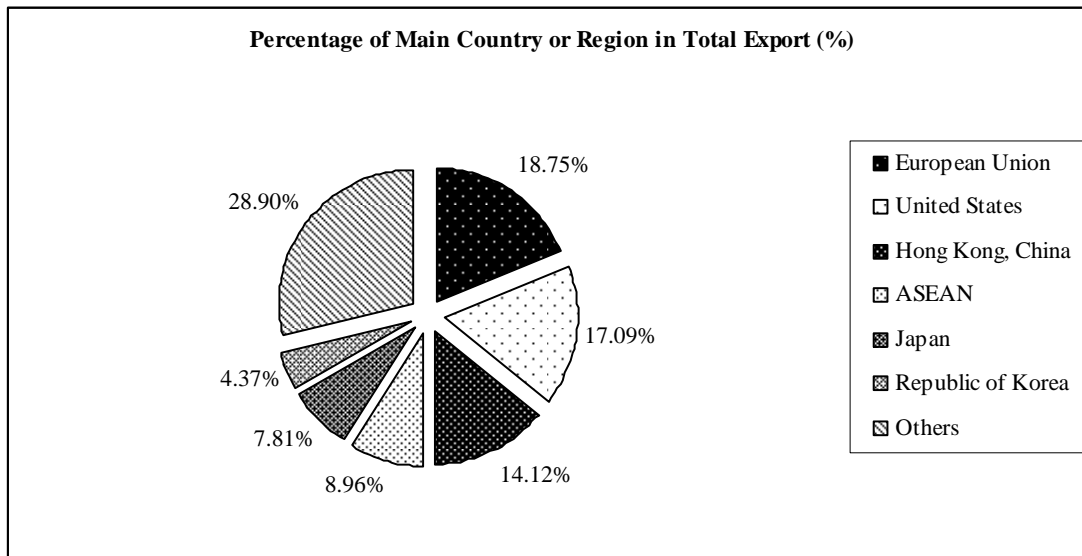
Table 5: Imports and Exports by Major Countries and Regions and the Growth Rates in 2011

Unit: 100 million USD

Country or region	Exports	Increase over 2010 (%)	Imports	Increase over 2010 (%)
European Union	3560	14.4	2112	25.4
United States	3245	14.5	1222	19.6
Hong Kong, China	2680	22.8	155	26.4
ASEAN	1701	23.1	1928	24.6
Japan	1483	22.5	1946	10.1
Republic of Korea	829	20.6	1627	17.6
India	505	23.5	234	12.1
Russia	389	31.4	403	55.6
Taiwan, China	351	18.3	1249	7.9

Source: National Bureau of Statistics of China (2011)

Figure1: Proportion of Imports and Exports by Major Countries and Regions



Source: National Bureau of Statistics of China (2011)

II.1.2 Balance of Payment

According to statistical figures published by State Administration of Foreign Exchange of China, the surplus under the current account totaled US\$ 201.7 billion in 2011. Specifically, the surplus based on US\$ 2286.8 billion credit and US\$2085.1 billion debit. Of which, two indicators were positive, witnessed by US\$ 188.3 billion of goods & service and US\$ 25.3 billion of current transfers respectively while one indicator (income) showed us to negative since debit slightly exceeded credit 11.9 billion US dollars. Also, China's surplus was up by US\$ 76.3 over previous year under the capital & financial account, reached US\$ 221.1 billion. In particular, financial account included direct investments, portfolio investments and other investments amounted to US\$ 215.6 billion compare to US\$ 221.4 billion in 2010, declined by 2.6 percent. However, China's negative balance under reserves assets changed slightly. By the end of 2011, China registered a total debit of - 387.8 billion US dollars in reserve assets, a decrease of USD\$38.9 billion over that at the end of 2010.

Table 6: Balance of Payments, 2011

(Unit: billion US dollars)			
Item	Balance	Credit	Debit
I. Current Account	201.7	2,286.8	2,085.1
A. Goods and Services	188.3	2,086.7	1,898.3
1. Goods	243.5	1,903.8	1,660.3
2. Services	-55.2	182.8	238.1
B. Income	-11.9	144.6	156.5
C. Current Transfers	25.3	55.6	30.3
II. Capital and Financial Account	221.1	1,398.2	1,177.2
A. Capital Account	5.4	5.6	0.2
B. Financial Account	215.6	1,392.6	1,177.0
1. Direct Investment	170.4	271.7	101.2
2. Portfolio Investment	19.6	51.9	32.3
3. Other Investment	25.5	1,069.0	1,043.5
III. Reserve Assets	-387.8	1.0	388.8
IV. Net Errors and Omissions	-35.0	0	35.0

Source: State Administration of Foreign Exchange (2011)

II.1.3 Exchange rate and Exchange system

On July 21, 2005, China abandoned a decade-old peg to the US dollar by allowing its currency to fluctuate against a basket of currencies. The Yuan's fluctuation has not had any significant negative impact on the banking industry, and it had also played a positive role in boosting the upgrading and transformation of China's export-oriented enterprises. In 2010, the PBOC announced that it would further the reform of formation mechanisms of the Yuan exchange rate to improve its flexibility. However, it ruled out a one-off revaluation and China may continue to institute a managed floating exchange rate regime that is tied to a basket of foreign currencies for the next eight or nine years.

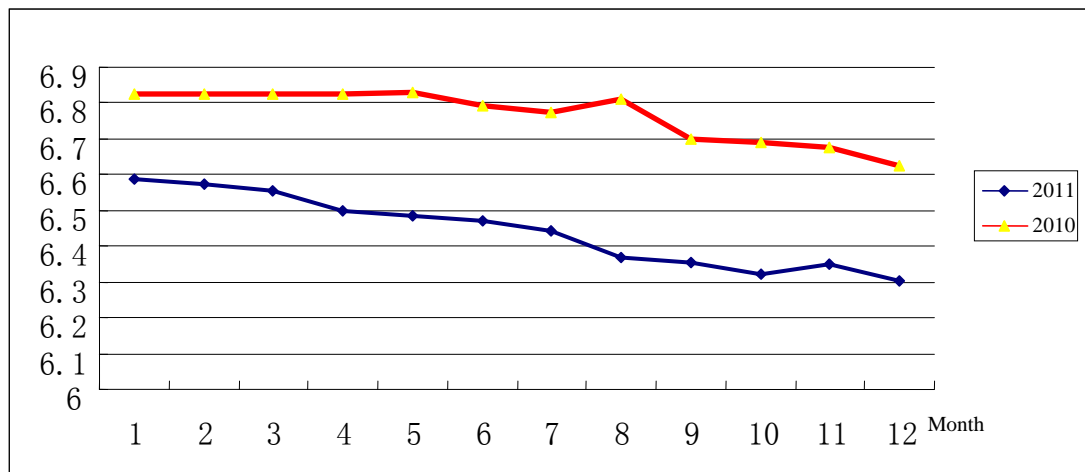
The exchange rate of RMB against U.S. dollar has totally appreciated by 7.7 percent in 2010 and 2011. It declined expressively from 6.827 Yuan per US dollar to 6.3009 Yuan per US dollar by the end of 2011. In the first months of 2011, the spot rate of RMB against the U.S. dollar fluctuated in the band of 6.58~6.56. Then after April, RMB cumulatively appreciated by 5.5 percent against U.S. dollar. In addition, the year of 2011, RMB cumulatively appreciated by 7.7 percent against the Euro over 2010, but depreciated by 9.5 percent against the Japanese Yen compared with 2010.

Table 7: Exchange Rate in 2011

Item / month	(Chinese Yuan)											
	1	2	3	4	5	6	7	8	9	10	11	12
Yuan per SDR (End of Period)	10.29	10.34	10.4	10.53	10.38	10.36	10.3	10.28	9.924	10.03	9.85	9.674
Yuan per US Dollar (End of Period)	6.589	6.575	6.556	6.499	6.485	6.472	6.444	6.369	6.355	6.323	6.348	6.301
Yuan per US Dollar (Period Average)	6.603	6.583	6.566	6.529	6.499	6.478	6.461	6.409	6.383	6.357	6.341	6.328

Source: the People's Bank of China (2011)

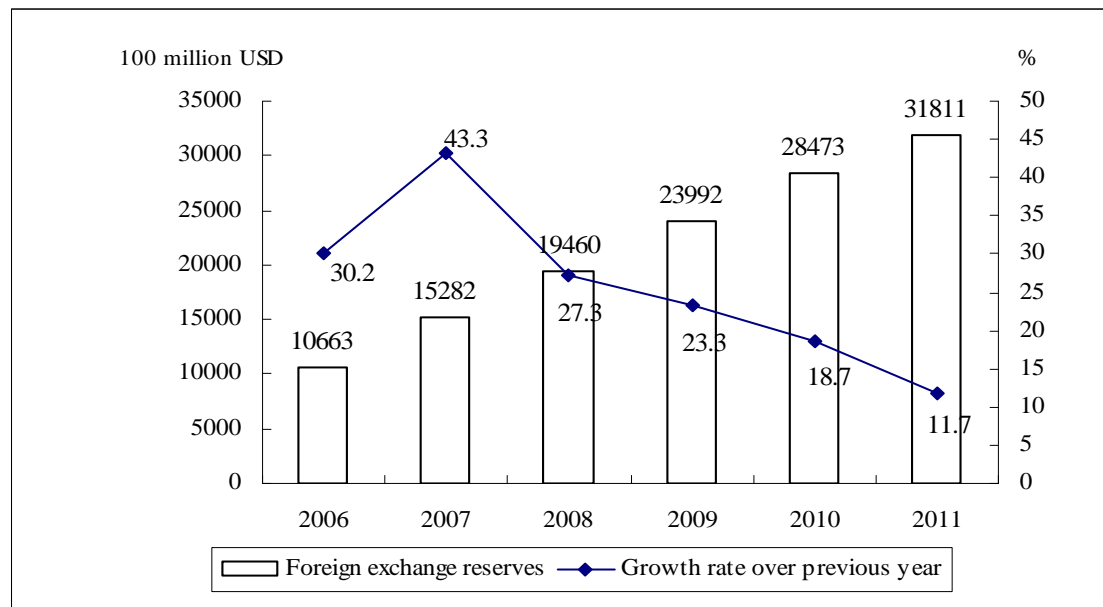
Figure 2: Exchange Rate in 2010 and 2011[Yuan per US Dollar (End of Period)]



Source: the People's Bank of China

At the end of 2011, China's foreign exchange reserves reached 3,181.1 billion US dollars, an increase of 333.8 billion US dollars as compared with that at the end of the previous year. At the end of the year, the exchange rate was 6.3009 Yuan to 1 USD, an appreciation by 5.1 percent over that at the end of 2010.

Figure 3: China's Foreign Exchange Reserves and the Growth Rates, 2006-2011



Source: National Bureau of Statistics of China (2011)

II.1.4 Foreign Direct Investment and Foreign Debts

In 2011, it witnessed the establishment of 27,712 enterprises with foreign direct investment in non-financial sectors, up by 1.1 percent over the previous year; and the foreign capital actually utilized was 116.0 billion US dollars, up by 9.7 percent.

Table 8: Total Value of Foreign Direct Investment in Non-financial Sectors and the Growth Rates in 2011

Sector	Enterprises	Increase over 2010 (%)	Actually Utilized Value (100 million USD)	Increase over 2010 (%)
Total	27712	1.1	1160.1	9.7
Of which:				
Agriculture, Forestry, Animal Husbandry and Fishing	865	-6.9	20.1	5.1
Manufacturing	11114	0.6	521.0	5.1
Production and Supply of Electricity, Gas and Water	214	1.9	21.2	-0.3
Transport, Storage, Post and Telecommunication Services	413	4.3	31.9	42.2
Information Transmission, Computer Services and Software	993	-5.1	27.0	8.5
Wholesales & Retail Trade	7259	7.0	84.2	27.7
Real Estate	466	-32.4	268.8	12.1
Leasing and Business Services	3518	2.9	83.8	17.6
Services to Households and Other Services	212	-2.3	18.8	-8.2

Source: National Bureau of Statistics of China (2011)

In addition, the overseas direct investment (non-financial sectors) by Chinese investors was 60.1 billion US dollars in 2011, up by 1.8 percent over the previous year. In 2011, the accomplished business revenue through contracted overseas engineering projects was 103.4 billion US dollars, up by 12.2 percent, and the number of labor forces sent abroad through overseas labor contracts was 452 thousand, an increase of 41 thousand.

Table 9: Major Indicators of Foreign Debts

Item / Year	Billion USD				
	2007	2008	2009	2010	2011
Total Foreign Debts	389.22	390.16	428.65	548.94	695.00
Balance of Short-term Debts	235.68	226.28	259.26	375.7	500.9
Balance of Long-term Debts	153.53	163.88	169.39	173.24	194.10
Balance of Short-term Debts Share in the Total, (%)	60.55	58	60.48	68.44	72.07
Balance of Long-term Debts Share in the Total, (%)	39.45	42	39.52	31.56	27.93
Ratio of Short-term Debts to Foreign Exchange Reserves (%)	15.42	11.63	10.81	13.19	15.75
Ratio of Debt Balance to Foreign Exchange Earning (%)	29.00	24.67	32.16	29.25	33.31
Ratio of Debt Balance to GDP (%)	11.13	8.63	8.59	9.26	9.52

Source: State Administration of Foreign Exchange (2011)

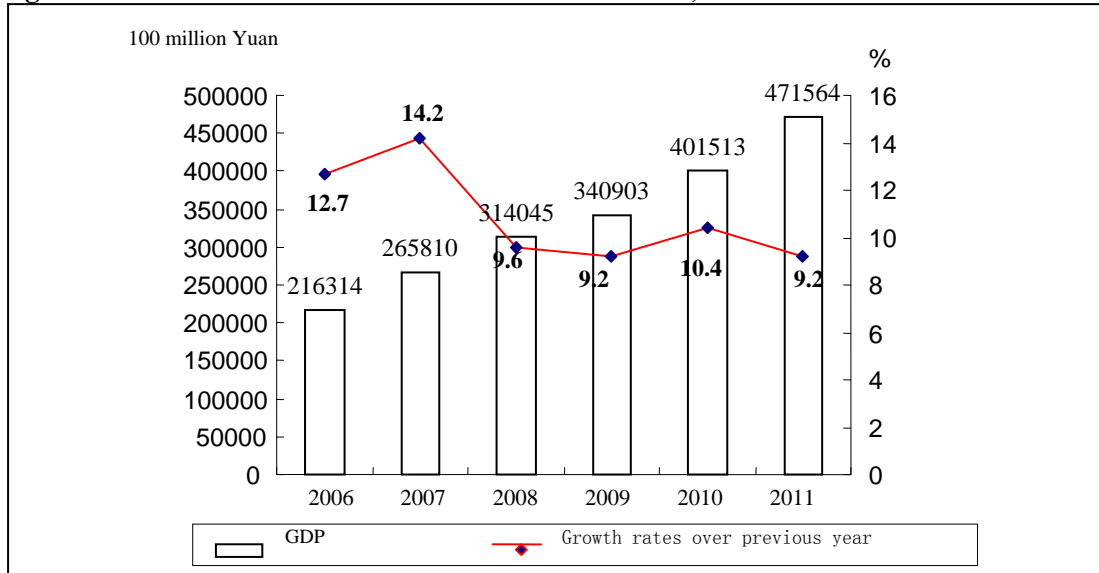
Table 9 shows the major indicators of foreign debts published by State Administration of Foreign Exchange between 2007 and 2011. According to the statistics, China's total foreign debt (excluding that of Hong Kong SAR, Macao SAR, and Taiwan Province) reached 695 billion US dollars in 2011's year-end. It is witnessed about 146.06 billion US dollars or 26.6% increase compared with 2010. In detail, the short-term external debt marked US\$ 500.9 billion, which accounts for 72.07% of the total outstanding external debt, increase by US\$ 125.2 billion or 33.3% upon the previous year. The long-and-medium-term external debt reached US\$ 194.1 billion, which accounts for 27.93% of the total outstanding external debt, up by US\$ 20.86 billion or 12.04% based on 2010. Meanwhile, it is easily to be found that the external debt balance to foreign exchange earning, external debt balance to GDP, and the ratio of the short-term external debt to foreign exchange reserves was 9.52%, 33.31% and 15.75% respectively. Most of these indexes demonstrated a certain degree of growth in the proportion compare to 2010 but they are within the safe range of international standards.

II.2 Domestic Environment

II.2.1 Economic Growth Rate

In 2011, the gross domestic product (GDP)² of the year was 47,156.4 billion Yuan, up by 9.2 percent over the previous year. Of this total, the value added of the primary industry was 4,771.2 billion Yuan, up by 4.5 percent, that of the secondary industry was 22,059.2 billion BMB, up by 10.6 percent and the tertiary industry was 20,326.0 billion Yuan, up by 8.9 percent. The value added of the primary industry accounted for 10.1 percent of the GDP, that of the secondary industry accounted for 46.8 percent, and that of the tertiary industry accounted for 43.1 percent.

Figure4: Gross Domestic Product and the Growth Rate, 2006-2011



Source: National Bureau of Statistics of China

II.2.2 Inflation Rate (CPI)

In China, the inflation rate is based upon the consumer price index (CPI). It means the inflation rate measures a broad rise or fall in prices that consumers pay for a standard basket of goods. Historically, from 1999 until 2012, China Inflation Rate averaged 4.2 Percent reaching an all time high of 5.9 percent in 2008 and a record low of -1.3 percent in the year of 1999.

² Gross domestic product (GDP) is calculated at current prices, whereas growth rates are at constant prices.

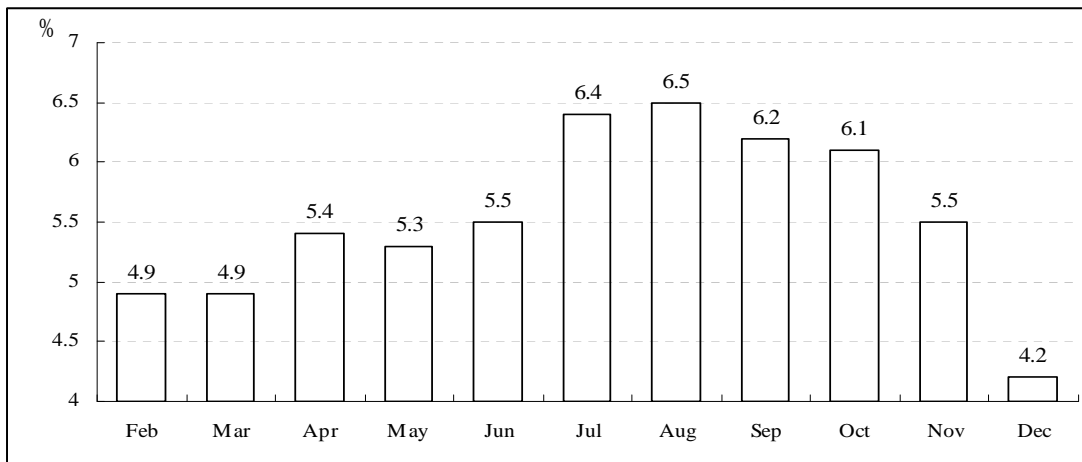
Figure 5: Inflation Rate of China History, 1999-2011



Source: National Bureau of Statistics of China & <http://www.indexmundi.com/g/g.aspx?c=ch&v=71>

The average inflation rate of 2011 reported by the National Bureau of Statistics of China is 5.53%. The inflation Figure 6 below features an overview of the Chinese inflation in 2011, which is presented on a monthly basis. In February and March of 2011, China's inflation rates both were 4.9 percent. Then fluctuated around 5.4 percent on the following three months, it peak to 6.5 percent in August finally. After that, inflation rate began to decrease gradually and made annual inflation rate 4.2 percent in the end.

Figure 6: China Monthly Inflation Rate in 2011 (Annual Change on Consumer Price Index)

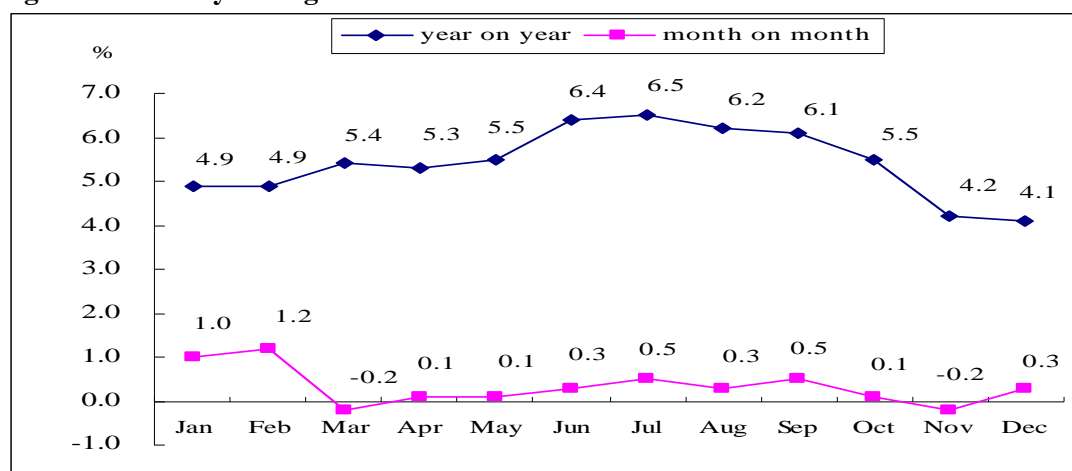


Source: National Bureau of Statistics of China (2011)

II.2.3 Consumption

The consumer price in 2011 went up by 5.4 percent over the previous year. Of this total, the prices for food went up by 11.8 percent. The prices for investment in fixed assets increased by 6.6 percent. The producer prices and the purchasing prices for manufactured goods were up by 6.0 percent and 9.1 percent respectively. The producer prices for farm products were up by 16.5 percent. In table 10, the growth of consumer price is particularly evidence as 12.4 percent in rural area. Another item worth noticed is price of housing, which went up by 5.3 at national average level standing on the second place of list. Followed by medical, health and personal articles, its price showed growth in 3.4 percent. The minimum growth marked in the price of recreation, education, culture articles and services, only 0.4 percent over previous year.

Figure 7: Monthly Change in Consumer Price in 2011



Source: National Bureau of Statistics of China (2011)

Table 10: General Level of Consumer Prices in 2011

Item	National Average	Unit: %	
		Urban	Rural
General level of consumer prices	5.4	5.3	5.8
Food	11.8	11.6	12.4
Tobacco, liquor and articles	2.8	3.0	2.4
Clothing	2.1	2.2	1.9
Household appliances and maintaining services	2.4	2.7	1.5
Medical, health and personal articles	3.4	3.4	3.3
Transportation and telecommunications	0.5	0.2	1.3
Recreation, education, culture articles and services	0.4	0.3	0.8
Housing	5.3	5.1	5.7

Source: National Bureau of Statistics of China

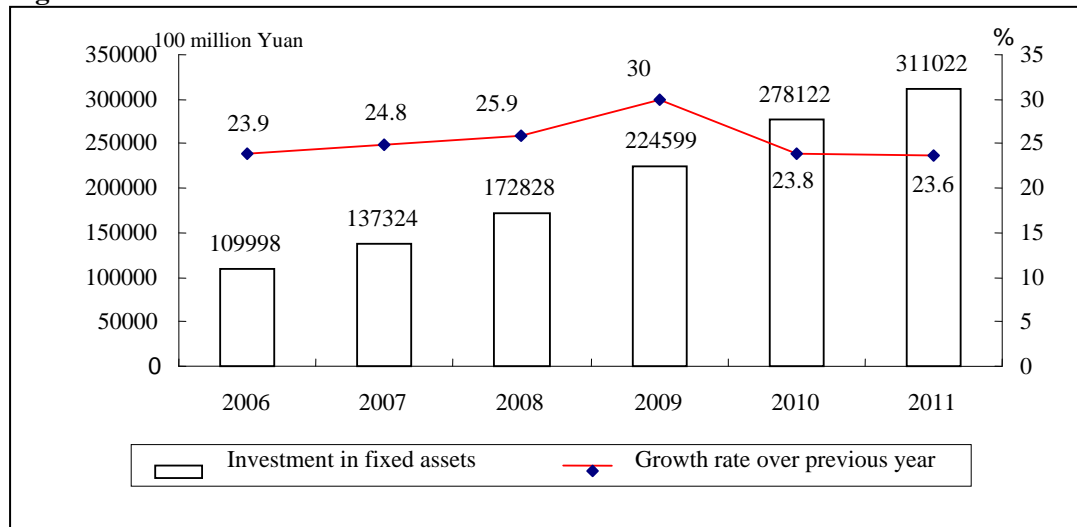
In addition, pricing pressures were widespread, reflecting broader capacity constraints which emerged following an earlier, very strong, growth rebound that in turn help push up many international commodity prices. For much of the year producer prices rose at over 6% year-on-year, more than double the long-term average. Decisions to raise support prices for cereals and longer-term supply constraints plus bad weather, resulted in food prices rising at close to 15% year-on-year at the peak of the cycle. By the end of 2011, inflation rate had declined to around 4% year-on-year, aided by slowing activity and an easing of capacity constraints, as well as a moderation in food and raw material prices.

II.2.4 Investment

The completed investment in fixed assets of the country in 2011 was 31,102.2 billion Yuan, up by 23.6 percent over the previous year. The real growth was 15.9 percent after deducting the price factors. Of the total investment, the investment in fixed assets (excluding rural households) was 30,193.3 billion Yuan, up by 23.8 percent; and the investment in rural households reached 908.9 billion Yuan, up by 15.3 percent. In the investment in fixed assets (excluding rural households), the investment in the primary industry was 679.2 billion Yuan, up by 25.0 percent; that in the secondary industry was 13,226.3 billion Yuan, up by 27.3 percent; and that in the tertiary industry was 16,287.7 billion Yuan, up by 21.1 percent. See figure 3.

In 2011, the investment in real estate development was 6,174.0 billion Yuan, up by 27.9 percent (see table 11). Of this total, the investment in commercial residential buildings reached 4,430.8 billion Yuan, an increase of 30.2 percent, that in office buildings was 254.4 billion Yuan, up by 40.7 percent, and that in buildings for commercial business was 737.0 billion Yuan, up by 30.5 percent.

Figure 8: Investment in Fixed Assets and the Growth Rates 2006-2011



Source: National Bureau of Statistics of China (2011)

Table 11: Main Indicators for Real Estate Development and Sales and Its Growth in 2011

Item	Unit	Volume	Increase over 2010 (%)
Finished Value of Investment	100 million Yuan	61740	27.9
Of which: residential buildings	100 million Yuan	44308	30.2
Of which: 90 square meters and below	100 million Yuan	13637	28.0
Floor space of houses under construction	10000 square meters	507959	25.3
Of which: residential buildings	10000 square meters	388439	23.4
Floor space of houses newly started	10000 square meters	190083	16.2
Of which: residential buildings	10000 square meters	146035	12.9
Floor space of houses completed	10000 square meters	89244	13.3
Of which: residential buildings	10000 square meters	71692	13.0
Sales of commercial buildings	10000 square meters	109946	4.9
Of which: residential buildings	10000 square meters	97030	3.9
Sources of capital this year	100 million Yuan	83246	14.1
Of which: domestic loans	100 million Yuan	12564	0.0
Individual mortgage	100 million Yuan	8360	-12.2
Land space purchased this year	10000 square meters	40973	2.6
Purchase of land	100 million Yuan	8049	-1.9

Source: National Bureau of Statistics of China

II.2.5 Money Supply

By the end of 2011, money supply of broad sense (M_2) was 85.2 trillion Yuan, reflecting a year-on-year increase of 13.6 percent. Money supply of narrow sense (M_1) was 29.0 trillion Yuan, up 7.9 percent. Cash in circulation (M_0) was 5.1 trillion Yuan, up 13.8 percent.

Table 12 shows that savings deposit in RMB and foreign currencies in all items of financial institutions totaled 82.7 trillion Yuan at the end of 2011, an increase of 9.9 trillion Yuan. Of this total, the savings deposit in RMB stood at 80.9 trillion Yuan, an increase of 9.6 trillion Yuan. Loans in RMB and foreign currencies in all items of financial institutions reached 58.2 trillion Yuan, an increase of 7.9 trillion Yuan. Of this total, that in RMB was 54.8 trillion Yuan, an increase of 7.5 trillion Yuan.

In addition, loans in RMB from rural financial cooperation institutions (i.e. rural credit cooperatives, rural cooperation banks, and rural commercial banks) totaled 6,677.8 billion Yuan by the end of 2011, an increase of 1,001.2 billion Yuan as compared with the beginning of 2011. The loans in RMB for consumption use from all financial institutions totaled 8,871.7 billion Yuan, an increase of 1,480.3 billion Yuan. Of all consumption loans, short-term loans for individuals totaled 1,355.5 billion Yuan, an increase

of 396.5 billion Yuan, and medium- and long-term loans for individuals reached 7,516.2 billion Yuan, an increase of 1,083.8 billion Yuan.

Table 12: Savings Deposit and Loans in RMB and Foreign Currencies in All Financial Institutions and the Growth Rates at the end of 2011

Unit: Billion Yuan		
Item	Year-end figure	Increase over 2010 (%)
Savings deposit	82,770.1	13.5
Of which: By households	35,195.7	15.5
Of which: Deposits in RMB	34,804.6	15.7
By non-financial enterprises	31,398.1	9.5
Loans	58,189.3	15.9
Of which: Domestic short-term loans	21,748.0	21.8
Domestic medium and long-term loans	33,374.7	11.8

Source: National Bureau of Statistics of China

II.2.6 Stock and Insurance Market

Funds growth in 2011 by enterprises through issuing stocks and share rights on stock market amounted to 678.0 billion Yuan, a decrease of 349.5 billion Yuan from the previous year. Of this total, 282 A-shares were issued, receiving 282.5 billion Yuan worth of capital altogether, a decrease of 205.8 billion Yuan. The refinancing of A-shares (including rationing shares, public newly issued, nonpublic newly issued and warrants) received 224.8 billion Yuan worth of capital altogether, a decrease of 182.4 billion Yuan from 2010. The listed companies financed 170.7 billion Yuan through convertible bonds, bonds with attached warrants and corporate bonds, an increase of 38.7 billion Yuan. A total of 128 growth enterprise board stocks were issued, receiving 79.1 billion Yuan. Moreover, corporate funds raised by the non-listed companies reached 348.5 billion Yuan in 2011, a decrease of 14.2 billion Yuan over that in the previous year. The short-term financing funds of enterprises were 802.9 billion Yuan, an increase of 128.7 billion Yuan; and the medium-term notes were 727.0 billion Yuan, an increase of 234.6 billion Yuan.

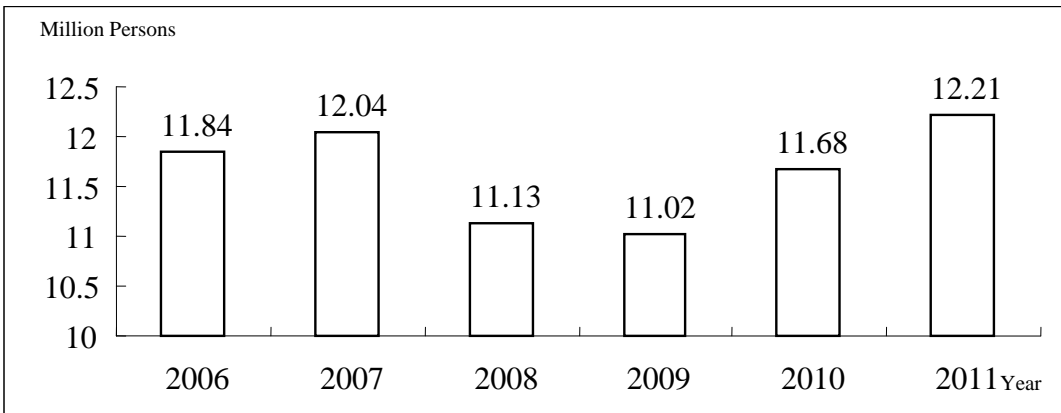
The premium received by the insurance companies totaled 1,433.9 billion Yuan in 2011, up ³10.5 percent over the previous year. Of this total, life insurance premium amounted to 869.6 billion Yuan, health and casualty insurance premium 102.5 billion Yuan, and property insurance premium 461.8 billion Yuan. Insurance companies paid an indemnity worth of 392.9 billion Yuan, of which, life insurance indemnity was 130.1 billion Yuan, health and casualty insurance indemnity 44.1 billion Yuan, and property insurance indemnity 218.7 billion Yuan.

II.2.7 Employment

At the end of year 2011, the number of employed people in China was 764.20 million, and that in urban areas was 359.14 million. The newly increased employed people in urban areas numbered 12.21 million. The urban unemployment rate through unemployment registration was 4.1 percent at the year end, maintaining the same level as 2010. The total migrant workers in 2011 were 252.78 million, up by 4.4 percent over that of 2010. Of which, the migrant workers leaving hometown and worked in other provinces were 158.63 million, increased by 3.4 percent, the migrant workers worked in local provinces reached 94.15 million, up by 5.9 percent.

³The growth rate of original premium income is calculated according to the Interpretation No.2 to the Accounting Standards for Enterprises which started its full scale operation in 2011.

Figure 9: Newly Increased Employed People in Urban Areas, 2006-2011



Source: National Bureau of Statistics of China (2011)

II.3 Fiscal Position

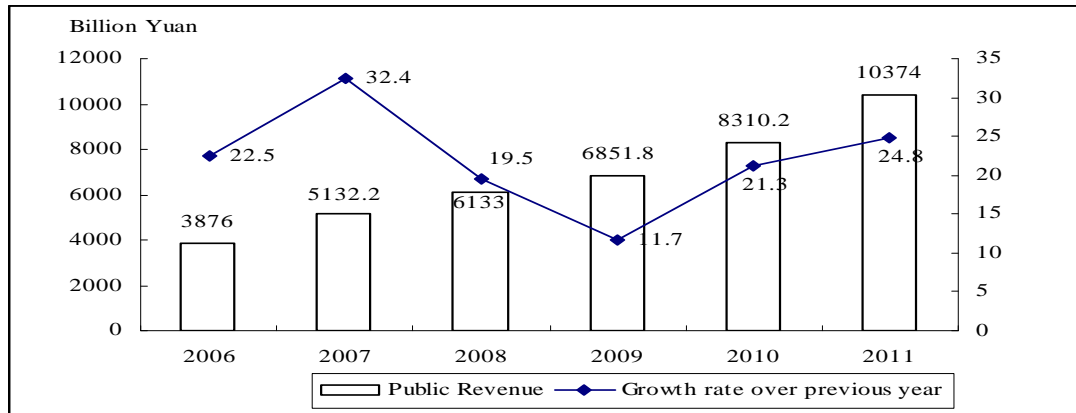
In 2011, China's fiscal deficit stood at 650 billion Yuan, or 102 billion U.S. dollars. That's 50 billion Yuan less than the budgeted amount. The central government's fiscal revenue amounted to more than 5.1 trillion Yuan, 112 percent of the target. That's an increase of 20 percent over 2010. Expenditure came in at 104 percent of the budget at 5.6 trillion Yuan, up nearly 17 percent year on year. The extra spending was mainly made in areas like education, healthcare, employment and agriculture.

II.3.1 Government Revenue and Expenditure

According to the report of Central Government, National revenue totaled 10.374001 trillion Yuan, an increase of 24.8% or an increase of 2,063.9 billion Yuan over that in the previous year. Adding the 150 billion Yuan from the central budget stabilization fund, utilized revenue totaled 10.524001 trillion Yuan. National expenditure amounted to 10.892967 trillion Yuan, up 21.2%. Adding the 289.2 billion Yuan used to replenish the central budget stabilization fund and the 191.834 billion Yuan of local government expenditure carried forward to 2012, national expenditure came to 11.374001 trillion Yuan. Total national expenditure therefore exceeded total national revenue by 850 billion Yuan.

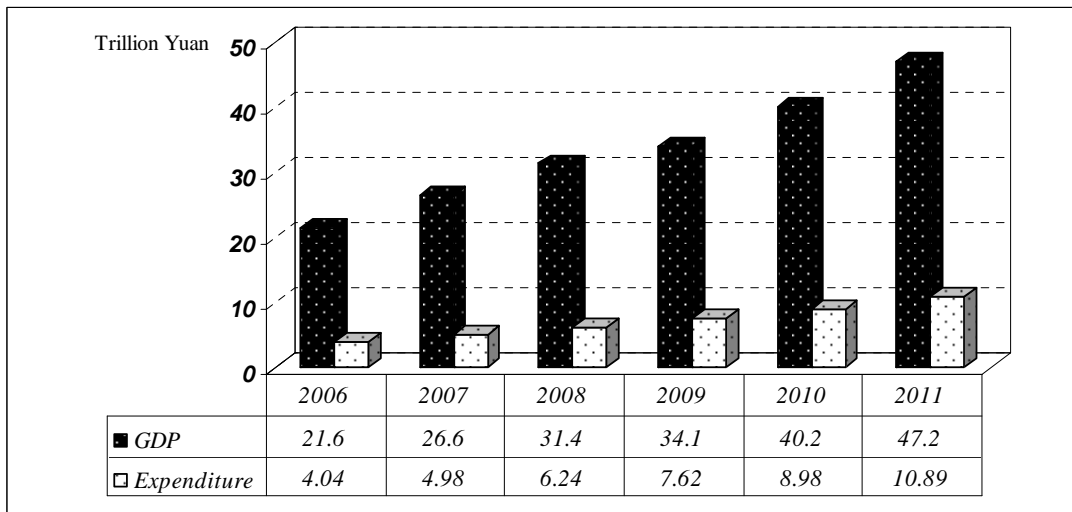
Breaking them down, central government revenue amounted to 5.130615 trillion Yuan, 111.9% of the budgeted figure and an increase of 20.8%. The central budget stabilization fund contributed 150 billion Yuan, bringing the total revenue used by the central government to 5.280615 trillion Yuan. Central government expenditure amounted to 5.641415 trillion Yuan, 103.8% of the budgeted figure and an increase of 16.7%. This consists of 1.651419 trillion Yuan of central government spending, up 3.3%, and 3.989996 trillion Yuan in tax rebates and transfer payments to local governments, an increase of 23.4%. Adding the 289.2 billion Yuan used to replenish the central budget stabilization fund, central government expenditure totaled 5.930615 trillion Yuan. Total expenditure exceeded total revenue, leaving a deficit of 650 billion Yuan, 50 billion less than the budgeted figure.

Figure 10: Public Revenue and the Growth Rates, 2006-2011



Source: National Bureau of Statistics of China (2011)

Figure 11: Comparison between Public Expenditure and GDP, 2006-2011



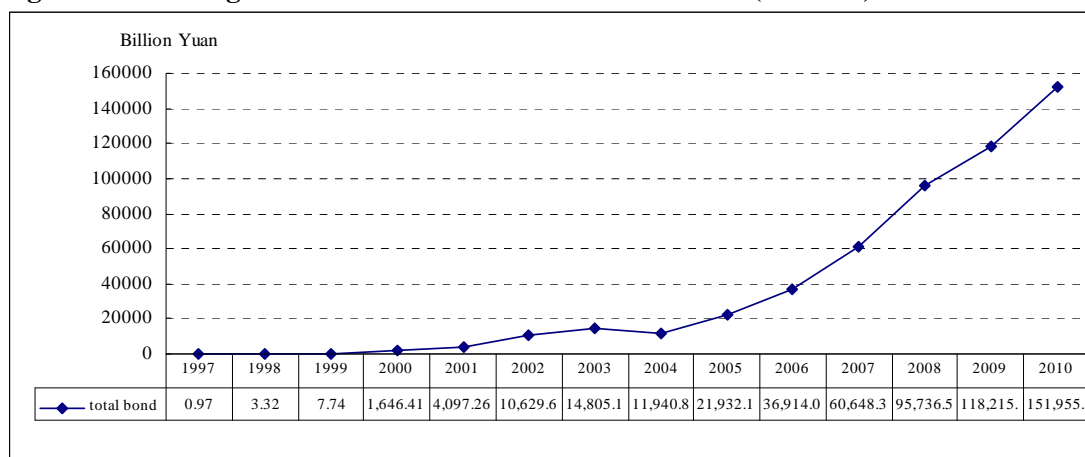
Source: National Bureau of Statistics of China (2011) ;
Ministry of Finance of P.R China (2011); summarized by author.

Revenue collected by local governments came to 5.243386 trillion Yuan. Adding the 3.989996 trillion Yuan in tax rebates and transfer payments from the central government, local government revenue totaled 9.233382 trillion Yuan, an increase of 26.6%. Local government expenditure amounted to 9.241548 trillion Yuan, up 25.1%. Adding the 191.834 billion Yuan carried forward to 2012, local government expenditure totaled 9.433382 trillion Yuan. Total expenditure exceeded total revenue by 200 billion Yuan.

II.3.2 Public Borrowing

The outstanding balance on government bonds in the central budget was 7.204451 trillion Yuan at the end of 2011, which was under the budgeted limit of 7.770835 trillion Yuan for the year. China's National Audit Office estimated public debt at RMB 10.72 trillion (approximately US\$1.66 trillion), accounted for 43.5% of GDP in 2011.

Figure 12: Trading Volume in the Inter-bank Bond Market (¥ billion)



Source: China Foreign Exchange Trade System (2011)

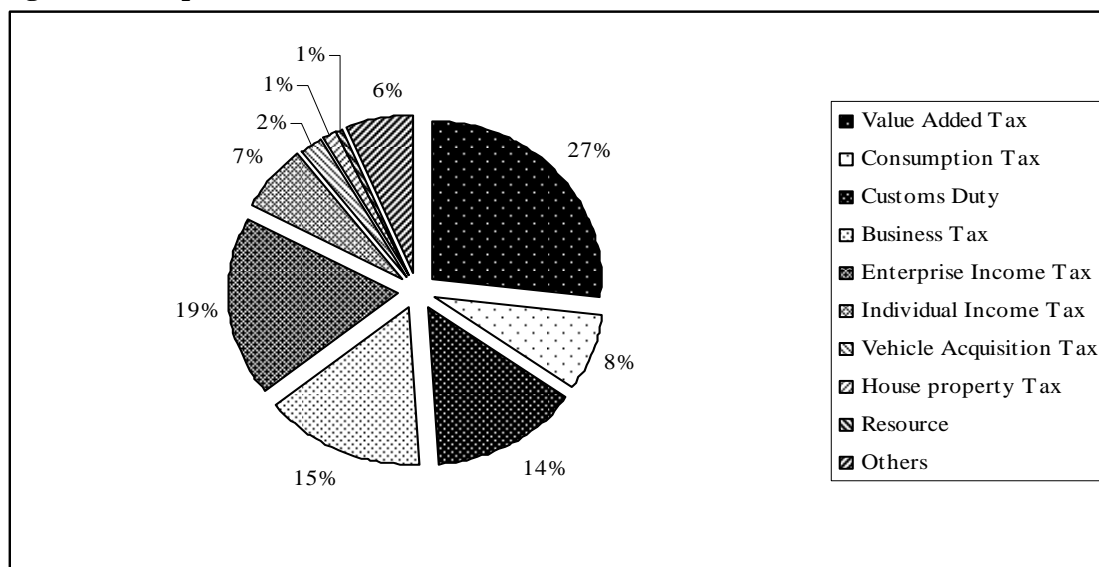
In China's bond market, bonds can be issued in two ways: by tender through the issue system of the People's Bank of China (PBOC) and by book building. Currently, Treasury bonds and policy bank bonds are issued by tender through PBOC's issue system. Credit products, on the other hand, are issued mostly through book building in the central book-entry system. Moreover, the central government began to issue local government bonds in 2009. Since then, local government bonds worth 200 billion Yuan have been issued each year. The main products in the inter-bank Bond market include government bonds, central bank papers, policy bank bonds, short-term papers, MTNs (Medium-term notes), corporate bonds, financial bonds, local government bonds, collective notes, international development institutions bonds, subordinated bonds, hybrid capital bonds, asset-backed securities, bank bond market.

II.3.3 Tax Revenue

In 2011, the tax revenue of China reached a total amount of RMB 89720.31 billion. (RMB 8652.4 billion after deduction of the export rebates, excluding tariff, tonnage dues, tax on the use of arable land and deed tax). Among which, the tax revenue directly collected by tax authorities achieved RMB 8212.2 billion with an increase of 22.8%, compared with 2010; the import tax revenue with held by the customs reached RMB 1360.7 billion with an increase of 29.2%, RMB 307.9 billion. Export rebates across the country totaled RMB 920.5 billion with an increase of 25.6%, RMB 187.6 billion. In addition, the local tax authorities collected an amount of RMB 1565.2 billion, with an increase of 39%, RMB 439.5 billion. In terms of the tax categories, the proportions of total tax revenue were 27% with domestic value added tax, 7.7% with domestic consumption tax and 15.2% with business tax respectively. Enterprise income tax and Individual tax accounted for 18.7% and 6.7% of total tax respectively. (See Figure 6 & Table 14)

The statistics in Table 13 were published by Ministry of Finance of P.R China. Herein, the total national tax revenue means the national tax net income number. It should be noticed that total national tax revenue is consist of domestic tax revenue levied by tax department, customs tariffs, tonnage tax and import VAT and consumption tax levied by customs bureau, deed tax and farmland occupation tax levied by financial or local tax department. But it excluded export tax rebate.

Figure 13: Proportions of Different Taxes Revenue in 2011



Source: The State Administration of Taxation of China (2011)

Table 13: Total tax revenue and main taxes composition in 2011

Item	Tax Revenue	Increased Tax over previous year	Billion Yuan
			Growth rate Year on year (%)
Total Taxes	8972.0	1650.9	22.6
Domestics VAT	2426.6	317.3	22.6
Domestics Consumption Tax	693.5	86.4	15
Import VAT and Consumption Tax	1356	306.9	14.2
Export Refund of VAT&CT	-920.5	-187.7	29.3
Business Tax	1367.8	252.0	22.6
Enterprise Income Tax	1676.0	391.7	30.5
Individual Income Tax	605.4	121.7	25.2
House Property Tax	110.2	20.8	23.3
Stamp Duty in Stock Transaction	43.8	-10.6	-19.4
City and Township Land Use Tax	122.2	21.8	21.7
Land Appreciation Tax	206.3	78.4	61.3
Vehicle Acquisition Tax	204.4	25.2	14.1
Farmland Occupation Tax	107.2	18.3	20.6
Customs Duty	255.9	53.1	26.2
Deed Tax	276.4	29.9	12.1
Other Taxes	440.8		

Source: Ministry of Finance of P.R China. (<http://www.mof.gov.cn/>)

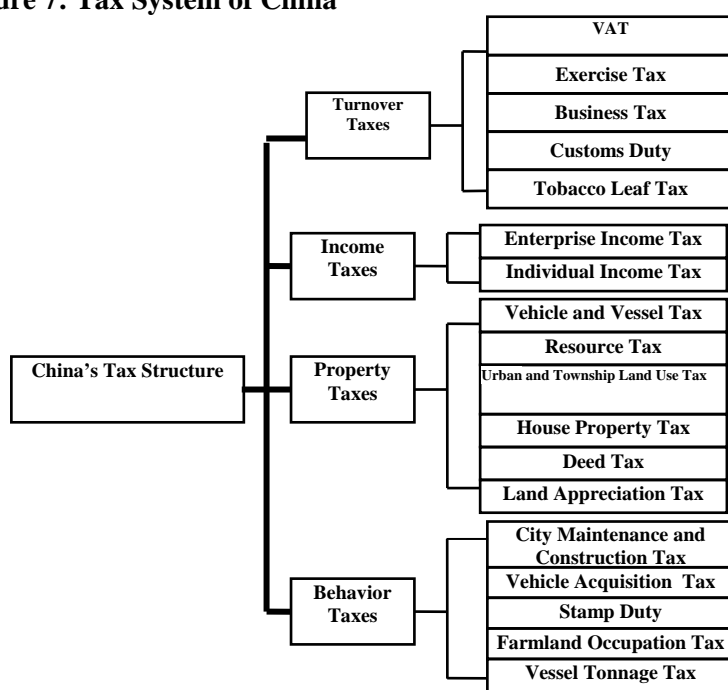
III. Tax Structure: Institution and the Reality

III.1 Overview of Tax System in China

The taxation system of China has gone through several major reforms, and been improving day by day since the beginning of the reform and opening up in 1979. In the early days of the reform and opening up, the adaptation to the requirements of opening up and the establishment of foreign-related taxation system are made as the breakthrough points of tax reform. In 1983 and 1984, the reform of "substitution of tax payment for profit delivery" on the state owned enterprises was carried out in two phases, which established the distribution relations between the State and the enterprises within the taxation system. In 1994, China implemented a tax reform with the largest scale, widest scope, most significant effectiveness and furthest-reaching influence since the foundation of new China. This reform focused on the goal of the establishment of socialist market economy system, and actively established the taxation system that met the requirements of socialist market economy system.

In accordance with the requirements of the scientific outlook on development, and with the focus on the improvement of socialist market economy system and the goal of building a moderately prosperous society in all respects, China has implemented a series of tax reform in several phases since 2003, such as the rural tax and fee reform and the improvement of goods and service tax system, income tax system and property tax system, and the reform on export rebate mechanism. After several reforms, for the present, China has 19 tax categories showed in the Figure 7, i.e. value added tax, consumption tax, business tax, enterprise income tax, individual income tax, resource tax, urban and township land use tax, house property tax, city maintenance and construction tax, tax on the use of arable land, land appreciation tax, vehicle purchase tax, vehicle and vessel tax, stamp tax, deed tax, tobacco leaf tax, customs duty, tonnage dues, and fixed assets investment orientation regulatory tax. Of which, 17 tax categories are to be collected by tax authorities; the fixed assets investment orientation regulatory tax was suspended to be collected as from 2000 as determined by the State Council; customs duty and tonnage dues are to be collected by the customs, in addition, the import value added tax and import consumption tax are to be withheld by the customs.

Figure 7: Tax System of China



Source: The State Administration of Taxation of China, chart summarized by author.

III.2 Framework of Tax Legislation in China

At present, the national authorities in China which has the right to formulate the tax laws, regulations and policies included the following state organs: National People’s Congress and its standing committee, the State Council, Ministry of Finance, State Administration of Taxation, Tariff Regulations Committee under the State Council and General Administration of Customs, etc. Hereinafter are the national authorities and their main duties.

(1) Tax laws and related regulatory documents are formulated by The National People's Congress and its Standing Committee.

“Legislation Law of the People's Republic of China "Article 8 marks out: the basic system of tax laws can only be enacted by the National People's Congress and its Standing Committee. The tax laws generally applied within the sovereignty of the People's Republic of China, has the force of law after the Constitution. Of this, “Individual Income Tax Law of the People’s Republic of China” relates to tax entity law and “Tax Administration Law of the People’s Republic of China” relates to tax procedure Law.

(2) Administrative regulations and relevant normative documents are formulated by The State Council.

Current tax laws in China are mostly formulated by the State Council administrative regulations and normative documents. Summed up in the following types as table 14:

Table 14: Regulations and Relevant Normative Documents Formulated by the SC

Items	Explanations
The basic tax system	According to Article 9 of the Legislation Law of the People's Republic of China ", the National People's Congress and its Standing Committee have the right to authorize the State Council to enact administrative regulations if the tax system has not yet developed to the law, eg. current value-added tax, consumption tax, business tax, vehicle purchase tax, property tax, etc.
Implementation Regulations or Implementing Rules.	The State Council National formulates Implementation Regulations or Implementing Rules according to Individual Income Tax Law, Enterprise Income Tax Law and Vehicles and Vessels Tax and Tax Collection Law formulated by the People's Congress and its Standing Committee
Non-basic system of tax	In accordance with the actual work needed, the State Council marks out regulatory documents, including the notice released by the State Council or the decisions made by General Office of the State Council. eg, the provisions of the business tax policies on real estate transactions prescribed in the " Stabilize housing prices advice notice on the adjustment of the housing supply structure" (Guo Ban Fa [2006] No. 37).
Explanation of the specific provisions of the tax administrative regulations	<People's Republic of China City Maintenance and Construction Tax Provisional Regulations> Article explains Reply "(Guo Ban Han [2004] No. 23)
Regulatory documents issued by departments of the SC and approved by the S C	For example, the Ministry of Finance & the State Administration of Taxation approved by the State Council " Notice of adjust and improve the consumption tax policy " (Cai Shui [2006] No. 33).

Source: The State Administration of Taxation of China, table summarized by author.

(3) The rules and regulatory documents are formulated by Fiscal Authorities

Fiscal Authorities contain the Ministry of Finance, State Administration of Taxation and the General Administration of Customs and the State Council Tariff Commission. Accordance to the law and administrative regulations, they can issues tax regulations and regulatory documents, including the form of orders, notices, announcements and other documents in light of the purview of the department itself.

(4) Local laws, regulations and regulatory documents formulated by the local People's Congress and its Standing Committee and the local people's governments.

According to China's current legislative system, Tax Legislation, regardless of the central tax, central and local shared tax, local tax, concentrates in the central government. Local government can only enact local tax laws, regulations or regulatory documents and adjust on certain taxation elements in terms of the laws, administrative regulations authorized by central authorities. For example, the tax standard can be

issued by provinces, autonomous regions and municipalities within the prescribed magnitude determined in light of “Provisional Regulations on Urban Land Use Tax”.

(5) Regulatory documents are issued by the province or below provincial tax authorities.

Province or provincial tax authorities enacted these documents within the scope of its authority applicable to the specific tax provisions in the area within its jurisdiction. Usually, it takes effect in a particular area and bases on tax law, administrative regulations and regulatory documents of higher tax authorities

(6) Tax treaty signed by the Chinese government and foreign governments (regions)

Tax treaty is signed between two or more sovereign states in order to coordinate with each other in handling of multinational taxpayer’s taxed affairs and other tax-related matters, According to the norms of international relations, agreements or treaties, tax treaty belongs to the category “the Law of Treaties” of international law, which is an important legal basis for the divided international tax jurisdiction and has the effectiveness of the domestic law of legal binding on the parties.

In addition, currently the Central People's Government does not practice an independent taxation system in the Special Administrative Region of Hong Kong and Macau. Both Special Administrative Regions reference to the tax policy previously and enact laws on its own concerning types of taxes, tax rates, tax relief and other tax matters. The laws of the Special Administrative Region shall be reported to the Standing Committee of the National People's Congress for the record, but the record does not affect the entry into force.

III.3 Organizations of Tax Administration

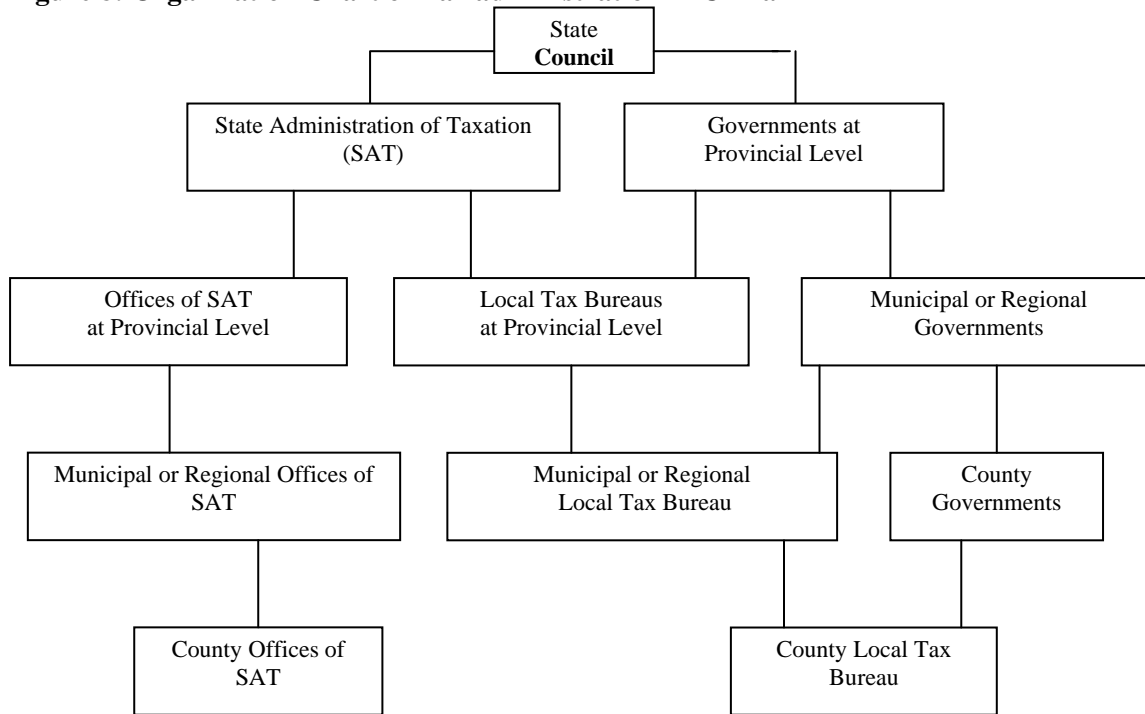
According to the Constitutions of the People’s Public of China, Chinese tax authorities are the departments in charge of the tax collection and administration. China began to implement a financial control system called the tax distribution system in 1994. Furthermore, in order to adapt to the requirements of the tax distribution system, China carried out relevant supporting reforms on the tax administration authorities. The State Administration of Taxation (SAT) was established at the central government level as an organization directly under the State Council in charge of the taxation work. The state tax bureau system and the local tax bureau system were respectively established for the tax authorities at the provincial level and below. However, only state tax bureaus established in Tibet Autonomous Region, the tax authorities for collection and administration are in charge of all the items.

As showed in the Figure 8, There are four levels of the departments of the state tax bureau system, namely the SAT, the offices of SAT at provincial (autonomous regions, municipality directly under the Central Government) level, at the prefecture (city divided into districts, autonomous prefecture, league) level, and at the county (city, banner) level. The state tax bureau system implements the leadership system of vertical management by SAT, and carries out the vertical management in terms of the approval on organization, staffing, funds and leader posts under the principle of one-level-down management. There are three levels of the departments of the local tax bureau system on the basis of administrative division, namely the local tax bureaus at provincial (autonomous regions, municipality directly under the Central Government) level, at the prefecture (city divided into districts, autonomous prefecture, league) level, and at the county (city, banner) level.

The state (local) tax bureaus are established in accordance with the law, and uniformly called the offices of SAT or local tax bureaus, tax branches, tax stations, and inspection offices of the offices of SAT or local tax bureaus; the names and responsibilities of the tax authorities are determined in accordance with the administrative tier, administrative (economic) division or affiliation. The tax bureaus at all levels are full function bureaus, and established in accordance with the administrative division, i.e. the province (autonomous region, municipality directly under the Central Government), the sub-provincial city, prefecture (city, league, autonomous prefecture) and district of municipality directly under the Central Government and of sub-provincial city, the county (banner), and the county-level city and the urban area of prefecture-level city, and may also be established in accordance with the economic division in the district of the city at the prefecture level and above. Tax branches and tax stations are non-full-function

bureaus (stations), but the agencies of the tax authorities at higher level, and may be established in accordance with administrative division or economic division. Tax branches may be established in the urban area or area having jurisdiction over five villages and towns (sub-districts) or above. The organizations that have jurisdiction over four villages and towns (sub-districts) and below are called tax stations. The inspection offices of tax bureaus at all levels are the organizations directly under the tax bureaus at all levels, which are established in accordance with the law and with external functions. Where necessary, the inspection offices may be established in the urban area of prefecture-level cities, and in accordance with administrative division or on a cross-district basis, as appropriate

Figure 8: Organization Chart of Tax administration in China



Source: The State Administration of Taxation of China

III.4 Distinction between state tax bureaus and local tax bureaus

III.4.1 Collection scopes

In 1994, in order to further straighten out the financial distribution relations between the central and local governments, give a better play to the functional role of national finance, strengthen macro-control capability of the central government, and promote the establishment of socialist market economy system and the sustained, rapid and sound development of national economy, China began to implement a financial control system called the tax distribution system. Given the provisions of tax distribution system, the collection scopes of state tax bureaus and local tax bureaus are different, and detail of divided as presented in the Table 15:

Table 15: Collection scopes of state tax bureaus and local tax bureaus

Tax Authority	Collection Scopes
State Tax Bureaus	<p>The taxes subject to the collection and administration of the state tax bureau system include:</p> <ol style="list-style-type: none"> 1. Value added tax 2. Consumption tax <ul style="list-style-type: none"> -----the import VAT and import consumption tax to be withheld by the customs; 3. Vehicle purchase tax; 4. Business tax; 5. Enterprise income tax and city maintenance and construction tax <ul style="list-style-type: none"> -----to be consolidated paid by the railway department, the headquarters of banks and the headquarters of insurance companies; -----to be paid by the Enterprises under the Direct Control of the Central Government; -----to be paid by the cooperative ventures and joint-stock enterprises which are established by the enterprises and undertaking units affiliated to the central government and the local governments -----to be paid by district banks and non-bank financial enterprises; the enterprise income tax and resource tax to be paid by offshore oil enterprises; -----to be paid by the enterprises and undertaking units registered in the period between 2002 to 2008; 6. Individual income tax imposed on the savings deposit interests <ul style="list-style-type: none"> -----which is temporarily exempted; 7. Stamp tax imposed on stock transactions
Local Tax Bureaus	<p>The taxes subject to the collection and administration of the local tax bureau system include:</p> <ol style="list-style-type: none"> 1. Business tax 2. Enterprise income tax 3. Individual income tax 4. Resource tax 5. Stamp tax 6. house property tax 7. Deed tax 8. Tobacco leaf tax 9. Land appreciation tax 10. Urban and township land use tax 11. Vehicle and vessel tax 12. Tax on the use of arable land 13. City maintenance and construction tax <ul style="list-style-type: none"> -----excluding the part subject to the collection and administration of the state tax bureau system 14. Farmland occupation tax <ul style="list-style-type: none"> -----few regions on farmland occupation tax and deed tax have not been handed over from the financial departments to the local tax bureaus. 15. Fixed assets investment orientation regulatory tax. <ul style="list-style-type: none"> -----Of which, the collection of the fixed assets investment orientation regulatory tax has been suspended

Source: The State Administration of Taxation of China, summarized by author.

III.4.2 Organization and Structure

State tax bureau system has four levels departments, namely the SAT, the offices of SAT at provincial level, at the prefecture level, and at the county level. As of the end of 2010, in terms of China's state tax bureau system at the provincial level and below, there are 31 tax bureaus at the province (autonomous region, municipality directly under the Central Government) level, 15 at sub-provincial city level, 337 at prefecture (city divided into districts, autonomous prefecture, league) level, 82 at the level of district of municipality directly under the Central Government, 159 at the level of district of sub-provincial city, 899 at the level of district of prefecture (city divided into districts, autonomous prefecture, league), and 2033 at the county (city, banner) level, and there are 3414 directly affiliated organizations such as inspection offices and directly affiliated branches, 10193 agencies such as tax branches and tax stations, 4346 undertaking units such as information centers and authority service centers.

Local tax bureau system has three levels of the departments on the basis of administrative division, namely the local tax bureaus at provincial level, at the prefecture level, and at the county level. As of the end of 2010, there are 30 tax bureaus at the province (autonomous region, municipality directly under the Central Government) level, 15 at sub-provincial city level, 325 at prefecture (city divided into districts, autonomous prefecture, league) level, 73 at the level of district of municipality directly under the Central Government, 94 at the level of district of sub-provincial city, 586 at the level of district of prefecture (city divided into districts, autonomous prefecture, league), and 1932 at the county (city, banner) level, and there are 5186 directly affiliated organizations such as inspection offices and directly affiliated branches, 16373 agencies such as tax branches and tax stations, 2190 undertaking units such as information centers and authority service centers.

III. 5 Local Tax System

The management system, organization setup, and staffing of the local tax bureaus are subject to the organic law of the local people's governments.

The local tax bureaus at provincial (autonomous regions, municipality directly under the Central Government) level are under the dual leadership of the governments of provinces (autonomous regions, municipalities directly under the Central Government) and the SAT, and mainly under the leadership of local governments. The leadership of the SAT on the local tax bureaus at provincial (autonomous regions, municipality directly under the Central Government) level is mainly embodied in such aspects as the guidance and coordination for taxation business and the organization of the implementation of and the supervision and inspection on China's uniform taxation system and policy. The local tax bureaus at below the provincial (autonomous regions, municipality directly under the Central Government) level are under the dual leadership of the tax authorities at higher level and the governments at the same level, and mainly under the vertical leadership of the tax authorities at higher level, namely, the organization setup, carder management, staffing and funds of the local tax bureaus at the prefecture (city divided into districts, autonomous prefecture, league) level and at the county (city, banner) level are under the vertical management by the local tax authorities of the province (autonomous regions, municipalities directly under the Central Government) level.

III.6 Right and Obligations of a Taxpayer

Accordance with the Chinese constitution, tax laws and administrative regulations, the rights and obligations of the taxpayer in China is balanced. Taxpayers in the tax process have the following obligations:

III.6.1 Rights of a Taxpayer

(1) Right to know

Taxpayers are entitled to know the information about tax laws, tax regulations and tax collection procedures; enjoy the inform rights related to the taxpayer's own information.

(2) Right to confidentiality

Taxpayers have the right to ask tax authorities protect their trade secrets and personal privacy, such as technical information, business information, personal matters of major investors and operators.

(3) Right to tax supervise

The taxpayer has the right to sue and prosecute tax authorities, tax officials and illegal indiscipline.

Such as demanded or accepted bribes, favoritism, dereliction of duty, no levy or levy less tax payable, the abuse of power to levy taxes or deliberately create difficulty to taxpayers. Meanwhile, taxpayers have the right to report tax violations of other taxpayers.

(4) Right to choose the way of tax returns

Taxpayers can choose directly to the tax service hall to lodge a tax return, also take the ways of mailing, data message or other ways to handle the above declaration and matters. However, the way by mail or data messages must subject to the approval of the competent tax authorities.

(5) Right to apply for an extension declaration

The taxpayer shall submit a written request for an extension to tax authorities within the prescribed time limit if it fails to lodge a tax return or submit or withhold the filing of the tax report form. Given approved by tax authority, taxpayer can be handled within the period approved.

(6) Right to apply for an extension to pay taxes

Approved by the national and local taxation bureaus of provinces, autonomous regions, municipalities, the taxpayer can defer the payment of taxes because of special difficulties failing to pay taxes, but may not exceed three months.

(7) Right to apply to refund tax

The tax paid by the taxpayers more than the amount of tax payable, it shall be immediately refund fund

by tax authorities. Discovered by the taxpayer within three years, the taxpayer can request a refund of the overpaid tax plus bank deposits of the same interest, and money shall be immediately refunded by the tax authorities in a timely manner when it was verified.

(8) Right to enjoy preferential tax

Taxpayer is entitled to apply for tax cuts, tax exemptions, tax rebates right that means the taxpayer is entitled to enjoy tax preferential rights, but it must be carried out in accordance with the statutory procedure application and approval.

(9) Right to appoint a tax agent

Taxpayer can appoint a tax agent to handle the following matters: handle, change or cancellation of tax registration, invoice purchase excluding VAT invoice, tax returns or withholding tax reports, tax payment and refund, review of the tax situation, the accounts of establishment, apply for financial, tax consulting, application for tax administrative reconsideration and other filed enacted by the State Administration of Taxation.

(10) Right to statements and arguments

Taxpayers is entitled to make statements and to plead the right of administrative punishment decision made by the tax authorities,

(11) Right to reject inspection conduct by tax auditor without certificate and notice

Taxpayer is entitled to require inspectors to produce a tax inspection certificate and notice of tax inspection. Taxpayer has the right to refuse the inspection if auditors did not show the tax inspection certificate and notice.

(12) Right to relief tax laws

Decisions made by the tax authorities, the taxpayer legally entitled to the right to apply for administrative reconsideration, administrative proceedings and state compensation.

When the taxpayer and the tax authority dispute, taxpayer must pay or remit taxes and tax fine, or provide appropriate security, then they can apply for administrative reconsideration. If refusing to accept the administrative reconsideration decision, they can appeal to the court.

(13) Right to request a hearing procedure

The taxpayer has the right to request a hearing. The tax authorities should organize a hearing. The administrative penalty decision can not be established if the tax authorities do not organize a hearing so as long the case have to conduct the hearing. However, it should be excluded when the taxpayers give up their right to a hearing or legitimate right to cancel the hearing.

(14) Right to obtain a copy of the tax certificate

The tax authorities must issue tax certificate to the taxpayers. And tax authorities must write out a receptor and list when seizure or sealing up commodities, goods or other property.

III.6.2 Obligations of a Taxpayer

(1) To make tax registration in accordance with the law

The taxpayer shall bring relevant supporting documents and apply tax registration in the tax authorities within 30 days from the date of obtaining a business license. Tax registration, including the establishment of registration to obtain a business license, the change of registration after changed contents, apply for suspension of business registration, and termination of the cancellation of the registration of the taxpayer in accordance with the law.

(2) To set up accounting books and to issue, use, obtain and keep invoices as required

The taxpayer shall set up accounting books as required and calculate business according to the legal, valid certificate. Taxpayer engaged in the production must safekeeping books, vouchers, tax payment receipts and other relevant information; within the period, which may not be forged, altered or damaged without authorization.

(3) To put on record of financial accounting system and accounting software

The taxpayer's financial accounting system or financial, accounting approach and accounting software should be submitted to the tax authorities for the record. When conflicting with the provisions of the tax authorities, it should subject to the tax provisions of State Council or financial authorities.

(4) To install and use the tax device in accordance with the provisions

The taxpayer shall be installed tax control devices can not damage or tamper any tax control devices in accordance with the provisions. If not, the taxpayer need be ordered to correct within a time limit, and the tax authorities may impose a fine within the specified amount according to the seriousness.

(5) To make tax declaration timely and truthfully

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;

(6) To pay taxes and on time

Taxpayers must 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. If taxes are not paid within the prescribed period of time, the tax authorities need levy tax fine from the date of the delinquent taxes subjecting to five ten thousandths of delinquent taxes on a daily basis.

(7) Fulfill withholding obligation of taxes

Withholding agent withholding or collecting tax obligations, the taxpayer shall not refuse. Rejected by the taxpayer, withholding agent shall promptly report the tax authorities.

(8) To accept tax examination

Taxpayers and withholding agents should actively cooperate with the tax inspection conducted by the tax authorities in accordance with statutory procedures. They must accurately report the production and operation situation and the implementation of financial systems to the tax authorities, and statements and information provided in accordance with the relevant provisions. They can not conceal the fraud, obstruct the inspection and supervision or make difficulty for the tax authorities and their staff.

(9) To provide information in a timely manner

Except tax-related information, the taxpayer should report to tax authorities timely if out of business, changes in operating conditions, subjected to all kinds of disasters, and other special happens, so that the tax authorities can properly handle.

(10) Other obligations regulated by tax laws and rules.

First, it shall be report to the local tax authorities by the taxpayer attributing to business transactions occurred between associated enterprises about the prices, costs and standards. Second, taxpayers in the merger or discrete circumstances shall report to tax authorities and full payment of taxes in accordance with the law. Third, from the opening basic deposit account or other deposit accounts from the date of 15 days written report to the tax authorities, taxpayers need to account; change shall change the date within 15 days a written report to the competent tax authorities. Lastly, taxpayer should report to the tax authority if the amount of unpaid tax is more than 50,000 Yuan or before disposing real estate or a large amount of assets.

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

III.7 Tax collection and tax inspection

III.7.1 Tax collection

The basic goal of China's tax collection work is to improve the quality and efficiency of tax collection and to promote tax compliance. Including:

(1) Law enforcement norms.

Strive to strictly enforce the law and enforce the law, justice, and civilized law enforcement, to ensure that the tax policy measures put in place.

(2) High levy ratio.

To make the number of taxes empirical constantly close to the number of statutory candidates based on tax law and policy. And to keep coordination between tax revenues and economic growth through progress all aspects of the work, like tax management and tax service.

(3) High compliance.

To improve tax compliance related to standardize the tax law enforcement, optimize the tax service and promote tax compliance.

(4) Cost reduction.

Reduce tax cost of levies and to get much tax revenue as little as possible to make lower taxes levied costs.

(5) Social satisfaction.

To increasingly improving the image of the tax department attribute to providing quality and efficient tax services for taxpayers.

General tax collection procedures involve in tax registration, books and certificate management, invoice management, tax reporting, tax collection, tax inspection and other sectors. Tax Administration Law details the rights and obligations of the tax authorities and taxpayers in the various aspects, and clears the administrative or legal responsibility of taxpayers who do not fulfill their obligations.

III.7.2 Tax inspection

Tax inspection is a form of administrative inspection, which conducted by the tax authorities to carry out the examination and supervision for taxpayer in accordance with the provisions of the relevant state tax laws, regulations, rules and financial accounting system. The tax inspection is an important means to ensure that state revenue and tax laws and administrative regulations implemented correctly, also it is an indispensable part of the national economic system of supervision. Subject to the implementing body, tax inspection can be divided into tax audit and day-to-day check run by collection department.

In China, tax inspection refers to the tax audit run by the Inspection Bureau of SAT in different levels. There are four stages for Inspection Bureau of SAT to investigate and deal with cases, namely case selection, inspection, case review and implementation. Meanwhile, four departments are established to operate the four stages respectively. Hereinafter is the mainly inspection processes:

(1) Case selection

- a. Daily inspection cases randomly choose by computer or manually choose by chief examiner, then allocates files of taxpayers to examiners. (usually two persons cover one case).
- b. Special inspection cases base on special inspection program organized by higher inspection bureau.
- c. Reported cases base on letter, visiting and telephone reported as well as transfer cases from superiors / relevant departments.

(2) Inspection (conduct examination)

- a. Preparatory examination. Examiners read he contents of files and analyze information basing on internal data, external data, CTAIS data (China Taxation Administration Information System).
- b. Chief inspectors issued a notice of examination to the inspected taxpayer.
- c. Examiners go to the office of taxpayer by in-site check or inform taxpayer bring accounting books and relevant documents to tax office. Relevant documents include tax turns, invoice, contracts, and so on.
- c. Third party inquiry and bank audit. Examiners go to the office of trade counterparts to confirm the trade with taxpayer. Also, go to the bank and check tickets, account of taxpayer when the target taxpayers are suspected of practicing false calculations or transferring capital through transactions with financial institution.
- d. The inspectors explain the result of examination to the taxpayer. For the illegal tax facts, sometimes they issue a notice of tax matters requiring the taxpayer written explanation within the deadline.
- f. In the end of the inspection, inspectors should write the *tax audit report* based on the tax audit working papers and information.

(3) Case Review

- a. Inspectors submit the *tax audit report* to review department.
- b. The checker review the tax-related case and make treatment decision, review details cover a couple of items, such as the sufficiency of the evidence, the accuracy of the data, the legality of statutory procedures and relevance of tax treatment / punishment.
- c. The checker write review report in which make case conclusion, treatment decision and penalty decision.

d. Transmit report to implemented department.

(4)Implementation

- a. Issue and send the documents of decision to the taxpayer.
- b. Take enforcement measures to taxpayer for overdue payment, such as inform financial institution or apply to the court for implementing enforced ways.
- c. Criminal case transferred to public security departments
- d. Write report and archive.

III.8 Brief Introduction of Main Taxes

It shall be noted before explain main taxes that, notwithstanding the 19 categories of tax provided for in the tax laws of China (including customs duty and tonnage dues), not every taxpayer has to pay all of them. Only if the taxpayers have the taxable activities specified by the tax laws, they are required to pay relevant taxes, and in case of no such taxable activities, they are not required to pay relevant taxes. According to actual situation, the enterprises with relevant larger scale and wider business scope may be involved with about 10 tax categories, while most of the enterprises only pay 6 - 8 tax categories.

III.8.1 Value-Added Tax

The value added tax ("VAT") is imposed on the entity and individual engaged in marketing goods, providing processing, repair or replacements services or importing goods within China. The VAT taxpayer is classified into the general taxpayer and the small-scale taxpayer. As for the general taxpayer, the VAT is imposed on the increment value of its sale (or import) of goods or provision of processing, repair and/or replacements services, the basic tax rate is 17%, the lower tax rate is 13%, and the tax rate for export goods is 0; as for the small-scale taxpayer, a simplified system of computation of tax payable is applied, and the rate is 3%. Generally, the prescribed time limit for paying VAT is 1 month. In addition, based on the amount of VAT payable by the taxpayer, there are other six types of the prescribed time limit for paying VAT, i.e. 1 day, 3 days, 5 days, 10 days, 15 days and 1 quarter, of which the prescribed time limit of 1 quarter only applies to the small-scale taxpayer. The taxpayer shall file tax returns within the period from the 1st day to the 15th day of the next month, and in case tax cannot be paid on the basis of the time limit, the taxpayer may pay tax on each transaction.

According to the government statement of China, SAT started to implement a VAT reform in Shanghai on January 1st, 2012, namely VAT Pilot Project – which aims to replace business tax with VAT for the transport sector and some modern service sectors. From August 1 to the end of 2012, the scope of the VAT pilot project expanded from Shanghai to ten areas such as Beijing, Shenzhen, Jiangsu, Guangdong, and the pilot project need be extended to more areas and sectors throughout the country next year. The main contents of VAT pilot project as follows:

(1) Policy basis

There are two tax documents released by MOF and SAT on November 17, 2011.

One is “The pilot program of business tax change to levy VAT ”(Caishui [2011] No.110), another is “The notice of transportation and modern service industry business tax levy VAT pilot in Shanghai issued by the Ministry of Finance, State Administration of Taxation” (Caishui [2011] No.111)

(2)Scope of Industries

The program covers the following industries: tangible movable property leasing, transportation services, logistics and auxiliary services, R&D and technology services, information technology services, cultural and creative services, certification and consulting services

(3) Applicable tax rate

The rules have added 2 lower applicable rates (6% and 11%) for general taxpayers besides the existing rates of 13% and 17%. The rate for small scale taxpayers remains at 3%. In addition, zero rate or tax-free is applied to export of service trade. Zero rate of VAT is applied to the international transportation services, R&D and design services provided by taxpayers of the pilot program for overseas companies and

institutions. VAT-free is applied to other export services of the pilot program. Details showed in the Table16.

Table 16: Applicable VAT Rates of pilot program

Taxpayers	Industries	VAT Rates	Previous BT Rates
General VAT taxpayers (Annual sales over RMB 5 million)	Tangible movable property leasing	17%	5%
	Transportation services	11%	3%
	Logistics and auxiliary services	6%	5%
	R&D and technology services		
	Information technology services		
	Cultural and creative services		
Certification & consulting services			
Small scale VAT taxpayers (Annual sales less than RMB 5million)	All VAT pilot services	3%	3%

Source:

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

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

The pilot program of business tax change to levy VAT (Cai Shui [2011] No. 110)

III.8.2 Consumption Tax (Exercise Tax)

The consumption tax is imposed on the entity and individual engaged in producing, consigned processing, or importing taxable consumer goods within China. The taxation scope covers 14 tax items such as tobacco, alcoholic drinks and alcohol, cosmetics, jewelry and precious stones. The consumption tax payable is assessed respectively under the rate on value method or the amount on volume method on the basis of the volume of sales or the quantity of sales in respect of the taxable consumer goods, in accordance with the tax items specified by the tax laws. The prescribed time limit for paying consumption tax is the same as that for VAT.

Table 17: Consumption Tax Taxable Items and Rates

Taxable items	Tax rates (tax amount per unit)
1. tobacco	
(1) Grade A Cigarettes	0.03 Yuan per piece + sales value × 45%
(2) Grade B Cigarettes	0.03 Yuan per piece + sales value × 30%
(3) Cigars	25%
(4) Cut tobacco	30%
2. alcoholic drinks and alcohol	
(1) white spirits	0.5 Yuan per Jin or 500ml + factory price × 20%
(2) yellow spirits	240 Yuan per ton
(3) beer of class one	250 Yuan per ton
(4) beer of class two	220 Yuan per ton
(5) other alcoholic drinks	10%
(6) alcohol	5%
3. cosmetics	30%
4. precious jewelers, pearls, precious jade and stones	
(1) gold and silver jewelers, diamond and decoration thereof	5%
(2) other jewelers, pearls, precious jade and stones	10%
5. firecrackers and fireworks	15%
6. finish oil products	
(1) gasoline: a. unleaded; b. leader	0.2 Yuan per liter & 0.28 Yuan per liter
(2) diesel oil, fuel oil, aviation oil	0.10 Yuan per liter
(3) naphtha, solvent-oil, lubricating oil	0.20 Yuan per liter
7. motor vehicle tyres	3%
8. motor-cycles	
(1) cylinder capacity less than 250 ml	3%
(2) cylinder capacity over 250 ml	10%
9. cars	
(1) passenger cars (with 9 seats or less)	1%, 3%, 5%, 9%, 12%, 25%, 40%
(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%

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

III.8.3 Business Tax

The business tax is imposed on the entity and individual engaged in providing taxable services, transferring intangible assets or selling immovable property within China. The taxable services cover 7 tax items, such as transportation industry, building industry, and finance and insurance industry. The business tax payable shall be calculated on the basis of the business turnover, amount of transfer or sales volume in respect of the taxable services or taxable activities at the statutory tax rate. The tax rate applicable to entertainment industry is 20%, except that the tax rate applicable to the billiards clubs and bowling halls in such industry is 5%; the tax rate applicable to all the other tax items is 3% or 5%. The prescribed time limit for paying business tax is the same as those for VAT and consumption tax.

III.8.4 Enterprise Income Tax

All enterprises and other income receiving organizations (excluding sole proprietorship enterprises and partnership enterprise) within China shall be the taxpayers of the enterprise income tax. The enterprises are classified into resident enterprises and non-resident enterprises. Resident enterprises shall pay the enterprise income tax for their income sourced within and outside of China. Non-resident enterprises shall pay the enterprise income tax as determined on the basis of whether they have organizations or establishments within China, and whether the income is in fact related to such organizations or establishments. In terms of the enterprise income tax, the balance derived from the total income of an enterprise in each tax year after deducting the tax-free income, tax-exempt income, other deductible items

as well as the permitted carry-forward loss of previous year(s) shall be the taxable income. The tax rate is 25%. Enterprise income tax shall be calculated on the basis of a tax year which shall commence on January 1 and end on December 31 of each calendar year. Provisional enterprise income tax shall be paid in advance on a monthly or quarterly basis, finally settled at the end of the year, refunded for any overpayment or supplemented for any deficiency. In other words, an enterprise shall, within 15 days after the end of each month or quarter, submit provisional enterprise income tax returns and make provisional tax payments to the tax authority. The enterprise shall submit an annual enterprise income tax return to the tax authority and settle the amount of tax payable or refundable within 5 months after the end of each year.

III.8.5 Individual Income Tax

The individual income tax is imposed on the taxable income derived by individuals (including 11 taxable items, such as the income from wages and salaries derived by the individuals, the income from production, operation derived by individual industrial and commercial households). A progressive tax rate of 7 levels from 3% to 45% is applied to the income from wages and salaries, a progressive tax rate of 5 levels from 5% to 35% is applied to the income from production and business and the income from contracted or leased operation of enterprises or undertakings derived by individual industrial and commercial households (note: which is similarly applied to the investors of sole proprietorship enterprises and partnership enterprises), and a flat tax rate of 20% is applied to all the other types of income.

From September 1st, 2011, in terms of the income from wages and salaries, the standard monthly deduction for expenses is increased from RMB 2000 to RMB 3500. The prescribed time limit for paying individual income tax is as follows: the tax withheld by the withholding agent on monthly basis, and the tax to be paid by the self-reporting taxpayer on monthly basis, shall be paid to the state treasury within the first 15 days of the following month; in terms of the income from production or business operation derived by individual industrial and commercial households, the tax payable shall be computed on annual basis, and the provisional income tax shall be paid in advance on a monthly basis, settled and refunded for any overpayment or supplemented for any deficiency within 3 months after the end of each tax year; in terms of the income from contracted or leased operation of enterprises and undertakings, the tax payable shall be computed on annual basis and paid to the state treasury within 30 days after the end of each tax year; in terms of the taxpayers who derive income outside China, the tax payable shall be paid to the state treasury within 30 days after the end of each tax year. The taxpayers who have an income of over RMB 120,000 in any tax year shall file the tax returns themselves with the tax authorities within 3 months after the end of each tax year.

III.8.6 Resource Tax

The resource tax is imposed on the entity and individual engaged in exploiting various taxable natural resource. The taxation scope covers 7 major categories, i.e. crude oil, natural gas, coal, other non-metal ores, ferrous ores, non-ferrous ores and salt. The resource tax is collected under the rate on value method and the amount on volume method. The resource tax rate applicable to crude oil and natural gas products is 5% to 10% of the sales volume. In terms of the resource tax, the tax amount standard for other tax items varies from RMB 0.3/ton to RMB 60/ton, depending on the kinds and locations of the resources.

III.8.7 Land Appreciation Tax

The land appreciation tax is imposed on the increment value of the transfer of State-owned land use rights, above-ground structures and their attached facilities, and is collected at the specified tax rate. There are four level progressive rates, i.e. 30%, 40%, 50% and 60%. The taxpayer shall file the tax returns with the competent tax authority where the real estate locates within 7 days upon the execution of the real estate transfer contract, and pay the land appreciation tax within the time limit designated by the tax authority. Where the land appreciation tax is able to be calculated due to the involvement of cost determination or other reasons, the provisional land appreciation tax may be collected in advance, settled after the completion of the project, and refunded for any overpayment or supplemented for any deficiency.

III.8.8 Urban Real Estate Tax (House Property Tax)

The house property tax is imposed on the houses within the cities, county towns, administrative towns and industrial and mining districts. The tax is calculated on the basis of the residual value or the rental income of the house property. The taxpayers include the house property owners, managing entities of the houses (which are owned by the whole people), panes, custodians and users. The tax rate is classified into two categories: where the tax amount payable is calculated on the basis of the residual value of the house property, the applicable tax rate is 1.2%; where the tax amount payable is calculated on the basis of the rental income of the house property, the applicable tax rate is 12%, however, where individuals lease their residential houses at the market price, the applicable rate is 4%. The house property tax is collected on a yearly basis and paid in installments. As from January 1, 2009, foreign-invested enterprises, foreign enterprises and organizations, and foreign individuals (including Hong Kong, Macau and Taiwan-funded enterprises and organizations, and the compatriots of Hong Kong, Macau and Taiwan) shall pay the house property tax in accordance with the Provisional Regulations on House Property Tax of the People's Republic of China.

III.8.9 Urban and Township Land Use Tax

The urban and township land use tax is imposed on the land in cities, county towns, administrative towns and industrial and mining districts. The tax shall be levied on the entities and individuals who use the land on the basis of the actual area of the land used at the specified tax amount. The tax amount standard is determined on the basis of big cities, medium-sized cities, small cities and county towns, administrative towns and industrial and mining districts, ranging from RMB 0.6 to 30/m². The urban and township land use tax is calculated on a yearly basis and paid in installments. The prescribed time limit for paying the tax is to be determined by the people's governments of the provinces, autonomous regions, and municipalities directly under the Central Government in light of the local actual situation.

III.8.10 Farmland Occupation Tax

The tax on the use of arable land is imposed on the entities and individuals who use the arable land to build houses or for other non-agricultural construction purposes, and is collected on the basis of the area of the arable land used. The tax amount standard ranges from RMB 5 to 50/m², detail shows in table18. The taxpayer shall pay the tax on the use of arable land within 30 days upon the approval by the land administration department on the use of land.

Table 18: Land appreciation tax items and ranges

Per capita farmland on county basis	Tax range
Less than 1 mu (1mu=0.066 hectare)	10-50 Yuan/square meters
1-2 mu	8-40 Yuan/square meters
2-3 mu	6-30 Yuan/square meters
Over 3mu	5-25 Yuan/square meters

Source: The State Administration of Taxation of China

III.8.11 Vehicles and Vessels Tax

The vehicle and vessel tax is imposed on the vehicles and vessels within China, which shall be registered with the regulatory departments in accordance with the law, and shall be paid by the owners or managers of the vehicles and vessels. There are six major tax items, such as passenger vehicles and commercial vehicles. The annual tax amount standards of the tax items vary from RMB 36 - 5400/vehicle, or from RMB 3 - 60/ton in terms of dead weight (net tonnage), or from RMB 600 - 2000/m in terms of the length of yacht body. The vehicle and vessel tax shall be filed and paid on a yearly basis.

III.8.12 Stamp Tax

The stamp tax is imposed on the entities and individuals executing or accepting the taxable instruments specified in tax laws during the economic activities and exchanges. In terms of the stamp tax, the tax amount payable shall be calculated at different proportionate tax rates in respect of the contract price or on

the basis of a fixed amount per instrument, in the light of the nature of the taxable instruments. There are four levels of proportionate tax rates, i.e. 1‰, 0.5‰, 0.3‰ and 0.05‰. For instance, in terms of purchase and sale contract, the proportionate tax rate is 0.3‰ of the value of the purchase and sale; in terms of processing contract, 0.5‰ of processing fee or contracted receipts; in terms of property leasing contract, 1‰ of the lease amount; in terms of loan contract, 0.05‰ of the loan amount. In terms of the license or permit, a fixed amount of RMB 5 shall be paid for each instrument. The stamp tax shall be paid in a manner that taxpayers shall, in accordance with the provisions, calculate the tax amount payable, purchase and affix at one time the full corresponding amount of tax stamps. In terms of the equity transfer instrument, the stamp tax shall be respectively paid by the parties to such instrument at the rate of 3‰ in respect of the amount calculated on the basis of the actual transaction price on the securities market upon the date of execution of such instrument.

III.8.13 Deed Tax

The deed tax is imposed on the land and houses the titles to which are transferred through such means as transfer, assignment, purchase or sale, gift or exchange, and shall be paid by the entities and individuals who are the transferees. Where the land or houses are the subjects of the transfer, assignment, purchase or sale, the tax shall be calculated on the basis of the transaction price; where the land or houses are the subjects of gifts, the tax shall be assessed by the collection authority; where the land or houses are the subjects of exchanges, the tax shall be calculated on the basis of the difference between the exchange prices. The tax rate is from 3% to 5%. The taxpayer shall file the tax returns within 10 days upon the occurrence of the tax payment obligation, and pay the tax within the time limit specified by the deed tax collection authority.

III.8.14 Vehicles Acquisition Tax

The vehicle purchase tax is imposed on the entities and individuals who purchase the taxable vehicles, such as cars, motorcycles, trams, trailers and agricultural transport vehicles. The vehicle purchase tax is calculated under the rate on value method, and the tax rate is 10%. The price for tax assessment is the total amount of the price and other charges in addition to the price paid by the taxpayer to the seller for the purpose of purchasing the taxable vehicle (excluding value added tax); the State Administration of Taxation need provide for the minimum price for tax assessment of the taxable vehicles of various types by reference to the average market transaction price of the taxable vehicles. Where the taxpayers purchase the taxable vehicles, they shall file the tax returns and pay up the tax amount payable in a lump sum within 60 days upon the purchase.

III.8.15 City Maintenance and Construction Tax

The city maintenance and construction tax is imposed on the entities and individuals who pay value added tax, consumption tax and business tax. The tax is calculated on the basis of the value added tax, consumption tax and business tax actually paid by the taxpayer. There are 3 levels of tax rate applied on the basis of the taxpayer's location, i.e. 7% (urban area), 5% (county towns, towns) and 1% (areas other than the urban area, county towns or towns). The city maintenance and construction tax shall be paid respectively together with value added tax, consumption tax and business tax.

III.8.16 Tobacco Leaf Tax

The tobacco leaf tax is imposed on an entity that engages in the purchase of tobacco leaves (including aired tobacco leaves and baked tobacco leaves) within China, and shall be calculated on the basis of the sum as generated from tobacco leaf purchases at the tax rate of 20%. The taxpayer shall file the tax returns within 30 days upon the occurrence of the tax payment obligation. The prescribed time limit for paying the tax shall be determined by the competent tax authorities.

III.8.17 Customs Duties and Tonnage Dues

The customs duty and tonnage dues are to be collected by the customs, in addition, the import value added tax and import consumption tax are to be withheld by the customs.

III.9 International Tax and Preferential Tax System

III.9.1 International Tax

According to the existing tax law and regulations in China, foreign businesses, business with foreign investment and foreign individuals in China are subject to 16 categories of taxes as follows: VAT, excise tax, vehicle acquisition tax, customs duty, business tax, enterprise income tax, individual income tax, land appreciation tax, urban real estate tax, urban and township land use tax, farmland occupation tax, deed tax, resource tax, vehicles and vessels tax, vessel tonnage tax, stamp tax.

China implements source principle and residence principle in the foreign taxation, that means China has right to tax taxpayer who engage in transactions involving China or whose income sourced from China and China has right to tax residence of taxpayer on world-wide basis as well. Meanwhile, Chinese nationalities from Hong Kong, Macao, Taiwan and overseas and their business investment are taxed with reference to law and regulations on taxing foreign individual and foreign businesses.

For example, According to Provisional Regulations on Enterprise Income Tax of the People's Republic of China, the enterprises are classified into resident enterprises and non-resident enterprises. Resident enterprises shall pay the enterprise income tax for their income sourced within and outside of China. Non-resident enterprises shall pay the enterprise income tax as determined on the basis of whether they have organizations or PE within China, and whether the income is in fact related to such organizations or PE. Of which :

(1) A non-resident enterprise which has a PE in China and income derived from inside and outside of China is effectively connected with such PE shall pay enterprise income tax, the tax rate enterprise income tax is 25%.

(2) A non-resident enterprise which has no PE in China or which has a PE in China but the income derived is not effectively connected with such PE shall pay income tax derived from sources inside China, the applicable tax rate is 20%.

III.9.2 Tax treaty

As of the end of May 2011, China has officially signed 96 tax treaties, 93 agreements already in force. The first country signed with China is Japan on Sep6, 1983, which is effective from Jun26, 1984 and applicable since Jan1st, 1985. Others country include : the U.S., France, the U.K., Belgium, Germany, Malaysia, Norway, Denmark, Singapore, Finland, Canada, Sweden, New Zealand, Thailand, Italy, the Netherlands, former Czechoslovakia, Poland, Australia, Bulgaria, Pakistan, Kuwait, Switzerland, Cyprus, Spain, Romania, Austria, Brazil, Mongolia, Hungary, Malta, the United Emirates of Arab, Luxembourg, South Korea, Russia, Papua New Guinea, India, Mauritius, Croatia, Belarus, Slovenia, Israel, Vietnam, Turkey, Ukraine, Armenia, Jamaica, Iceland, Lithuania, Latvia, Uzbekistan, Bangladesh, Yugoslavia, Sudan, Macedonia, Egypt, Portugal, Estonia, Laos, Seychelles, Philippines, Ireland, South Africa, Barbados, Moldova, Qatar, Cuba, Venezuela, Nepal, Kazakhstan, Indonesia, Oman, Nigeria, Tunisia, Iran, Bahrain, Greece, Kyrgyzstan, Morocco, Sri Lanka, Trinidad & Tobago, Albania, Brunei, Azerbaijan, Georgia, Mexico, Saudi Arabia, Algeria, Tajikistan, Czech, Belgium, Finland, Zambia, Malta, Syria.

Also, SAT signed a tax arrangement with the two Special Administrative Regions of Hong Kong and Macau. These agreements and arrangements play an important role in the avoidance of double taxation, to attract foreign investment, promote the implementation of the "going out" strategy, and maintenance of the state's tax equity.

Table 19 : Part of Tax Treaties signed by China with foreign Countries

Serial No.	Country	Signed on	Effective from	Applicable since
1	JAPAN	1983.9.6	1984.6.26	1985.1.1
2	U.S.A.	1984.4.30	1986.11.21	1987.1.1
3	FRANCE	1984.5.30	1985.2.21	1986.1.1
4	U.K.	1984.7.26	1984.12.23	1985.1.1
*	BELGIUM	1985.4.18	1987.9.11	1988.1.1
5	GERMANY	1985.6.10	1986.5.14	1985.1.1/7.1
6	MALAYSIA	1985.11.23	1986.9.14	1987.1.1
7	NORWAY	1986.2.25	1986.12.21	1987.1.1
8	DENMARK	1986.3.26.	1986.10.22	1987.1.1
9	CANADA	1986.5.12	1986.12.29	1987.1.1
10	SWEDEN	1986.5.16	1987.1.3	1987.1.1
11	NEW ZEALAND	1986.9.16	1986.12.17	1987.1.1
12	THAILAND	1986.10.27	1986.12.29	1987.1.1
13	ITALY	1986.10.31	1989.11.14	1990.1.1
14	THE NETHERLANDS	1987.5.13	1988.3.5	1989.1.1
16	POLAND	1988.6.7	1989.1.7	1990.1.1
....
91	CZECH	2009.8.28	2011.5.4	2012.1.1
92	BELGIUM	2009.10.7		
93	FINLAND	2010.5.25	2010.11.25	2011.1.1
94	ZAMBIA	2010.7.26		
95	MALTA	2010.10.18		
96	SYRIA	2010.10.31		

Source: The State Administration of Taxation of China (2011)

III.9.13 Tax incentives

Existing preferential tax policies change to industry preferential from regional preferential in which has been mainly conducted in the past in order to adjust the pattern of tax incentives based on the industry deals mainly supplemented by regional preferences.

Tax incentives include tax reduction or exemption, the export tax rebate and other content, details showed in Table 20.

Table 20: Main Tax incentives in China

Tax incentives	Contents
Tax deduction	To deduct portion of the amount of tax payable for taxpayer in accordance with the tax law.
Tax-free	Certain (or several) tax exemption of all taxes on some special taxpayer
Tax-deferred	A special provision applies to taxpayer for extending the tax payment deadline of some or all of the tax payable.
Export rebate	For exported products, refund the taxes paid in various aspects of pre-export domestic turnover tax. (Mainly VAT and consumption tax)
Reinvestment tax refund	Refund taxes already paid to specific investor when they use the obtain profits reinvested in the business or new businesses.
Tax refund upon collection.	Tax authorities refund portion or all of the tax to the taxpayer in the moment of taxation. This policy is limited to VAT individual taxpayer.
Refund after collection	According to the procedure, financial sector give some or whole tax rebate or refund taxes already paid by taxpayer after taxes putting into storage. Mainly apply to taxpayers who pay turnover tax and corporate income tax.
Tax credits.	The income tax paid outside China by a taxpayer on its overseas taxable source can be permitted to be deducted from its taxable income
Additional deduction.	On the basis of the actual amount, plus a certain percentage deduction for companies as calculated deducting number of taxable income.
Accelerated depreciation.	Take the way of shorten the depreciation of fixed assets, depreciation rate to reduce current taxable income.
Reduce taxable income	Made in the comprehensive utilization of resources of the enterprise income by a certain percentage of less taxable income
Investment credits.	Tax credits apply to venture capital enterprises for reducing a certain percentage of taxable income.
Thresholds.	eg. Personal selling goods or taxable services, the VAT threshold amplitude for monthly sales of 5,000 Yuan to 20,000 Yuan. For taxpayer paid on transaction, the VAT threshold is (per times or per day) 300 Yuan to 500 Yuan of sales.

Source: The State Administration of Taxation of China

IV. Country-Specific Fiscal Issues

In the past decade, Chinese economy operated steadily on the whole, and economic performance stayed persistently at a relatively high level, even if facing complex, volatile political and economic landscapes abroad and new circumstances and changes in economic activities at home. Meanwhile, China's fiscal and taxation system has been reformed many times in recent years and has conformed to the operation of the market economic mechanism. Generally speaking, the reform of the fiscal system in China in the past years has made achievements mainly in the area of government revenue, especially in budgetary expenditure drafting. However, the reform has remained weak, there are still many aspects requiring further reform.

The Fiscal Disparities in Different Area still Remain High

Since China's 1994 fiscal reforms, there have been increasing concerns about the distribution of fiscal capacities across the country. Gini indices over time show that provincial-level fiscal dispersion in China remains high during the post-1994 period, as the equalization effects of central transfers became diminished. Given the fiscal dispersion is in part driven by high per capita local expenditures in remote provinces such as Tibet and Qinghai, probably due to higher cost of public service delivery. On one hand, fiscal disparities are in part due to different regions' uneven development, typically measured by per capita GDP or personal income. On the other hand, without proper intervention from the central government, fiscal disparities may accentuate income disparities because, with insufficient funding, disadvantaged areas are not able to provide necessary level of public service.

In recent years, China's central government has seen dramatic increase of fiscal capacity, however provincial-level fiscal disparities remain high which lead to local fiscal crisis on varying degrees in different areas. The local governments -- especially lower level ones, such as county or below -- are forced to maintain their services with unusual and unsustainable means, such as leasing public land, selling public assets, illegal exactions, or irresponsible borrowing.

The Method of Budget Management need to Further Complete

First, the scope of the budget is incomplete, thus unable to reflect the overall situation of the use of governmental funds and consequently unable to reflect the situation of the implementation of the governmental functions. Second, the distribution and application of the budgetary fund is not transparent enough and the legal restricting force on the budget is lowered. Third, the design of the budget items and categories does not conform to international conventions. Thus, it is impossible to make comparative studies. In addition, there is no required system of essential standards for quotas and no unified standards for various concrete items of expenditure. Such a budget is not only difficult for the legislative institutions to carry out any budget examination, but it is also harmful to the standardized implementation and legal supervision of the budget. Besides, the diversified channels of the fund distribution result in a diversified management of the governmental fund. Large amounts of charges and funds remain idle and not included in the budget. Thus, the budget is not able to accurately reflect the overall picture of the governmental revenue and expenditure. Moreover, it need result in a low efficiency of expenditure because it is difficult to make a unified arrangement and any standardized management of the budget.

The Scope of Fiscal Distribution need to Further Standard

On the one hand, the government undertakes too many things and is still interfering in some activities that should be dealt with by the market. For example, the governments at various levels are still responsible for the circulating funds needed by the enterprises for their production and business. These however belong to the field of competition. To some extent, different governments are still responsible for different kinds of the funds needed by the public institutions that engage in operating business.

On the other hand, the compulsory education, basic scientific research, public health care and public facilities, which should be funded by the governments, do not have enough funds for development. There is a big gap between the real demand and the funds the governments give. Meanwhile, the number of

institutions and personnel supported by the fiscal revenue continues to grow quickly. A significant part (more than two thirds for those poor counties) of the yearly-added fiscal revenue has to be set aside for the payment of personnel fees. Many counties cannot even pay whole salaries on time.

The Taxation System need to Further Improvement

The current tax system has experienced nearly 20 years since 1994 tax reform, and the background for designing this system at the time has changed significantly. So, there is an obvious lack of conformity between the system structure and the current situation. For example, business tax currently applicable to 7 taxable services and 2 taxable behaviors. Of which, taxable services relate to transportation, construction, finance and insurance, post and telecommunications, culture and sports, entertainment and services industries and taxable behaviors relate to transfer of intangible assets and the sale of real estate. The problems include service heavy tax burden, double taxation and VAT chain incomplete. The heavy taxes imposed on service industries and the big difference between the taxation policies towards the VAT taxpayers and business taxpayers towards various regions, all of which violate the principle of fair taxation. Double taxation is not conducive to social specialization, to some extent inhibited the development of modern service industries. Such a system structure is harmful not only to bringing into full play the effect of the macro economic policies for promoting the aggregate demand, but also to the deepening the reform of fiscal system. Therefore, readjustment of the taxation system structure must be enforced. In addition, the division of the central and local government power on taxation is not clear at present. Meanwhile, the local taxation system has to be further improved and change their work function with the deeply implementing on VAT pilot project

Tax-sharing System need to be Further Reasonable

The tax-sharing system is aimed at standardizing the fiscal relations between the central and local governments, yet reform is very difficult. The tax-sharing system established in the reform in 1994 still has many problems. A fiscal system should reasonably divide the revenue of the governments at all levels and enable various governments to have their own stable income sources. Particularly, the reform was carried out on the basis that both the amount of the revenue that the local governments should turn over and the amount of subsidies that the central government should distribute under the former contract system should basically remain unchanged. This gave to a large extent preferential treatment to the vested interests of the former system in various regions and was not able to break through the former distribution structure formed on the basis of one-to-one bargaining. In addition, no standardized system of transfer payment from the central government to the local governments has been established and too large a part of tax revenues turned over is returned. As a result, the gap of income among the regions after adopting the tax-sharing system becomes bigger and bigger and the income of the local governments does not often conform to their functions. In designing the tax-sharing system, a large part of the tax revenue turned over is to be returned so as to arouse the enthusiasm of the local governments for collecting taxes. Since the rich regions have more tax revenue, they have a relatively larger amount of returned sums and thus become even richer in local governmental funds. In contrast, the governments of the poor regions are relatively short of funds. Moreover, the fund for transfer payment used to maintain the inter-regional balance is less than one tenth of the returned tax revenue.

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

With the rapid development of economy, China now is the world's second largest economy by nominal GDP and by purchasing power parity after the United States. It is the world's fastest-growing major economy, with growth rates averaging 10% over the past 30 years. China is also the largest exporter and second largest importer of goods in the world. However, on a per capita income basis, China ranked 90th by nominal GDP and 91st by GDP (PPP) in 2011, according to the International Monetary Fund (IMF).

China is showing its great changes to the world as well as facing numerous challenges, especially in her economic field. These challenges including: (a) reducing its high domestic savings rate and correspondingly low domestic demand; (b) sustaining adequate job growth for tens of millions of migrants and new entrants to the work force; (c) reducing corruption and other economic crimes; and (d) containing environmental damage and social strife related to the economy's rapid transformation.

Moreover, Economic development has progressed further in coastal provinces than in the interior, and approximately 200 million rural laborers and their dependents have relocated to urban areas to find work. And China continues to lose arable land because of erosion and economic development. One consequence of population control policy is that China is now one of the most rapidly aging countries in the world. In addition, Deterioration in the environment - notably air pollution, soil erosion, and the steady fall of the water table, especially in the north - is another long-term problem.

China has pledged more efforts to accelerate economic restructuring to make its growth more sustainable. The government vowed, in the 12th Five-Year Plan adopted in March 2011, to continue reforming the economy and emphasized the need to increase domestic consumption in order to make the economy less dependent on exports for GDP growth in the future.

Strengthen and Improve Macro-control through Fiscal Policy

It is important for us to closely follow developments and changes in the economic situation, oversee and inspect implementation of a proactive fiscal policy, and strike a balance between maintaining steady and robust economic development, restructuring the economy, and managing inflation expectations. We need to maintain continuity and stability in our fiscal policy, make macro-control using fiscal policy more targeted, flexible, and forward-looking, and stress fiscal sustainability. We need to give full play to the role of fiscal policy in our efforts to promote economic restructuring; boost consumer spending; support scientific and technological innovation, energy conservation, and environmental protection; develop strategic emerging industries and the modern service industry; promote coordination among regions and balanced urban and rural development; and make economic development more sustainable and cost-effective. We need strive to ensure that grain output remains stable and even grows, and increase the supply of major agricultural and subsidiary products. We need strengthen the reserve and release of important commodities and materials, and support imports of daily necessities and important raw materials. It is good chance for us to improve the mechanism to link social aid and social security benefits with price rises, and implement subsidy policies targeted at urban and rural subsistence allowance recipients, childless and infirm rural residents who receive the five forms of government support, and junior college and secondary specialized school students from poor families.

Increase Revenue and Reduce Expenditure

On the basis of implementing and refining structural tax cut policies, we need strengthen revenue collection and supervision in accordance with the law, resolutely stop and rectify unauthorized tax cuts and exemptions, crack down hard on tax evasion and fraud, and strive to ensure that all taxes due are collected. It is necessary for us to guarantee funding for key expenditure items; strictly control regular expenditures and spending on official activities and work earnestly to lower administrative costs. We need encourage government agencies to foster a conservation culture. We need practice thrift in everything we do, observe strict financial and economic discipline, economize wherever possible, and firmly oppose extravagance and waste.

Make Public Finance Management More Scientific

Firstly, we need to strengthen the legal framework for managing public finances and make our budgets more detailed, further reduce the size of expenditure budgets compiled by finance departments and strengthen management of basic expenditure budgets, promote compilation of itemized rolling budgets. Also, we need tighten management over the implementation of budgetary expenditure, and make budgetary spending more timely, balanced, effective, and secure. Secondly, we need strengthen efforts to manage local government debts and prevent risks. In accordance with the principles of managing debts by type, taking different approaches to different situations, and clearing them in a step-by-step manner, we need continue to deal with existing debts prudently, and make clear who is responsible for repaying them. We need continue to straighten out and standardize financing corporations run by local governments, and resolutely prohibit governments at all levels from guaranteeing or promising the payment of debts in any form in violation of regulations. In addition, we need to combine short-term response measures with long-term institution building, and put in place a sound system for managing local government debts. Third, it must set up a mechanism to control the scale of local government debts and a mechanism to warn when they get too large, and gradually place debt-generated revenue and debt repayments under budgetary management on the basis of their type. Lastly, we need push forward efforts to make government budgets and final accounts more open and budgetary work more transparent. It is necessary for us to open more and detailed departmental budgets and final accounts available to the public.

Deepening Fiscal and Tax Systems Reform

It is very important to improve the system of transfer payments by further raising the scale and proportion of general transfer payments, eliminating and consolidating some special transfer payments, and using transfer payments more effectively. Meanwhile, we need improve fiscal management systems at and below the provincial level, refine the mechanism for ensuring basic funding for county-level governments, further balance the distribution of financial resources at and below the provincial level, and increase the ability of county-level governments to deliver basic public services. Also, we need deepen reform of the budget management system, improve public finance budgets, make budgets for government-managed funds more standardized and transparent, expand the coverage of state capital operations budgets and gradually increase expenditure appropriations from them for social security and other areas related to people's lives, and improve the budgeting system for social insurance funds. Furthermore, we need extend the reform of preparing departmental budgets to the county level, and introduce the system for the Treasury's centralized revenue collection and expenditure payments at all levels of governments and their subsidiary agencies that prepare their own budgets; push ahead with the government accounting reform, and phase in a system for reporting government financial affairs. It is worth to act more quickly to create an effective performance-based budget management system, and improve the VAT system, and continue the experiments on replacing business tax with VAT. We need refine the excise tax system to encourage energy conservation, emissions reductions, and rational consumption. We need continue to reform resource taxes to promote resource conservation and environmental protection. We need study and design a plan for reforming taxes on owning and selling homes, and steadily advance pilot reforms of the property tax. In addition, we need reform the urban construction and maintenance tax and deepen reform of environmental protection taxes and fees, continue to review and consolidate administrative charges and government-managed funds in accordance with the principle of rectifying taxes and eliminating fees.

Reference

- Decree of State Council of the People's Republic of China (2008), *Interim Regulation on Consumption Tax of the People's Republic of China*
- International Money Found (2011) *Regional Economic Outlook: Asia and Pacific*
<http://www.imf.org/external/pubs/ft/reo/2011/apd/eng/areo0411.htm>
- Liu Zuo(2008) *Tax System of the People's Republic of China 2008*. Beijing: China Taxation Press.
- Ministry of Finance of the People's Republic of China (2012), "Report on Central and Local Budgets in 2012" , <http://english.gov.cn/official/planreports.htm>
- National Bureau of Statistics of China (2011), *China Statistical Yearbook 2011*, China Statistics Press 2011
- People's Bank the People's Republic of China. "Overview of monetary statistics in 2011"
<http://www.pbc.gov.cn/publish/diaochatongjisi/3066/index.html>
- State Administration of Foreign Exchange of China (2011), "China's Balance of Payments Report in 2011"
- The State Administration of Taxation of China, "Tax Revenue Increased Steadily Nationwide in 2011"
<http://www.chinatax.gov.cn/n8136506/index.html#>
- The World Bank <http://www.worldbank.org/en/country/china>