

People's Republic of China

1. In which areas of structural reforms have the most significant progress been made in your economy in the past five years? Please describe in what way you think the progress has been significant? Any structural reform activity can be included here, and does not necessarily need to be restricted to the five LAISR themes.

In the past five years, aiming to improve the socialist market economic system, the Chinese government has actively pushed forward structural reforms and made breakthrough in quite a number of key areas, especially in taxation system reform, which can be mainly summarized as follows:

1. Unification of Corporate Income Tax (CIT) Treatment for Domestic and Foreign-invested Enterprises. “Unification” has been achieved in four aspects since 1 January 2008 when the new CIT law took effect : a unified CIT law applicable to both domestic and foreign-invested enterprises; a unified and reduced statutory CIT rate (33 percent to 25 percent); unified and standardized pre-tax deduction measures and criteria; unified tax preferential policies.

2. Accomplishment of Value Added Tax (VAT) Reform. Since 1 July 2004, a pilot program of VAT reform has been carried out in the northeast area on equipment manufacturing and other seven industries, where the input VAT of the newly purchased equipment can be deducted from the output VAT. Since 1 July 2007, this program has been expanded to the 8 industries of 26 old industrial cities of 6 provinces in central China. Since 1 January 2009, VAT reform has been implemented all over China.

3. Adjustment of Consumption Taxation Policy. Since 1 April 2006, the consumption taxation policy has been significantly adjusted in terms of taxable items and tax rates. The items of the consumption tax have been increased from 11 to 14.

4. Adjustment of Individual Income Tax (IIT). The IIT law has been revised twice and relevant policies have been adjusted. The threshold of taxable monthly income for wages and salaries earners has been raised from RMB 800 per person to RMB 2000 per person. In addition, the IIT policies on the interest of residents’ savings have been adjusted to lower the interest tax to meet the needs of economic and social development.

5. Overall Abolition of Agricultural Tax. In 2003, Anhui Province took the lead to launch the pilot program of agriculture tax exemption. Along with the expansion of this program, the abolition of agricultural tax has been implemented all over China since 2006. Agricultural tax with a history of more than 2600 years in China ultimately came to an end.

The above taxation reforms over the past five years are of great significance to China: the unification of CIT treatment for domestic and foreign-invested enterprises can promote fair competition between market entities; the overall abolition of agricultural tax facilitates the unification of urban and rural tax system; reforms on VAT can help ease enterprises’ burdens and facilitate technological progress and energy saving; the adjustment of IIT and consumption tax policy brings into full play the function of tax system in directing market consumption and regulating income distribution. Generally speaking, through reforms, a tax system has taken shape to better promote scientific development and social harmony. Therefore, the progress in tax system reform is the most significant in the past five years.

2. Describe examples of successful reforms and lessons learned in your economy in implementing structural reforms in the five LAISR areas. Please indicate relevant websites or other reference material, preferably those written in English.

Over the past five years, China has carried out structural reforms, in particular regulatory reform, corporate governance, public sector governance, competition policy and strengthening economic and legal infrastructure. Progress and achievements are made in many areas, for example:

- Since 2003, China has successively launched reforms on six state-owned banks, including the Bank of China (BOC), the China Construction Bank (CCB), the Bank of Communications (BCM), the Industrial and Commercial Bank of China (ICBC), the China Development Bank (CDB) and the Agricultural Bank of China (ABC). By adopting joint-venture shareholding system, involving strategic and financial investors and listing in both domestic and overseas stock markets, all the banks have achieved their goals in improving corporate governance, transforming operational mechanisms, strengthening internal risk control, developing financial products, and improving financial services. BOC, CCB, BCM and ICBC have successfully got listed in Hong Kong Stock Market or Shanghai Stock Market. CDB has been transformed from a policy bank to a commercialized joint-venture, commercial one. Through shareholding transformation, ABC has accomplished its financial restructuring and became a joint-stock company.
- Since 2001, Chinese government has initiated reforms on the administrative examination and approval system. In August 2003, the *Administrative Permission Law of the People's Republic of China* was reviewed and approved by the NPC Standing Committee with purpose to restrain the discretion of government, standardize the establishment and implementation of administrative permission, as well as to define guidelines for administrative examination and approval system reforms. By October 2007, the central government had cancelled or modified 1992 items of administrative examination and approval in four batches while over 22,000 such items had been cancelled or modified by provincial governments. More than 50 percent of original items had been cut down nationwide respectively. The provincial governments and 58 central government departments had totally re-examined 25554 bases for the granting of administrative permission, among which 3981 were abolished and 2493 revised; 2389 executive bodies of administrative permission had been re-examined, among which 1932 were retained, 302 cancelled and 71 adjusted. After a series of reforms, the items subject to administrative examination and approval have been greatly reduced in governments at all levels and administrative procedures have been strictly standardized.
- Relevant materials in can be found in the following websites:
The Central People's Government: <http://english.gov.cn>
National Development and Reform Commission: <http://en.ndrc.gov.cn>
Ministry of Commerce: <http://english.mofcom.gov.cn>
The People's Bank of China: <http://pbc.gov.cn/english>

3. What in your economy's experience are the keys to the success of reform? (e.g. leadership, institutional framework, communication strategy, consultation process) What are the factors, if any, that impeded reform? What lessons can we learn from your experience?

Reform is a complicated and systematic task. In China, the keys to the success of reform include: taking a market-oriented direction and pushing forward reform in a gradual and orderly manner, making breakthrough in key areas, properly handling the relationship between reform, development and stability, and the relationship between efficiency and equity, top leaders and governments high attention, setting up dedicated institutions, launching extensive investigations and research to and soliciting opinions from all sectors of the society, making decisions scientifically, issuing supportive measures, providing financial resources, carrying out pilot programs, making reform-related explanation and publicity where necessary, etc.

Take the health care system reform which is now underway for an example. In June 2006, the Chinese government decided to deepen the reform of medical and health care system and then set up a working group. The working group and its entrusted institutions such as the World Health Organization and Peking University launched extensive study and research. It also opened online call for proposals. On this basis, the *Opinions on Deepening the Reform of the Medical and Health Care System* (hereinafter referred to as the *Opinions*) was drafted and then reviewed at the executive meetings of the State Council twice respectively in February and September of 2008. Premier Wen Jiabao, Vice Premier Li Keqiang and other state leaders personally went down to grass-root units and convened symposiums to solicit opinions and suggestion. Upon the request of the State Council, in September 2009, the *Opinions (draft for discussion)* was open to the public for comments and suggestions again and the full text was publicized from 14 October to 14 November. After that, the working group carefully collected and re-examined all feedbacks and suggestions, and then formulated the *Plan on Recent Priorities in Carrying out the Reform of Health Care System (2009-2011)*. In early 2009, the *Opinions* and the *Implementation Plan* were finally adopted and officially issued by the government. In order to push forward this reform, the Central government and local governments at all levels have set up leading groups and offices accordingly and planned to issue 14 supplementary documents and invest of RMB 850 billion from 2009 to 2011. The priority of reform such as public hospital reform will be first piloted in some selected areas.

4. What are the impacts, both positive and negative, of the reform on the economy and the flow of trade and investment? Please provide data or statistics where available.

The structural reform, a way to encourage innovation and investment of market players, will surely have a positive impact on the economy. For instance, through banking system reform, the stability and security of China's banking system of China have been constantly improved. In 2003, there were only eight banks throughout China whose capital adequacy ratio can meet the international standards, whereas by the end of June 2009, the number of such banks reached 219, with their combined assets accounting for 99.9 percent of total assets of all commercial banks. Up to the end of 2008, ICBC, CCB and BOC were listed among the top 15 banks in the world in terms of Tier 1 capital. China's banking industry topped the world in terms of total profits, profit growth rate and rate of capital return.

5. In what ways can APEC better promote structural reform in the region? What would be some possible next steps beyond 2010 based on the achievement of the LAISR process?

Due to their different stages of development, APEC economies differ greatly in terms of the goals, contents and key areas of structural reform. Based on this reality, APEC should promote its member economies to strengthen capability building and information sharing in a voluntary, flexible and pragmatic way. Based on the achievement of the LAISR process, the possible further tasks beyond 2010 would be: focusing on the further transformation of government functions, promoting the independent innovation of enterprises, improving the provision of public services, etc. In particular, to actively push forward the structural reform, it is vital to reinforce exchange on experience and lessons learned.