Tax Debate

Is excessive tax draining China's manufacturing sector of vitality? By Li Nan

Compared to the United States, China's manufacturing industry is overtaxed and costs too much, said Cao Dewang, President of China's auto-glass titan Fuyao Group (FG), in an interview with Shanghai-based Yicai.com.

The statement was made in late November 2016, nearly two months after FG invested $600 million in the U.S. state of Ohio to build the world's largest glass production plant. The investment is the largest in Ohio and the eighth highest in the United States by a company from China in recent decades.

Cao's comment sparked a month-long controversy on China's tax system and roused concerns over the prospects for the country's real economy. Some commentators worry that Cao is "escaping" China and the country's manufacturing sector is shifting overseas. These fears are partly driven by allegedly heavy taxes in China and partly by U.S. President-elect Donald Trump's promise to cut taxes and "bring manufacturing jobs back to the United States."

But Cao later clarified that he is "not leaving China," and that his investment in the United States does not seek to take advantage of Trump's vow, rather it is "the only way to be a multinational company."

At a regular press briefing on December 23, 2016, Shen Danyang, spokesman of the Ministry of Commerce (MOFCOM), refused to comment on Cao's statement, saying some Chinese manufacturers are mired in difficulties partly caused by continuously rising costs in the country.

In fact, FG is not the only Chinese manufacturer to go global. The latest data from the MOFCOM suggests that outbound direct investment in manufacturing made by Chinese investors in the first 11 months of 2016 amounted to $29.73 billion, surging by 151.9 percent year on year and taking up 18.4 percent of China's total non-financial direct investment overseas.

Moreover, the United States is the favorite overseas destination for Chinese investors, according to a survey made by the China Council for the Promotion of International Trade in 2010.

What's driving China's manufacturers to America? "The overall investment cost in the United States is at least one third lower than that in China, attracting [Chinese] enterprises to invest there," explained Li Ruogu, former Chairman and President of the Export-Import Bank of China, at a forum organized by the China Center for International Economic Exchanges on December 21, 2016.

A divided perception

In China, there are three ways to calculate the tax burden, through narrowly defined tax revenue, fiscal income and total government revenue, Li Wanpu, Director of the Taxation Science Research Institute under the State Administration of Taxation (SAT) told news portal Chinanews.com in late December 2016.

According to Li Wanpu, China's narrowly defined tax revenue system refers to income gained by the government through taxation, accounting for 18.5 percent of China's GDP during 2012-15. Fiscal income includes taxes and social security fees, taking up 23.4 percent of GDP. And total government revenue is comprised of taxes, non-tax income, government funds, state-owned corporations' incomes, and capital receipts from land transfers, accounting for 30 percent of GDP.

Li Wanpu noted that China's tax burden is lower than the average level in developing countries.

Feng Qiaobin, an economics professor at the China Academy of Governance, disagrees, saying that though China's tax revenues and fiscal incomes remain reasonable, the total government revenue is quite high.

According to data from the Ministry of Finance, China's non-taxation income

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Cao Dewang, President of China's auto-glass titan Fuyao Group, delivers a speech at the opening ceremony of Fuyao Glass America in Ohio, the United States, on October 7, 2016

Staff from a district taxation office help taxpayers prepare for the upcoming value-added tax reform in Jinan, Shandong Province, on April 12, 2016

amounted to 11.99 trillion yuan ($1.73 trillion) in 2015, taking up 49 percent of the total government earnings.

Zong Qinghou, founder of China's beverage giant Hangzhou Wahaha Group, echoed Feng's view in an interview with Zhejiang Star TV on January 3. "We paid more than 40 million yuan ($5.78 million) for over 500 types of fees in the first 11 months of 2016," said Zong.

"Actually, over-loaded non-tax charges are to be blamed for the public outcry regarding the tax burden," said Premier Li Keqiang at a State Council executive meeting on January 4.

For example, the expensive disabled person's employment security fund, charged by the government since 1992, has triggered discontent among entrepreneurs. "It's a heavy burden for Gree Electric Appliances Inc. to pay tens of millions of yuan per year for the disabled person's employment security fund," said Dong Mingzhu, Chairwoman and CEO of Gree.

Zhang Bin, a research fellow with the National Academy of Economic Strategy under the Chinese Academy of Social Sciences, said rising costs of water, electricity, gas and labor are pushing up overall production costs, further squeezing enterprises' profit margins.

The price of commercial electricity in China is twice that in the United States, and gas is five times as expensive, claimed Cao.

Zhang Bin also said economic slowdown and tight liquidity in the real economy have also heightened enterprises' perceptions of taxation. As the economy enters a state of "new normal" defined by medium-to-high-speed growth, following decades of breakneck expansion, companies feel the taxation pain more acutely, Zhang Bin told *Guangming Daily*.

Solutions

To ameliorate the sting of taxation felt by manufacturers, experts suggest that both corporate tax and administrative fees should be greatly reduced.

Zhou Tianyong, Deputy Director of the International Institute for Strategic Studies at the Party School of the Central Committee of the Communist Party of China, told *Beijing Review* that concrete tax reduction measures are badly needed.

"Value-added tax should be cut by at least 5 percent. And the current tax threshold of 30,000 yuan ($4,335) levied on small enterprises should be raised to 100,000 yuan ($14,450)."

Zhang Lianqi, an auditing expert, said non-tax charges should be lowered or canceled.

Fees for sewage treatment, water loss, soil erosion, disabled persons' employment and social maintenance fees for infringements of the family planning policy should be reduced, said Zhang Lianqi.

In fact, 73 more administrative fees were canceled at the State Council Executive Meeting on January 4.

"To ensure steady economic growth, the Chinese Government has been working much harder than other countries to reduce taxes and cut fees," said Li Wanpu.

The value-added tax reform, for example, resulted in tax cuts of 469.9 billion yuan ($67.9 billion) from January to November of 2016, said the Ministry of Finance and SAT at a briefing on December 27, 2016.

Also, the Central Government abolished hundreds of administrative fees and put in place many tax reduction policies to bolster small and medium-sized enterprises in 2016, added Li Wanpu.

"A law should be rolled out by the National People's Congress to scrap all administrative charges except for those necessary," Zhou said. ■

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