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simplify its taxation system, move towards a broader tax collection base, lower tax rates and enhance tax collection?[2]

This article seeks to answer these questions. It concludes that some targeted tax reforms in economically stressed times can be implemented swiftly and produce immediate and positive benefits. In this regard, particular attention is paid to China's indirect taxation system, especially the imposition of VAT and CT, since this is critical to its overall tax collections (providing more than half of the taxation revenue obtained by the Central Government) and which directly impacts upon the consumption of all manner of goods.

The article is divided into five parts. Following this Introduction, Part 2 provides a brief account of the genesis of the GFC and its immediate effects on China's economy. Part 3 proceeds to analyze recent reforms in China's indirect taxation system in the post-GFC period in the following areas: (1) reduction in certain tax rates, (2) the move to a consumption-type VAT system and (3) more generally, critiquing that system in light of the imperative to fund and improve its social security system (for instance, reforming medical care insurance and extending the national pension scheme to Chinese rural residents). Part 4 evaluates the effects of the recent reforms and changes to the indirect taxation system, by reference to China's economic performance and tax collections in the post-GFC period. Part 5 concludes that the GFC has had both direct and indirect impacts upon China's taxation system, particularly in relation to indirect taxation. When evaluated from the context of promoting structural reform, the tax responses adopted by China, in particular reducing tax rates to promote consumption in times of economic turmoil, although not necessarily a universal cure for all ills, were not ill-conceived.

2. THE GENESIS OF THE GLOBAL FINANCIAL CRISIS AND ITS IMPACT ON CHINA'S ECONOMY

The outbreak of the GFC in 2008 was abrupt but not entirely unpredictable. Prior to this time, some insightful observers[3] had become increasingly pessimistic as a result of the convergence of recession-related phenomena emanating from the United States (US)—such as the escalating deficit in its current account, the tidal wave of speculation on financial derivatives, and the vast number of subprime mortgage loans provided to unqualified borrowers. However, very few members of this sagacious

[2] A broad summary of China's taxation reforms in recent years is provided at www.chinadaily.com.cn/bizchina/2009-10/26/content_8851299.htm (interview with the Chinese Minister of Finance, Xie Xuren, prior to the opening of the third International Tax Dialogue, held in Beijing in October 2009; accessed 28 January 2010). In this interview, Xie Xuren highlighted the function of taxation as a means for adjusting China's macro economic policy, noting that this "played a major role in boosting the investment capacity in the business sector, enhancing consumer demand, driving growth and shaping [China's] economic development mode."

[3] For the US current account deficit, *see*, e.g., Maurice Obstfeld and Kenneth Rogoff, "The Unsustainable US Current Account Position Revisited" in Richard Clarida (ed.), *G7 Current Account Imbalances: Sustainability and Adjustment* (University of Chicago Press, 2007). For the housing market bubble, *see*, e.g., Karl E. Case and Robert J. Shiller, "Is there a Bubble in the Housing Market?", *Cowles Foundation for Research in Economics of Yale University*, No.1089, 2004, available at http://www.econ.yale.edu/~shiller/pubs/p1089.pdf (accessed 3 February 2010). For the speculative nature of financial markets, *see*, e.g., Robert J. Shiller, *Irrational Exuberance* (2nd ed., Princeton University Press, 2005).

group foresaw that the US$1 trillion subprime mess could, one day, paralyze the US$60 trillion global economy.

To a certain extent, the financial crisis provided a prototype of how turmoil within global financial markets was contagious to virtually all sectors of the world economy and had the capacity to be massively destructive. The crisis, originating within the US, quickly spread worldwide. Not only were financial institutions in many countries forced to accept large amounts of government funding, or go bankrupt, due to the difficulty in obtaining liquidity from the market, but other firms, especially small and medium enterprises, were hard hit by the credit crunch. In response to the unavailability of credit, many firms needed to cut back their investments, lay off employees, or at least freeze payrolls for cost control purposes. The end victims were apparently average persons, whose disposable income stagnated as a result of large scale layoffs and frozen payrolls, and whose household wealth was fiercely attacked by the abruptly sagging equity, bond and housing markets. Under the impact of these financial shocks upon their income and wealth, many households, particularly those in the US, were forced to slash, extensively, their consumption. Combined with reduced investment, heavy downward pressure on global aggregate economic activity was inevitable.[4]

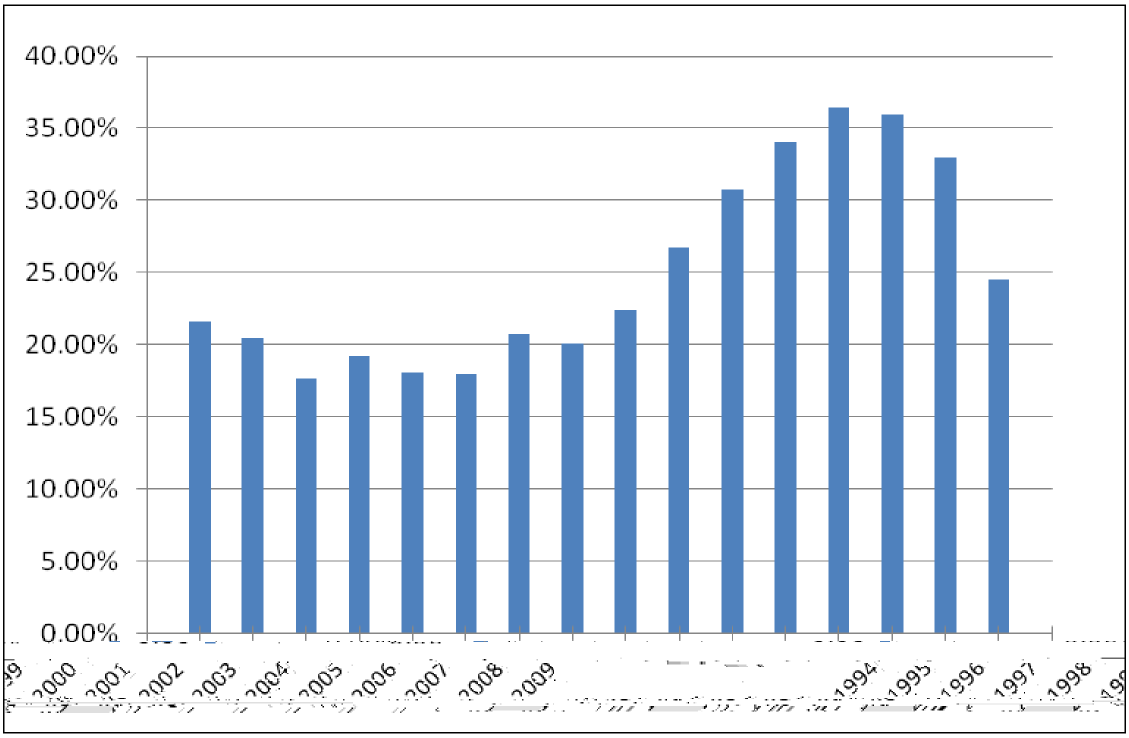
As was the case in many emerging markets, the Chinese economy was not isolated from this catastrophe. Transmission of the crisis to China was primarily effected in two ways—through the problems besetting the complex, intertwined global financial system and the dramatic fall in international trade.

2.1 Financial Channel

Prior to the emergence of the GFC, several large Chinese financial institutions had accumulated sizable holdings of subprime-related assets for “yield chasing”. When the quality of these assets deteriorated, those institutions obviously incurred losses. In part as a result of the Central Government’s strict regulation upon capital outflows, the amount of losses[5] attributed to subprime-related assets held by China’s financial institutions was much smaller when compared to those suffered by their peers in the US, the United Kingdom (UK) and the European Union (EU). Furthermore, China’s enormous level of foreign reserves, which grew under conditions of continuous surpluses derived from international trade, made the losses relatively affordable. In the event, the GFC did not pose a systemic threat to the strength of China’s financial system and did not affect the availability of credit to the same extent as in other countries (such as those in Eastern Europe).[6]

of the Association of Southeast Asian Nations (ASEAN) abruptly slashed their demand for "Made-in-China". This was largely attributable to the shrinking disposable income of the domestic households in these countries and the reduced investment capabilities of their enterprises. China's export sector suddenly lost steam. According to China's Ministry of Commerce, China's total level of exports in 2009 was 16 percent lower than that for 2008. Table 2 shows China's exports in the post-GFC period.[12] The decrease in China's exports further dragged down the growth rate of China's GDP. Having recognized the significant adverse impact this would have on the economy, the Central Government decided to reset the economic growth target for 2009 at a modest level of 8 percent, a figure significantly lower than the double digit growth achieved in previous years.[13]

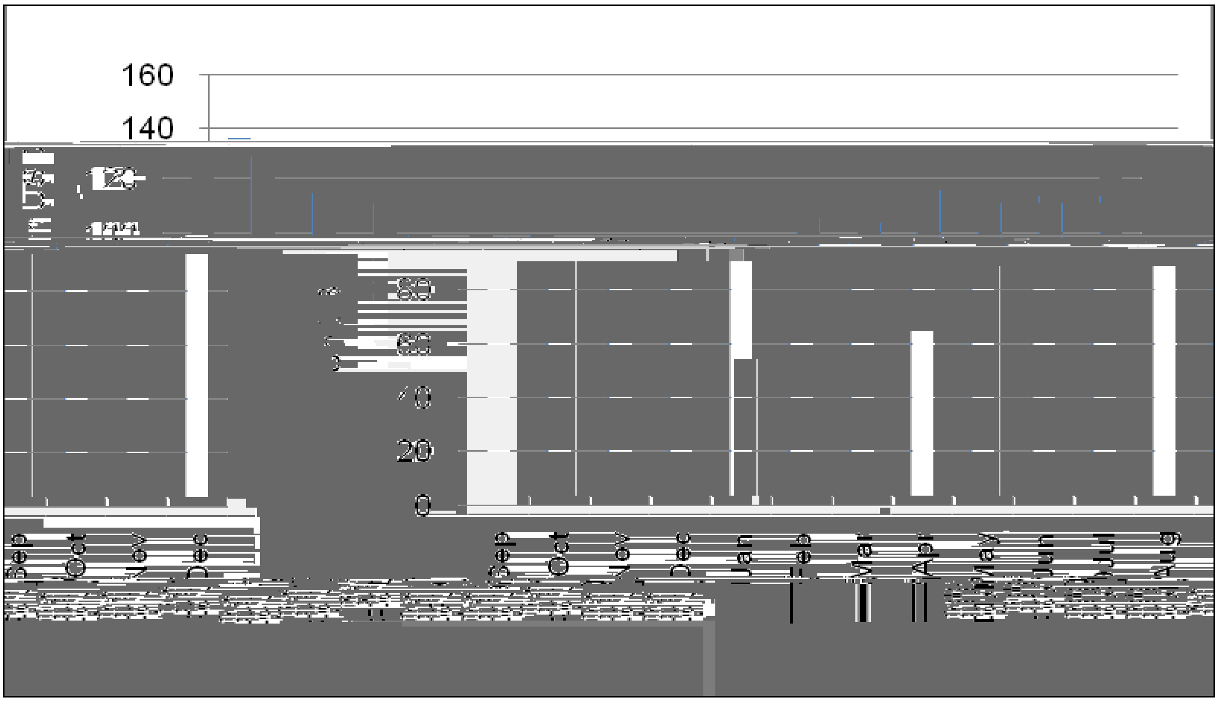
TABLE 1: PROPORTION OF EXPORTS TO GDP IN CHINA 1994-2009



[12] Data is sourced from the MOC, "Export and Import Data 2008-2009", available at http://zhs.mofcom.gov.cn/tongji.shtml (accessed 3 February 2010).

[13] *See*, e.g., Kevin Hamlin and Jun Luo, "China Says 8% Economic Growth Target Within Reach Amid Crisis", *Bloomberg Press Online*, 27 February 2009, available at http://www.bloomberg.com/apps/news?pid=20601089&sid=aLPytK78PwUw&refer=china (accessed 3 February 2010).

TABLE 2: CHINA'S EXPORTS POST-GFC



The GFC had other far-reaching effects on China's economy and society which cannot be fully reflected by its GDP and export figures alone. As the largest transitional economy in the world, China has a very high ratio of rural to urban population, 53.4 percent (or 713 million people) at the end of 2009.[14] For various historical reasons, the development of China's rural areas has lagged far behind that of its urban areas. This gave rise to substantial disparities in wealth distribution. It goes without saying that

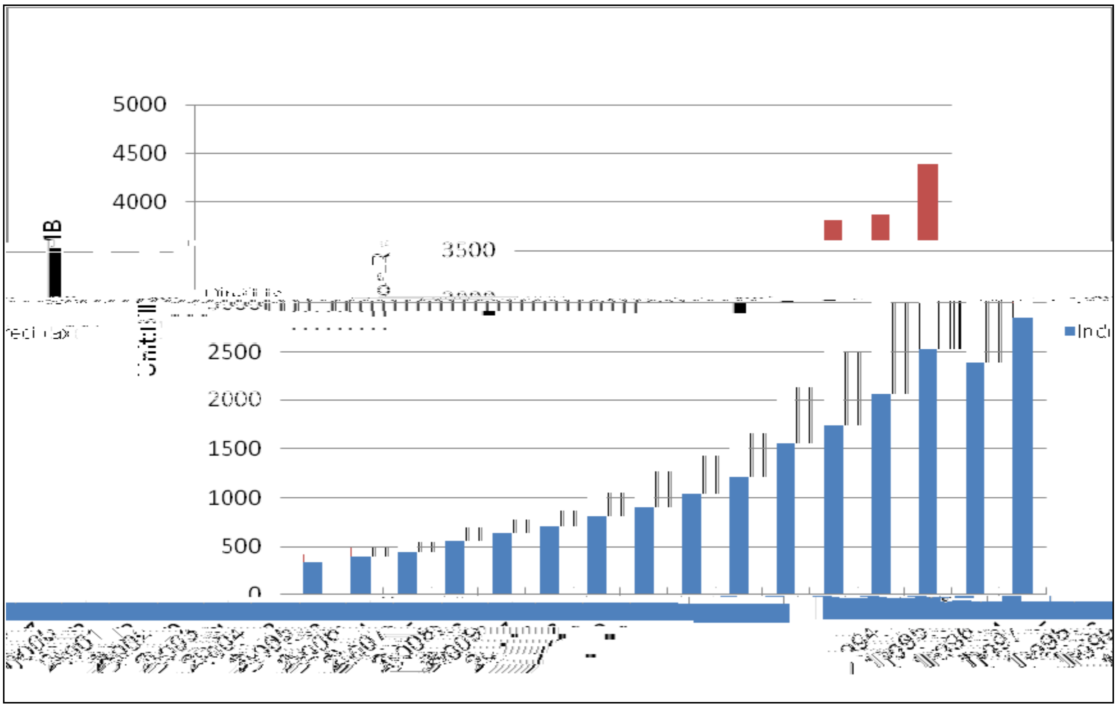
indicate that only a relatively small percentage of China's rural residents could harness the so-called miracle economic growth to promote their living standards. In the event, one likely consequence of the GFC in China has been to aggravate the inequality in wealth distribution between urban and rural residents, fueling the risk of social unrest.

3. China's Tax Response to the GFC: Recent Reforms in the Indirect Taxation System

Like many countries that developed stimulus packages to fight the GFC, China adopted tax reform as part of a plan to offset the adverse effects of the GFC on the economy. As will be shown below, some of those reforms – particularly those related to indirect taxes affecting consumption – were implemented swiftly and had immediate effect. Given the importance of China's indirect tax regime in terms of the Central Government's total tax collections, Part III of this article focuses upon that regime. Table 4 below shows the tax revenue referable to indirect taxation (VAT, Business Tax (BT) and CT) as compared to direct tax revenue (Enterprise Income Tax and Individual Income Tax).

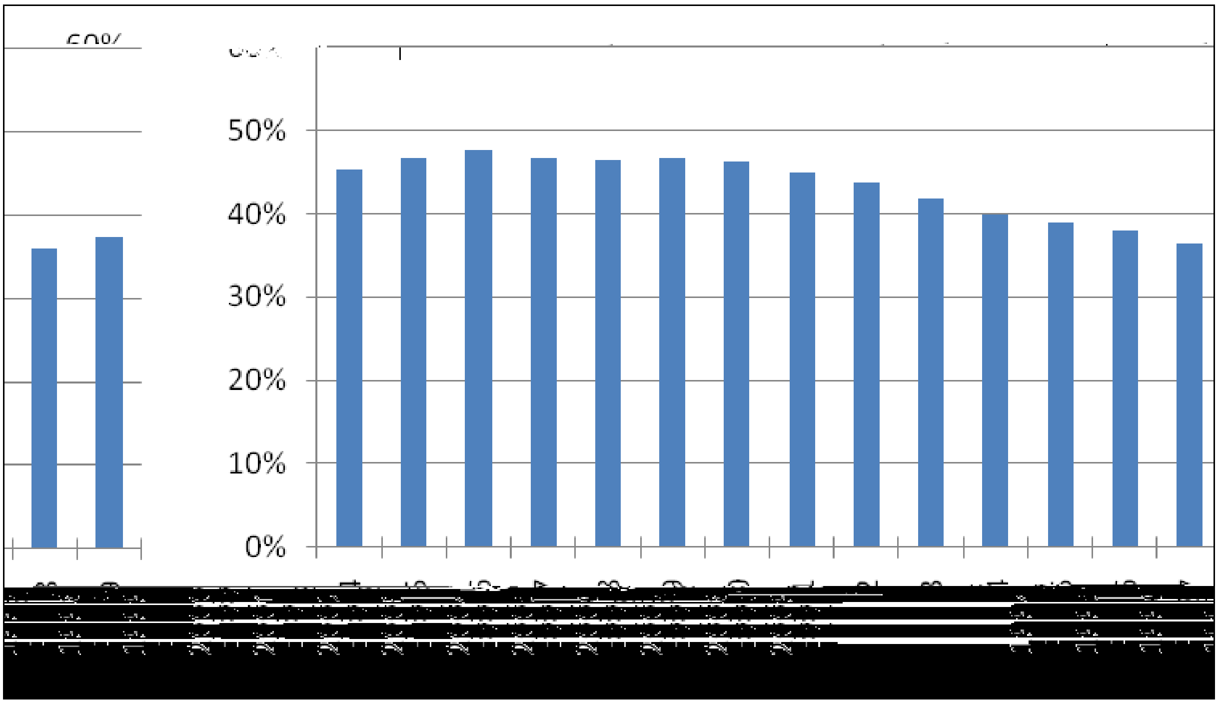
most probably attributable to the Central Government's stimulus measures (which, in part, incorporated the indirect tax reforms discussed below) for expanding domestic consumption as part of its overall plan to deal with the GFC.

TABLE 4: TAX REVENUE COMPOSITION IN CHINA[21]



[21] For the purposes of this comparison, direct tax revenue only includes revenue from Enterprise Income Tax and Individual Income Tax; indirect tax revenue only includes revenue from VAT, BT, CT, and revenue from Customs' collection of VAT and CT on imported goods (after deduction of export tax refunds). For data, *see* the SAT, "Statistical Data of Tax Revenues from 1994 to 2008", available at http://www.chinatax.gov.cn/n8136506/n8136593/n8137633/n8138817/index.html (accessed 5 February 2010). For data in 2009, *see* the Tax Policy Department of the Ministry of Finance of China (MOF), "Analysis on the Increase in Tax Revenues in 2009" (in Chinese), published by the MOF, available at http://szs.mof.gov.cn/zhengwuxinxi/gongzuodongtai/201002/t20100211_270552.html (accessed 24 March 2010) [hereinafter 2009 Tax Analysis].

TABLE 5: PROPORTION OF CONSUMPTION TO GDP IN CHINA[22]



China's focus upon increasing exports to promote economic growth proved problematic however, as shown by the consequences of the GFC's impact on China's major trading partners such as the US, the UK and the EU. Moreover, there is an insufficient level of domestic demand in China.[23] And, in this regard, an imbalance exists between urban and rural household consumption. To help deal with the increased difficulties facing China's economy brought about by the GFC (specifically, the shrinkage in exports and consumption), the Central Government decided to implement important reforms to China's indirect tax system (as one part of its stimulus package).

3.1 Reduction in Certain Tax Rates

China's Central Government is clearly determined to increase domestic consumption as a key to maintaining long-term, sustainable development. Indeed, at an early stage it provided a host of incentives to boost domestic household consumption as a means of dealing with the adverse effects of the GFC.

One of the most significant of these incentives was to cut certain tax rates. For instance, the rate of vehicle acquisition tax on cars with a capacity of less than 1.6 liters was reduced from 10 percent to 5 percent during the period from 20 January

[22] For data from 1994 to 2008, *see* the NBS, "GDP Data" in *Online Statistics Database*, available at http://219.235.129.58/indicatorYearQuery.do (accessed 6 February2010). For data in 2009, *see* the NBS, 2009 NESD Report, *supra* note 11.

[23] *See* Xiaolu Wang and Fan Gang, "Economic Crisis, Keynesianism and Structural Imbalance in China", 8 July 2009, available at http://epress.anu.edu.au/china_new_place/pdf/ch08.pdf (accessed 21 April 2010).

2009 to 31 December 2009. The reduction was continued throughout 2010, albeit at the rate of 7.5 percent.[24] The CT rate on cars with a capacity of less than 1 liter was also reduced from 3 percent to 1 percent by the CT reforms introduced at the end of 2008.[25] By way of contrast, the CT rates on motor cars with a capacity of 3 liters to 4 liters and more than 4 liters have been increased by 10 and 20 percent, respectively.

The 2008 CT reforms also changed the tax rate structure on fuel products. Previously, petrol was taxed at RMB 0.2 per liter without differentiating whether it was leaded or non-leaded.[26] After the reforms, leaded petrol was taxed at RMB 0.28 per liter, but non-leaded petrol remained taxed at RMB 0.2 per liter.[27] Although the CT rate was not altered drastically, new taxable items including aviation kerosene, fuel oil, solvents and lubricant oil were added to the category of taxable oil products.

Soon after these reforms were implemented however, CT on petrol was increased by up to seven-fold starting from 1 January 2009, as part of a broader reform relating to fuel taxation and pricing approved by the State Council.[28] The tax rate for leaded petrol climbed to RMB 1.4 per liter from RMB 0.28. Importantly, this figure is higher than the rate for unleaded petrol of RMB 1 per liter and the rate for diesel of RMB 0.8 per liter.[29] Concomitant with the increase of the tax rate on oil products, six types of government charges were waived, namely, road maintenance fee, channel maintenance fee, administration fee for highway transportation, highway transportation surcharges, administration fee for water transportation, and water transportation surcharges. Phasing out these administrative charges was intended to offset the increased burden borne by the public for fuel consumption as well as to simplify the tax (and fee) regimes relating to fuel. As stated in the Notice promulgated by the State Council, the intention is to promote energy-saving, cut pollution in cities and reduce oil imports.[30] The adjustment of CT on oil products is also aimed at playing a role in promoting economic restructuring, standardizing the imposition of administrative charges, and ensuring equal sharing of the tax burden among users.[31] To counterbalance the effect of these tax increases, government subsidies were provided for certain sectors such as public transportation and particularly affected groups of people such as grain-producing farmers.

The fuel taxation and pricing reforms described above constitute one part of the Central Government's fiscal and tax policy to respond to the numerous challenges produced by the GFC on China's domestic economy. In short, increasing energy efficiency and reducing dependence on external resources through the mechanism of

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24 *See* the MOF and the State Administration of Taxation (SAT) Notice No. 154, 2009.
25 The Provisional Regulations on Consumption Tax (CT Regulations) were issued by the State Council

economic growth,[44] towards the end of 2008 the Central Government decided to reform the VAT, along with BT and CT. It should be noted, however, that the most significant element of the VAT reform (namely, enacting a nationwide consumption-based VAT) was planned well before the GFC, but was only implemented after 2008. Specifically, this change allowed registered VAT general taxpayers to credit input tax incurred on purchases of equipment and other non-real property fixed assets against output VAT levied on their taxable supplies.[45] Input VAT is not however creditable for (1) fixed assets used solely for tax exempt activities, (2) activities not subject to VAT or (3) personal consumption.[46] Concurrently, VAT exemptions for imported equipment and VAT refunds for domestically produced equipment purchased by qualified foreign invested enterprises were abolished, although Customs Duty exemptions continue to apply.[47] All these reforms came into effect on 1 January 2009. Although purchase of real property and intangible property still fall outside the scope of this reform, the change marks a major step in relieving the tax burden on enterprises in China in general and on capital-intensive industries in particular. At the same time, the VAT rate for small-scale taxpayers in all industries was reduced and standardized to 3 percent and the VAT rate on some mineral resources reverted to the standard rate of 17 percent (previously 13 percent) since VAT payers in the mineral industry were allowed to deduct input tax when purchasing fixed assets.

above, China notionally practices zero-rating on exports (as do most countries), but the Central Government frequently adjusts the rates at which input taxes are credited or rebated.[48] The government may increase the refund amount when it desires to encourage exports but reduce the amount when budgetary demands dictate or when it seeks to avoid conflicts with foreign trade partners.[49] From 1 August 2008 to 1 June 2009, the State Administration of Taxation of the PRC (SAT) adjusted the VAT refund rate for exports no fewer than seven times. The object was to support China's export enterprises in a context of global economic downturn. For instance, on 1 June 2009 the export tax rebate was raised in varying degrees for selected items, in particular for farm produce and labor-intensive products such as luggage, shoes, and household electrical appliances, and for certain products manufactured with a higher level of technology.[50] It is worth noting that these adjustments were not made simply for stimulating exports. They were also made for stabilizing China's foreign trade situation and facilitating changes to the country's industrial structure. This purpose can be gleaned from examining the different rebate rates among commodities that were eligible for export refunds—for example, mechanical and electrical goods produced with a high level of technology were given the highest rebate rate of 17 percent while steel products with high energy consumption were given the much lower rate of 9 percent.[51]

A further taxation policy designed to stimulate China's declining export sector as a result of a deteriorating global economy should be noted. In the Export Duty Notice investors on the settlement of securities transactions was temporarily exempted from Individual Income Tax.[54]) This reduction and change of the imposition method served as a fillip to China's securities market.

Finally, the Central Government is still considering plans to extend the tax base of VAT to cover BT in order to eliminate the double taxation on service providers produced by the separation of these two taxes. Currently BT is levied on gross turnover derived from provision of services, assignment and licence of intangible assets, and sale or rental of real estate, provided that such activities are rendered or carried on within China. There is no credit for BT paid along the supply chain as is the case with VAT. Separation of the tax base thus means that VAT taxpayers still do not get any relief for BT paid on the provision of services and other items that would be credited under a comprehensive VAT or goods and services tax (GST).

As we will see below, the timing of the VAT reforms could not have taken place at a better time. VAT reform has long been considered an important policy goal by the Central Government,[55] and experiments were carried out in some parts of the Northeast and Central regions of China as well as for certain industries including the oil, chemical, and automobile sectors with a view to eventually extending it nationally.[56] According to official reports, the move to a consumption-based VAT was effective from an economic perspective during the trial phase.[57] The major overhaul was, nonetheless, undertaken only after the GFC emerged, which shows the GFC prompted the government to apply the reforms to the whole country and to all industries in order to help increase investment in fixed assets and relieve the tax burden placed on many enterprises. The GFC had a negative impact on industrial production, with many enterprises suffering shortfalls of working capital. The inability to expand production and the consequent shrinkage of investment in fixed assets were, for many enterprises, serious problems. Allowing input VAT paid for the purchase of fixed assets to be credited against VAT payments clearly provided immediate cash flow benefits for enterprises in China during a time of financial turmoil, and in the long term facilitates development of capital-

3.3 General Measures to Improve the Social Security System

The GFC clearly made it more urgent for China to change the focus of its domestic economic development from an export to a consumption model. Indeed, what China's economy faced during and after the GFC is not simply a short-term difficulty, but a fundamental challenge to its development model that originated from East Asia's economic success led by Japan.Tcsia's households to save for the purposes of self-insurance.[65] In the event, Chamon and Prasad's study illustrates that the long-term remedies for China's economic problems lie in increasing the consumption level while developing an adequate socio-economic welfare system. Simply put, these two aspects are essentially interrelated.[66]

The Central Government has been well aware of these challenges and has taken serious steps to improve China's social safety net to achieve sustainable development increased dramatically (as the national share in these areas has reduced).[73] The level of expenditure on consumption as a contribu help provide an opportunity for China's sustainable development. Introducing environmental taxes and reforming the indirect tax regime should result in a number of distortionary taxes being phased out. This will be of significant help to rationalize China's overall tax system. As will be shown in Part IV below, it will also help provide sustainable tax revenues for the provision of social security for the people.

4. EVALUATION OF THE RECENT TAX REFORMS

The series of structural tax cuts and reform measures described above, as explained by China's Vice Premier Li Keqiang, were intended to combat the challenges produced by the GFC.[80] Specifically, tax policy *was* upward trend of FDI for five consecutive months.[83] And, it has been estimated that FDI to China can rise a further 10 percent in 2010.[84] This strong increase clearly reveals foreign investors' confidence in the Chinese economy.

Turning now to the plight of rural migrant workers, the severe unemployment problem has been somewhat mitigated. Stimulated by the more favorable arrangement of VAT refunds on exports as well as certain direct subsidies from the Central and local governments, the export-oriented SMEs in the Pearl River Delta have rebounded.[85] Indeed, at the end of 2009, it has been reported that some SMEs found it difficult to recruit new workers given the fact that the improving job market has already pushed wage levels higher.[86]

Though the Central Government has called for a shift of focus in China's development model to promoting domestic consumption, export growth still matters to China's economy, particularly during this transitional period. Export figures reveal that only a moderate decline has occurred for the major labor-intensive products for which VAT refund rates have been raised. For example, in the first three quarters of 2009, the year-on-year decrease for China's exports for major labor-intensive products was lower than the overall decrease for exports of 21.3 percent for the same period.[87] The highest export rebate industries generally performed better than less favoured sectors during the GFC. The example in Part III B above illustrates this conclusion—in 2009 the highest rebate industries producing mechanical and electrical goods only suffered a year-on-year decrease in exports of 11 percent, while the lower rebate steel industry suffered a year-on-year decrease in exports of 67 percent.[88] Since June 2009, the decline in China's export sector began to stabilize, and it then quickly regained upward momentum. China's imports and exports surged 32.7 percent year-on-year in December 2009.[89] The level of exports of US$130.7 billion even reached a historical high, which has helped China replace Germany as the world's number one exporting country.[90] The Central Government continued providing VAT rebates on exports through 2010 after China's foreign trade performance for November 2009 showed the

[83] *See* the MOC, "Statistics on the FDI", available at http://www.mofcom.gov.cn/static/v/tongjiziliao/v.html/1 (accessed 6 February 2010); *see also* the MOC, "Press Conference (15 January 2010)" (in Chinese), available at http://www.mofcom.gov.cn/aarticle/ae/ah/201001/20100106748039.html (accessed 6 February 2010).

[84] *See* Liu Lulu and Sun Shaohua, "Economic Forecast: 10% Expected Growth of FDI to China in 2010" (in Chinese), *Xinhua News Online*

healthiest increase in over a year, rising 9.8 percent year-on-year.[91] This was the first increase after 12 consecutive months of decline. The actual decline in exports narrowed to 1.2 percent in November while imports climbed 26.7 percent.[92] Correspondingly, VAT collections at the import stage reversed the downward direction that has been apparent since October 2008.[93] VAT refunds for exports also increased from October 2008, by a rate of 10.6 percent.[94] The reasons for the rapid increase in VAT refunds for exports, as analysed by the Central Government, mainly lie in the rise in VAT refund rates for exported products as well as the overall improvement in China's export performance.[95]

It has also been reported that:

> "China's SAT on November 12 [2009] announced that general taxpayers claimed RMB 74.1 billion in credits for input VAT paid on purchases of fixed assets during the first half of 2009, and estimated that the new VAT regime … will ultimately lessen the VAT burden on taxpayers by more than RMB 140 billion this year. The new [VAT] reform is the biggest tax relief measure in the history of China's single-tax reforms and will help to promote technology, optimize industry structure, upgrade economic growth, and enhance Chinese enterprises' ability to compete in the global market, observers say. In the first three quarters of this year, nationwide investments in fixed assets increased by 33.4 percent over the same period in 2008, according to China's National Bureau of Statistics."[96]

Turning to consumption, recent data shows that household consumption in 2009 increased 15.5 percent year-on-year and this accounted for 37 percent of GDP in that year,[97] a slight rise compared with previous years (as shown in Table 5) when China's GDP experienced two-digit growth rates. This was achieved against the backdrop of GDP growth rate of 8.7 percent in 2009, a rate lower than that for previous years. It has also been reported that the rate cuts for vehicle acquisition tax and for CT applying to c88h16.97rted9gdg to5(d(a)-)-4/utioncapach achievements are in sharp contrast with the position in 2008 when both automobile production and sales experienced significant decreases due to the shrinkage of individual incomes and the lack of confidence in the economy caused by the GFC.[99] The tax cut policy which came into force from the very beginning of 2009 has directly and efficiently contributed to China's automobile industry maintaining growth amid

In so far as VAT is concerned, allowing input VAT paid on purchases of fixed assets to be credited against VAT payable appears to have had a positive effect on investment in fixed assets. During the first three quarters of 2009, the total investment in fixed assets by registered VAT payers reached more than RMB 15 trillion, a rise of 33.4 percent as compared to 2008.[104] The contribution of the rate of investment in fixed assets to GDP growth amounted to 7.3 percent.[105] The VAT transformation towards a consumption-based system and the successive increases in export rebate rates may decrease the total VAT collections in the short term; but, on the other hand, these mm28.9collw, a helpterducribust009, en7.78698Tw28.0009 Tc.6107 Tw[(the sucerpf)]s (ma5.

for the year contributed an impressive 41.4 percent of the total increase.[110] This was different from the position in 2008 and previous years when the largest tax collection increase was referable to VAT.[111] The 2009 statistics can be mainly attributable to the VAT and CT reforms that took effect from 1 January 2009. Four taxable items, namely, fuel, cigarettes, wine, and motor vehicles, accounted for 98.5 percent of the total CT revenue. Of these items, the CT revenue from fuel increased nearly 4.5 percent.

BT collections also began to rise from March 2009. Of those taxpayers subject to BT, the operations of construction and real estate enterprises expanded rapidly due to the increase in government investment in infrastructure projects. Other businesses such as telecommunications, services, finance and insurance also performed well. Notwithstanding these results however, many businesses in China have called for a further reform in BT. The transformation of VAT has impacted on the service industries that are subject to BT and therefore cannot offset input tax on fixed asset purchases. Replacing BT with VAT may help China's service industry develop, facilitating an effective adjustment of China's industrial structure for the future.

Finally, it should be noted that when the reforms in VAT, BT and CT were implemented, the Central Government was also aware of the potential for revenue loss. Collection and administration procedures were therefore strengthened. This may help explain the increase in tax revenues in 2009, although the precise extent of the role which such strengthening has played in collecting taxes remains unclear due to limited data.

The above analysis shows generally that revenues from enterprise taxes (corporate tax) may take a longer time to recover from the GFC and there will be an increased reliance in China on other forms of taxes, in particular indirect taxes—with VAT remaining as the centerpiece. There is a global tendency that growth-oriented tax reforms have involved shifting revenues from indirect tax system—to facilitate the development of capital-intensive industry, upgrade technology, and enhance consumer spending to promote growth and shape economic development. The tax cut measures adopted by the Central Government include the reduction of certain indirect tax rates such as vehicle acquisition tax, and relieving tax burdens through increasing export refund rates, allowing deduction of input VAT on purchases of fixed assets, and so on.

China has thus far consolidated its economic recovery, but it is vulnerable to major adverse shocks generated domestically or internationally. From a macro-economic perspective, further adjustments are needed to develop an economy demanding both new investment and increased domestic consumption. It is also true that some crisis-fighting measures, such as the granting of certain tax exemptions on real property transactions,[112] only have a one-off effect and may fuel a renewed risk of creating asset bubbles.

Most importantly, the stimulus package and related fiscal and tax measures can be credited with limiting the potential economic difficulties associated with the GFC and assisting China's recovery therefrom. From any perspective, such an achievement is more laudable than China's accession to the throne of the world's biggest exporter. Although it would be overreaching to claim that the taxation reforms were simply a product of economic crisis, at the very least it seems clear that by late 2008 the GFC had directly influenced the Central Government to implement reforms to China's indirect tax system and, most importantly, apply the VAT reforms to the whole country and to all industries. In terms of increasing investment in capital assets, stimulating domestic consumption and increasing tax collections, Part IV above has shown that the reforms have apparently been successful and that their timing could not have been more opportune.

The success in adopting taxation reform, particularly in relation to indirect taxes, to deal with the economic difficulties associated with the GFC should encourage the continuation of China's ongoing tax reform programme, particularly in light of the revenue demands that will arise from increased expenditure upon social security. Both now and in the future, China will need to find sustainable ways to finance the cost of exiting the GFC and, in the long term, improve the efficiency of its taxation system.

When viewed in the context of promoting structural reform, reducing the tax burden to promote capital investment and consumption in times of economic turmoil, though not necessarily a panacea for curing all manner of ills, is not necessarily ill-conceived. Applied to indirect taxation, the reductions can be implemented swiftly and, as has been shown in the case of China, appear to have had immediate and positive benefits.[113]

[112] In 2009, the five-year limit for tax exemption from BT on transfers of residential property was reduced to two years. This preferential tax policy was abolished from the beginning of 2010 in order to curb speculation.
[113] *See* further, D. Williams, "Direct Taxes or Indirect Taxes? Considering the Merits of the Two n