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Why There Is No Fiscal Stimulus in China in 2023

By Christine WONG

The Chinese economy is in a deep slump. Three years of the pandemic and recent policy missteps had brought gross domestic product (GDP) growth to just 3% in 2022, the slowest since 1976 except for the 2.2% growth in 2020, when COVID first hit. The end of the zero-COVID policy in December 2022 brought a spike in economic activity in early 2023, but the recovery was short-lived. Growth momentum has slowed since April, and the gloom over China's economic prospects has progressively thickened. The unprecedented 21.3% in youth unemployment in June, slowing manufacturing output, double-digit declines in exports and imports, and steep declines in housing sales led the July Politburo meeting to announce that "insufficient domestic demand" was a serious problem facing the economy and called for "stepping up countercyclical measures".[1]

With consumers holding back in the face of rising economic insecurity, businesses wary of weak demand and regulatory uncertainty, and the prolonged turmoil in the housing sector continuing to drag on growth, the only plausible sources for boosting domestic demand are an increase in government spending and public investment.

NO INCREASE IN FISCAL SPENDING

After sitting on the sidelines for months while the economy continued to slow, the Ministry of Finance (MOF) finally stepped in on 2 August 2023 to offer a package of tax relief measures to help small businesses, rural households and sole proprietors, joining an inter-ministerial effort to boost confidence in private enterprises. The measures include waivers of value-added taxes (VAT) and income taxes on small and micro enterprises, and tax credits for investment in tech startups with no more than 300 employees and annual sales of no more than RMB50 million.

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[1] https://www.caixinglobal.com/2023-07-25/opinion-chinas-politburo-meeting-signals-whats-in-store-for-economic-policy-102083236.html, accessed 21 August 2023.

None of the measures offer any new spending. Instead, they are extensions of policies that have been in place since 2017 and that were tweaked during the pandemic. Initially due to expire at the end of 2022, they were extended in January, to run through 2023.[2] The "new" measures merely extended these provisions through 2027.

Some preferential policies have been pared back in the 2023 extension. In 2022 the 50% exemption on income taxes had applied to enterprises with taxable income of RMB1 million to RMB3 million. The 2023 extension lowered the eligibility to RMB2 million in taxable income. Likewise, the exemption from VAT for enterprises with sales up to RMB150,000 per month in 2022 has been rolled back to monthly sales of up to RMB100,000 in 2023.[3] These pare-backs have been retained in the August announcement, making the new offering less generous than those provided in 2022.[4]

FISCAL POLICY IS CONTRACTIONARY

In fact, overall fiscal policy in 2023 has been contractionary thus far. The slowing economy has weakened the government's fiscal position and turned fiscal policy less "proactive" than the budget approved by the National People's Congress (NPC) in March, contributing less to aggregate demand than intended in the current economic slowdown.

In the first seven months of 2023, general revenues grew 11.5% year-on-year and tax revenues grew 14.5%. These rosy numbers, however, are due to an exceptionally low base in 2022 when a one-off refund of accumulated VAT credits cut RMB2.4 trillion from VAT receipts, mostly during the first six to seven months.[5] Aside from the VAT (whose revenues grew 84.2% year-on-year), revenues fell from most other taxes. Compared to the same period in 2022, revenues were down by 10.6% for consumption (excise) tax, 7.4% for corporate income tax and 0.6% for personal income tax. Land revenues, which contribute about a quarter of total government revenues outside of social security funds, fell 19.1%.[6]

With general expenditures growing 3.3%, the budget is on pace (if continued through the full year) to produce a general budget deficit of just 1.7% of target GDP.[7] This is 3% of GDP smaller than the 2022 deficit of 4.7% and 2.9% smaller than the 4.6% deficit approved in the March budget (Table 1). The consolidated deficit including all four budgets will be 5.4% of GDP, providing a stimulus that is 3.3% of GDP smaller than the approved budget and 3% smaller than that delivered in 2022.

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2 https://m.yicai.com/news/101645280.html, accessed 9 January 2023.

3 Ministry of Finance and State Administration of Taxation Announcement No. 1 of 2023. https://m.yicai.com/news/101645280.html, accessed 9 January 2023.

4 https://www.caixinglobal.com/2023-08-03/china-extends-small-business-tax-relief-for-four-more-years-102089292.html, accessed 3 August 2023.

5 To avoid tax cascading, taxpayers can claim refunds on VAT paid on inputs. Under current practice in China, these refunds are deducted from VAT payments due. With VAT collected at different stages of production in different localities, disputes over who (which local government) is responsible reportedly held up "trillions of yuan" in VAT credits over the past few years. The programme in 2022 was intended to put money back into the economy. To clear up the logjam of disputed claims, the central government committed to paying for 82% of the refund. Interview information, Beijing 2021; and http://www.news.cn/politics/2022lh/zb/zljzh/index.htm, accessed 11 March 2022; and https://economy.caixin.com/2022-03-22/101859259.html, accessed 22 March 2022.

6 http://gks.mof.gov.cn/tongjishuju/202308/t20230821_3903162.htm, accessed 21 August 2023.

7 The projected GDP figure for 2023 assumes full-year economic growth at the 5% target set at the NPC in March.

TABLE 1 THE CHINESE BUDGET, 2019-2023

					2023	
(RMB billion unless otherwise noted)	**2019**	**2020**	**2021**	**2022**	**Budget**	**Projected**
General Budget						
Revenues	**19,038**	**18,291**	**20,255**	**20,370**	**21,730**	**23,886**
Central government	8,931	8,277	9,147	9,489	10,017	10,946
Local government	10,108	10,014	11,108	10,882	11,714	12,940
Expenditures	**23,887**	**24,568**	**24,567**	**26,061**	**27,513**	**25,993**
Central government	3,512	3,510	3,505	3,557	3,789	3,363
Local government	20,376	21,058	21,062	22,504	23,674	22,630
General budget balance	**-4,849**	**-6,277**	**-4,378**	**-5,691**	**-5,783**	**-2,107**
General budget balance (% of GDP)	***-4.9***	***-6.2***	***-4.1***	***-4.7***	***-4.6***	***-1.7***
Government Fund Budget						
Revenues	**8,452**	**9,349**	**9,802**	**7,788**	**7,817**	**4,902**
Central government	404	356	409	412	415	380
Local government	8,048	8,993	9,394	7,376	7,402	4,523
Expenditures	**9,137**	**11,806**	**11,339**	**11,058**	**11,796**	**8,425**
Central government	311	1,044	400	554	594	154
Local government	8,825	11,534	11,019	10,504	11,292	8,272
State Capital Operating Budget						
Revenues	396	477	517	569	536	536
Expenditures	229	256	262	340	347	347
Social Security Fund Budget						
Revenues	6,405	5,485	7,427	7,617	8,441	8,441
Expenditures	7,499	7,837	8,669	9,241	9,801	9,801
Consolidated fiscal revenues (% of GDP)	*34.6*	*33.2*	*33.1*	*30.0*	*30.3*	*29.7*
Consolidated fiscal expenditures (% of GDP)	*41.1*	*43.9*	*39.0*	*38.6*	*38.9*	*35.1*
Consolidated fiscal balance (% of GDP)	***-6.5***	***-10.7***	***-5.9***	***-8.6***	***-8.6***	***-5.4***
Memo: Nominal GDP	*99,087*	*101,357*	*114,924*	*121,021*	*127,072*	*127,072*

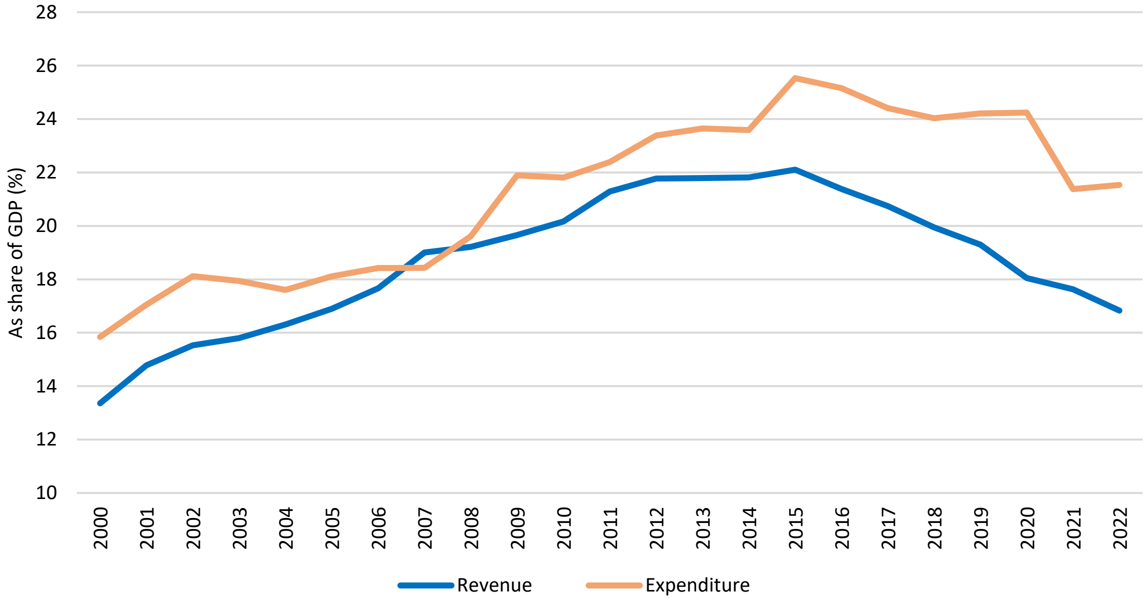
Notes:
Projected figures for 2023 are based on data through July projected forward to the end of the year. Since data is not yet released for the state capital operating budget and social security fund budget, budget figures are used.
Since 2015 the government has presented four “budgets”. The general budget holds tax and non-tax (fees, charges and other) revenues and finances core government services. The government fund budget (GFB) holds revenues from 30-plus earmarked levies such as the Civil Aviation Development Fund levied on air travel and the Railway Construction Fund levied on train tickets. Land revenues dominate the GFB and are designated to be used mainly for land preparation and infrastructure investments. The state capital operating budget comprises profits remitted by state-owned enterprises under the purview of the State-owned Assets Supervision and Administration Commission. The social security funds budget comprises revenues and expenditures of the eight social insurance schemes.
Source: MOF final accounts, 2023 budget report and http://gks.mof.gov.cn/tongjishuju/202308/t20230821_3903162.htm, accessed 21 August 2023.

THE GOVERNMENT COFFERS ARE EMPTY

Starting with the VAT reform in 2016 to shift from a production-type to a consumption-type VAT, a series of changes and tax cuts have brought a secular decline in general revenues as a share of GDP, reversing a long period of fiscal expansion that began after the Tax Sharing System Reform in 1994.[8] By 2022, revenues had fallen to 16.8%, from a peak of 22% in 2015, widening the gap between revenues and expenditures (Figure A).

[8] These tax changes were detailed in Christine Wong, “Plus ça Change: Three Decades of Fiscal Policy and Central–Local Relations in China”, *China: An International Journal,* 19, no. 4 (2021): 1-31. muse.jhu.edu/article/839228.

FIGURE A TRENDS IN GOVERNMENT BUDGET REVENUE AND EXPENDITURE, 2000-2022



Source: CEIC.

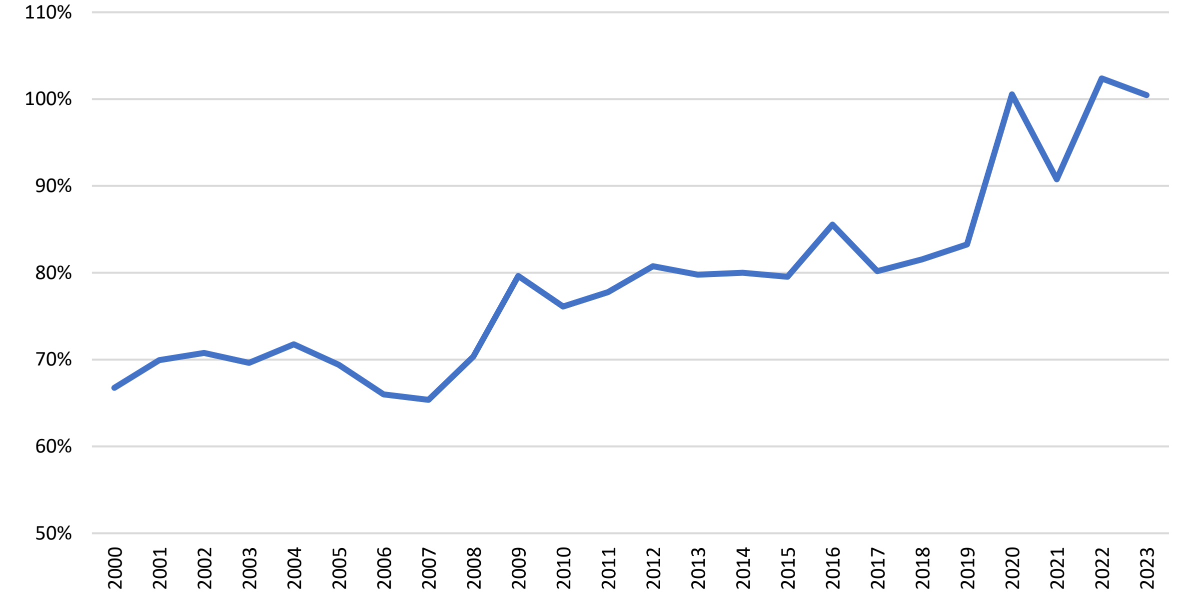
To put this in perspective, when general revenues fell to 16.8% of GDP in 2022, it reached a level last seen in 2005, before many of the big social spending programmes were introduced during the Hu Jintao-Wen Jiabao administration to provide universal, albeit very basic social welfare such as free basic education, universal medical insurance and social pensions.

Data presented in Table 2 and Figure B provide evidence suggesting that the fiscal system is no longer collecting enough revenues to fund government services at the levels promised.

TABLE 2 EXPENDITURE SHARES IN GDP, SELECTED KEY BUDGET CATEGORIES

As share of GDP	**2015**	**2019**	**2021**	**2022**	**2023p**
General budget expenditure	25.5%	24.2%	21.4%	21.5%	20.5%
Education	3.8%	3.5%	3.3%	3.3%	3.1%
Health	1.7%	1.7%	1.7%	1.9%	1.8%
Environmental protection	0.7%	0.7%	0.5%	0.4%	0.4%
Urban and rural community affairs	2.3%	2.5%	1.7%	1.6%	1.5%
Agriculture, forestry and water conservancy	2.5%	2.3%	1.9%	1.9%	1.7%
Transport and shipping	1.8%	1.2%	1.0%	1.0%	0.9%
Subtotal of listed categories	12.9%	12.0%	10.0%	10.0%	9.3%

Note: 2023 figures are projected from 2023 (i-vii) data.



Source: Calculated from CEIC data.

Even with a growing fiscal gap, budget expenditures (combined for all levels of government) had fallen from 25.5% of GDP in 2015 to 21.5% in 2022, and are on track to fall by another 1% in 2023 (Table 2). The cuts are spread across the categories listed, which together accounted for 3.6% of the 5% reduction in spending to 2023. Among them, spending on education has fallen from 3.8% of GDP to 3.1% since 2015, below and moving further away from the government's longstanding target of 4%. Another high priority area is environmental protection, whose on-budget spending peaked at 0.7% of GDP in 2015 and has since fallen to 0.4%.

In China's highly decentralised fiscal system, these services are provided by local governments, which account for more than 85% of total spending but collect only around 55% of revenues. The gap is filled by central government transfers.

Figure B shows that within the current budget envelope, there is no more room for increasing transfers. Whereas in the early 2000s the central government devoted some 70% of its revenues to transfers, this share grew to a level of 80% from around 2010. During the pandemic transfers spiked to 101% in 2020 and 102% in 2022. To help finance the extra transfers, in 2020 the central government issued special COVID-19 bond worth RMB1 trillion and raised the budget deficit by an additional RMB1 trillion.[9] In 2022, an extraordinary remittance of RMB1.65 trillion was called up from the People's Bank of China and a handful of other central government enterprises and institutions to help fund the transfers. The RMB10.06 trillion budgeted for transfers in 2023 will once again take up 100% of central revenues, but, unlike past years, the government did not announce any special sources of funding.[10] The default will be a larger deficit.

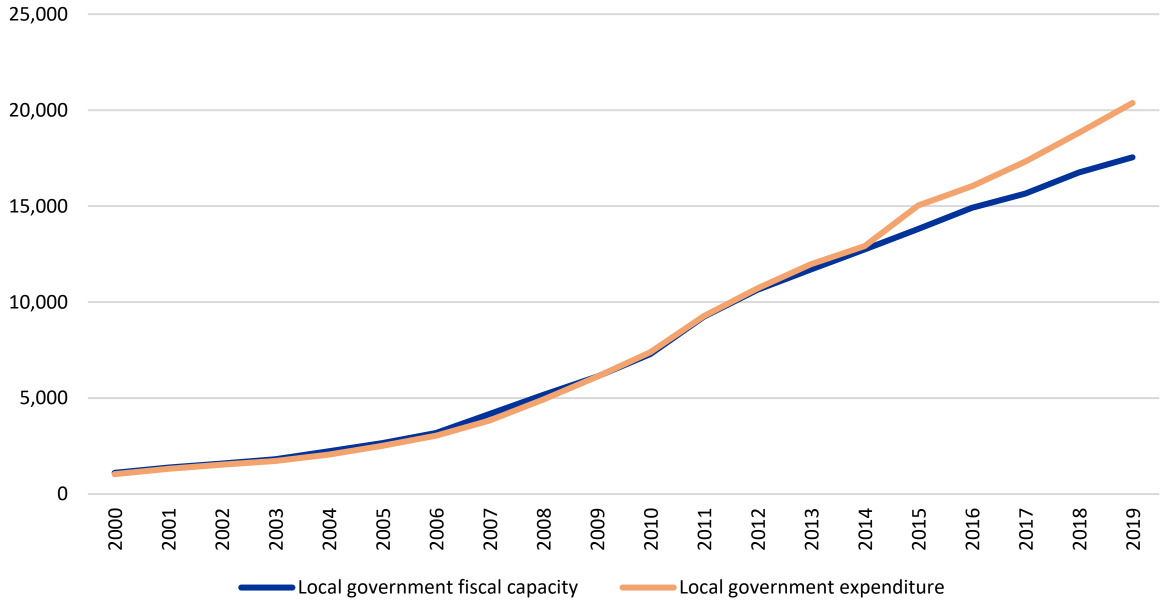
[9] They were touted as the "two trillions (两个一万亿)" in government talking points of NPC meetings in May 2020.

[10] MOF budget reports for 2020, 2022 and 2023.

THE CRISIS IN LOCAL FINANCE

Aggregate data show that the combination of local revenues and central transfers has since 2015 fallen short of fully funding local government expenditures and the gap had been widening until transfers were stepped up during the pandemic (Figure C).

FIGURE C LOCAL GOVERNMENT FUNDING GAP



Note: Local government fiscal capacity is defined as LG general revenue + gross transfers.
Source: calculated from CEIC data.

In the current fiscal system local governments have no taxing powers. Local revenues are derived from shared taxes, whose bases and rates are set by the central government. With transfers falling short and unable to raise new taxes, local governments responded by cutting spending – as shown in Table 2 – and looking for supplementary sources of funding.

While local governments have since the 1990s relied on land revenues and borrowing off-budget to finance infrastructure,[11] recent reforms have made it possible for them to openly tap land and debt to fund public services as well. The new Budget Law promulgated in 2015 permits local governments to run deficits under approval by the MOF, and, under the call to make more comprehensive use of fiscal resources, bring in resources from the other budgets to fill the gap.

In 2022 local governments brought in RMB1.2 trillion "from other budgets, reserve funds and carry-overs", an amount equal to 8% of general budget expenditures.[12] Since the state capital operating budget is very small (see Table 1) and the social security budget is earmarked for pension and health expenditures, the government fund budget is the primary source of these

[11] See, for example, Christine Wong, (2013), "Paying for Urbanization: Challenges for China's Municipal Finance in the 21st Century". R Bahl, J Linn and D Wetzel, eds., *Financing Metropolitan Governments in Developing Countries*. Cambridge, MA: Lincoln Institute for Land Policy, 2013, https://www.lincolninst.edu/sites/default/files/pubfiles/financing-metropolitan-governments-developing-full_0.pdf, accessed 28 August 2023.

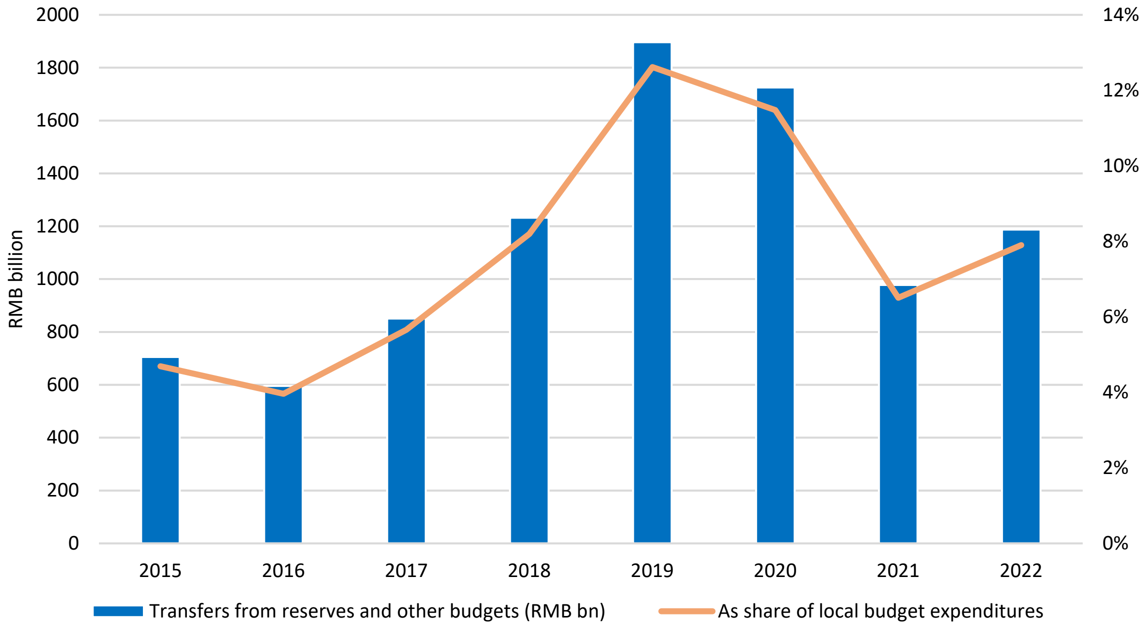
[12] 2023 budget report.

transfers, with land revenues constituting 85-90% of total government funds (and more than 90% of local government funds).

Detailed information is not available on the amount of land revenues transferred each year into general revenues. One scholar reported that in recent years, close to RMB2 trillion per year have gone to supporting agriculture and services such as education.[13] This figure is consistent with the 15% share that Finance Minister Liu Kun said is transferred annually from local government funds into the general budget.[14]

Information culled from annual budget reports to the NPC show these inter-budget transfers grew quickly to equal 13% of local expenditures in 2019, before retreating in 2021 and 2022 with the collapse of land sales (Figure D).

FIGURE D GAP-FILLING TRANSFERS FROM OTHER BUDGETS



Source: MOF budget reports to the NPC, 2015-2023.

LAND, LOCAL GOVERNMENT FINANCIAL VEHICLES AND LOCAL GOVERNMENT DEBT

Providing infrastructure to support economic growth and public services is a key function of the government. In China local governments have accounted for 70-90% of investment in public infrastructure since the 1990s. The rapid urbanisation and modernisation over the past three decades was made possible by the remarkable build-up of infrastructure, the vast majority of it financed by local governments at the county and prefectural levels. Lacking budget resources and prohibited from borrowing on government accounts, they tapped land revenues

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13 Wang Dehua, "How China Can Cushion the Blow From Falling Land Sales Revenue", *Caixin,* 9 May 2023, https://www.caixinglobal.com/2023-05-09/opinion-how-china-can-cushion-the-blow-from-falling-land-sales-revenue-102050519.html, accessed 14 May 2023.

14 Cheng Siwei, "Liu Kun: Local Finances Will Gradually Improve, and the Impact of the Decline in Land Revenues on General Expenditures Is Controllable", https://economy.caixin.com/2023-03-01/102003242.html, accessed 2 March 2023.

and borrowed through a variety of 'local government financial vehicles' (LGFVs).[15] The unregulated and unsupervised nature of the practice led inevitably to abuses in excessive land takings, over-urbanisation, rampant corruption and mountains of debt.

Reining in local government debt and off-budget borrowing was a top priority in the fiscal reforms initiated in 2014. The revised budget law aimed to build a transparent and regulated framework for borrowing. It allowed local governments to issue bonds under annual quotas approved by the NPC and LGFVs are banned from borrowing on their behalf.[16]

The reform has clearly failed. Local government debt has continued to grow, to as much as RMB100 trillion today (equal to 80% of GDP).[17] LGFVs remain a critical part of the local government toolkit for financing infrastructure, and they continue to create "hidden debt" and pose contingent risks for local governments.

This failure has many causes. One is that investing in infrastructure remains the central government's preferred policy tool for supporting growth during downturns – a task that falls primarily on local governments. Another is the flawed management and design of the debt instruments created for local government borrowing.

In 2015 the government introduced two types of local government bonds – general bonds (GB) and special project bonds (SPBs). GBs are to be used for public infrastructure projects that yield no revenue returns (e.g. schools and village roads) and the debt would be repaid from the local government general budget. SPBs are to be used for public infrastructure with revenue generation (e.g. toll roads and municipal water systems) and the debt would be repaid from the government fund budget from project-generated revenues and other resources.[18]

Since their introduction, the issuance of GBs has been limited to the approved deficits for local governments each year and net increases have been even smaller except in 2021 (Figure E). Even if all the bonds were used for infrastructure, at an average of only 3-4% of local expenditure, they are hardly sufficient to cover public infrastructure needs. In essence, the central government has reneged on one key part of the reform to provide a means of borrowing for local non-revenue public infrastructure. In field visits conducted in 2019, I found that schools were mostly built under public-private partnership arrangements.[19]

15 See Wong (2013). For a good description of how LGFVs work, see Lu Yinqiu and Tao Sun, "Local Government Financing Platforms in China: A Fortune or Misfortune", IMF working paper WP/13/243, October 2013.

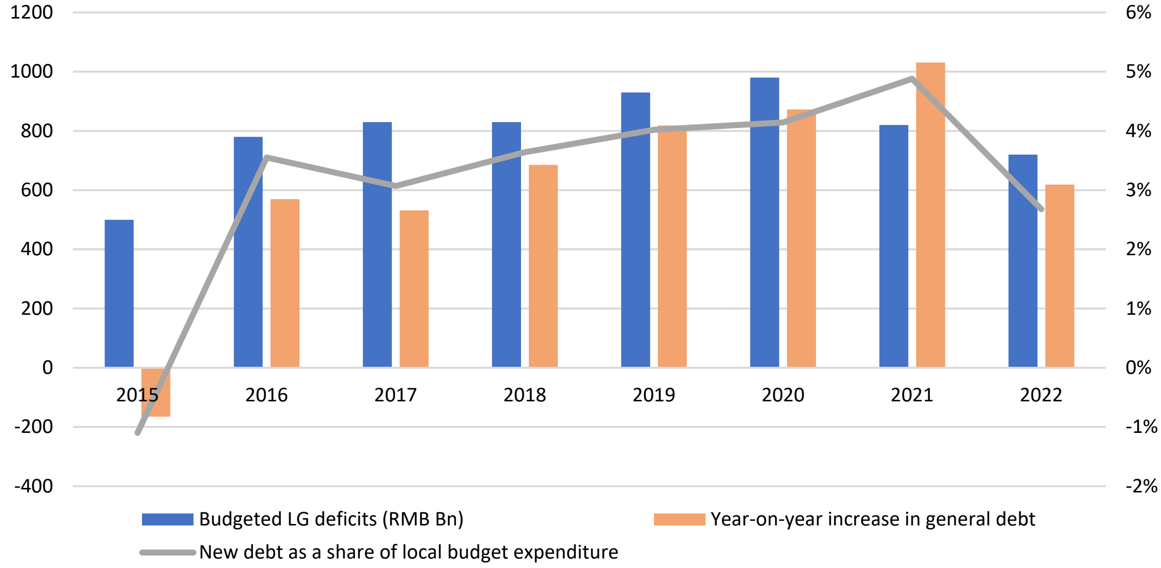
16 Opinions of the State Council on Strengthening the Management of Local Government Debts. State Council Document 43, 2014, http://www.gov.cn/zhengce/content/2014-10/02/content_9111.htm, accessed 3 September 2022.

17 This includes RMB39.5 trillion in official debt (to year-end 2023) and an estimated RMB60 trillion in LGFV debt cited by the IMF, Goldman Sachs and others.

18 State Council Document 43, 2014.

19 Visits to Hunan, May 2019.

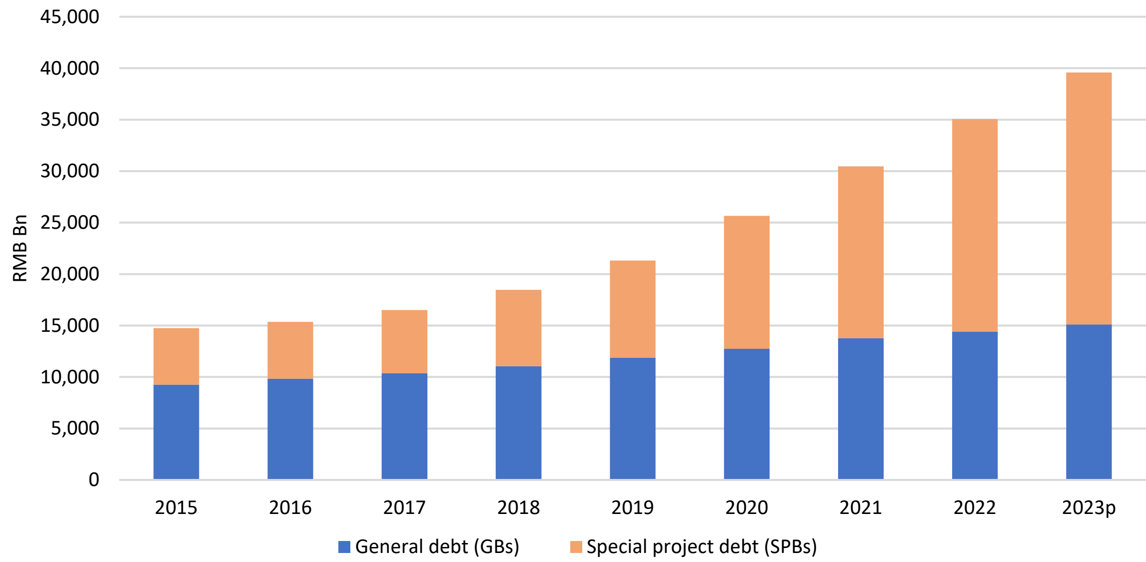
FIGURE E LOCAL GOVERNMENT DEFICITS AND NET INCREASES IN GENERAL DEBT, 2015-2022



Source: MOF budget reports to the NPC, 2015-2023; and CEIC.

Instead, local borrowing for capital expenditure is largely confined to SPBs. During the COVID pandemic, local governments were allocated an SPB quota of RMB3.75 trillion in 2020, 3.65 trillion in 2021 and 4.15 trillion in 2022. By year-end 2022, after a year of an 'all-out effort' to build infrastructure, local government debt stood at RMB35.1 trillion (equal to 29% of GDP).[20] This was a 65% increase over three years, 82% of which came from SPBs. In 2023, the budget calls on local governments to issue an additional RMB4.5 trillion in bonds, with RMB3.8 trillion in SPBs and RMB720 billion in general debt to cover the approved deficit (Figure F).

FIGURE F OFFICIAL LOCAL GOVERNMENT DEBT, 2015-2023



Note: 2023p figures are projected based on the budget presented to the NPC in March.
Source: MOF budget reports to the NPC, 2015-2023; and CEIC.

[20] Calculated from CEIC and http://yss.mof.gov.cn/zhuantilanmu/dfzgl/sjtj/202301/t20230128_3864087.htm, accessed 30 January 2023.

To minimise fiscal risks, the MOF requires projects using SPB debt to be self-financing, i.e. the project must have a return that is sufficient to pay back the bonds and interest. This led local governments initially to direct the SPBs towards the property sector, with 70% of the bonds used for land reserves and slum redevelopment in 2018 and the first 10 months of 2019, until such uses were banned in September 2019.[21] During 2015-2017 public-private partnerships (PPPs) were also heavily promoted to provide supplementary sources of finance for infrastructure, but PPPs slowed to a trickle after an MOF review in 2017 found them to require too many government guarantees.[22] Instead, land revenues remain a key source of co-financing and LGFVs continue to play a key role in implementing projects under government contracts.[23]

Finding eligible projects that meet MOF's financial requirements has been difficult in the face of low and declining returns to many types of infrastructure, such as highways and rails, and when cost recovery is hampered by restrictions on pricing. In 2021, the sharp decline in land revenues reduced resources for co-financing and local governments left fully one-third of the SPB quota unused.[24] In 2022, however, as the economy slowed further, intense political pressure was applied on local governments to step up investments. Through the year, more than RMB5 trillion in SPBs were utilised, including RMB1.2 trillion of them left over from 2021. LGFVs were once again pressed into service, especially since both land and budget revenues were in short supply. To prop up local government revenues, some LGFVs were even pressed into making land purchases and they accounted for 41% of all land parcels sold at auctions from February 2021 and third quarter 2022.[25]

Even though reforms in 2015 required severing financial ties between local governments and LGFVs, this policy proved not sustainable without accompanying changes in intergovernmental assignments. LGFVs are involved in most infrastructure projects, and most LGFVs operate as non-market, quasi-fiscal units that finance public goods and services (e.g. public infrastructure) and rely substantially on government financial support such as land transfers, subsidies, grants and credit guarantees.[26] In this context, most research on LGFVs accept their debt vulnerabilities as fiscal risks and include LGFV debt in general government

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21 Rosealea Yao, "The Back Door Is Still Closed", Gavekal Dragonomics, 3 December 2019, https://research.gavekal.com/article/back-door-still-closed/, accessed 26 August 2023.

22 Ibid.

23 See, for examples, Wang Dehua, Fiscal Policy Outlook for 2023, *Caixin Weekly*, 2022(45), 11 November 2022, https://weekly.caixin.com/2022-11-19/101967709.html, accessed 4 January 2023; and International Monetary Fund, "People's Republic of China: Selected Issues", 4 February 2022, https://www.imf.org/en/Publications/CR/Issues/2022/01/26/Peoples-Republic-of-China- Selected-Issues-512253, accessed 31 January 2023.

24 Through September 2021, only two-thirds of the SPB quota had been issued. http://yss.mof.gov.cn/zhuantilanmu/dfzgl/sjtj/202111/t20211101_3762326.htm, accessed 20 August 2023.

25 According to data from the China Real Estate Information Corp, cited in https://www.caixinglobal.com/2023-08-21/cover-story-chinas-hidden-debt-of-local-governments-threatens-national-economy-102094895.html, accessed 21 August 2023.

26 Yu Yongding estimated that LGFVs were participating in 56% of all infrastructure projects in 2021. "Eight Judgments on China's Economy in 2023", speech at CF40 forum, 18 January 2023, https://mp.weixin.qq.com/s/lpHJEoXf8YVjamViR7AcmQ, accessed 1 February 2023.

"augmented" debt even though the government insists that LGFV debt is not part of government debt and not guaranteed by local governments.[27]

The central government's ambiguous and often contradictory policies on capital spending have contributed to the failure to rein in local government debt. Reforming and realigning central-local relations were intended to be a key focus of fiscal reform and significant effort has gone into clarifying the intergovernmental division of responsibility for many types of public expenditure since 2016. Inexplicably, infrastructure investment was not included among them and the earlier promise of the central government taking on a larger share of infrastructure financing was not kept.[28] By default, local governments have continued to bear the primary burden, one that requires a huge amount of debt finance as well as continued reliance on land revenues. In 2021, for example, of the total infrastructure investment of RMB15.3 trillion, the central government contributed only RMB610 billion from the general budget and about RMB200 billion from the government fund budget.[29]

Despite the new borrowing rules introduced in 2015, when there was a need to stimulate growth, local governments used the old playbook. Many of the same problems as before reappeared: too much infrastructure, too many inappropriate projects and too much unviable debt. Many of the LGFVs do not generate enough cash flow to meet even interest payments and depend on rolling over 80-90% of their debt.[30] A senior adviser to the State Council warned of SPB-funded projects being overly dependent on land revenues. Even in the developed regions, he found that direct and indirect incomes from land accounted for over 80% of debt servicing and for an even higher proportion in the less developed regions.[31] In these circumstances, it is hardly surprising that LGFVs, and local governments in many regions, are facing a liquidity crisis given the retrenchment in the property sector and sharp decline in land revenues.

FISCAL POLICY IS SILENCED

Today China's fiscal policy is constrained by three big, interrelated problems: an aggregate fiscal gap, a worsening squeeze on local government finance and a looming local government debt crisis. With the whole fiscal system so dependent on land finance – not just for capital expenditures and debt servicing but also for financing public services – a significant improvement in fiscal outlook can come only from a turnaround in the property sector, or tax reform.

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27 Ideally, the "market test" to determine if an LGFV is a public or market unit should be done on a case-by-case basis as some LGFV activities could be commercial operations. Hence, the general government "augmented" debt could be seen as an upper-bound estimate. The detailed financial statement data required for case-by-case analysis are not publicly available.

28 Wong (2021).

29 The infrastructure investment figures are from Wu Yaping (2022). *Infrastructure Investment and Financing: Theory, Practice and Innovation*, Economic Management Press and central government contributions are from Ministry of Finance final accounts data for 2021.

30 "People's Republic of China: Selected Issues", International Monetary Fund, 4 February 2022, https://www.imf.org/en/Publications/CR/Issues/2022/01/26/Peoples-Republic-of-China- Selected-Issues-512253, accessed 31 January 2023. See also https://economy.caixin.com/2023-08-15/102093267.html, accessed 15 August 2023.

31 Cheng Siwei, "Lou Hong Reminds (Us) To Pay Attention to Local Government Special Project Bonds", *Caixin*, 30 March 2023, https://economy.caixin.com/2023-03-30/102013918.html, accessed 30 March 2023.

There are no quick fixes, nor even a short-term boost to spending without a massive injection of additional central transfers, which seems unlikely. The traditional tools of fiscal stimulus – tax cuts and infrastructure spending – have largely run their course. The National Tax Administration estimates that 80% of small businesses and individual proprietors were paying no taxes in 2022.[32]

A wholesale, fundamental reform of the fiscal system is long overdue. New revenues must be found to meet current and looming expenditure needs, and stem the decline in public service spending. A major revamp is needed in the intergovernmental fiscal system to resolve the large and growing mismatch between local government expenditure responsibilities and revenue capacity, which is increasingly undermining the effectiveness of fiscal policies. Finally, a more sustainable model for financing infrastructure is required to reduce the burden on local finance and debt while supporting a pivot to the huge new demands that China is facing for flood control and urban drainage infrastructure in the era of rapid climate change.

Christine WONG is Visiting Research Professor at the East Asian Institute and Honorary Professorial Fellow at the Asia Institute, University of Melbourne.

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32 https://economy.caixin.com/2023-01-31/101993229.html, accessed 13 August 2023.