



Asia Perspective Economic Update Report

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Q3 - GDP growth at 6.5% and a booming service sector

At the end of last week, China's National Bureau of Statistics released third-quarter GDP data amounting to a total of 23.2 trillion CNY following a 6.5% growth rate during the third quarter. The GDP growth was indeed 0.3% lower than during corresponding quarter last year, but it is important to remember that the growth in real terms remain stronger than ever. China is also still on track to reach its 6.7% growth target for 2018. The primary and secondary industries expanded by only 3.6% and 5.3% respectively, but the service sector exceeded expectation and drove overall growth by expanding 7.9%.

Domestic demand also played a crucial role in driving economic growth amidst slowing export demand. In September, the industrial output weakened to a 5.8% growth year-on-year due to both cooling export and the newly implemented environment protection policy.

Retail sales and fixed asset investment exceeded expectations and expanded by 9.2% and 5.4% respectively.

The government officially stated that China's economical development had been affected by external impact. This acknowledges the effects of the US-China trade war, that has been escalating since July. Despite various support measures and stimulation policies aimed at counterbalancing the negative effects of the development, it still inevitably affecting international trade.

If the development continues, more stimulus measures are to be expected in order to increase investor confidence in the long term prospects of the economy. The current ones of these measures are covered in this Economic Report, and the rest remain to be unveiled in the near future.

Massive income tax cuts amidst trade war

Effective from October this year, the minimum threshold for income tax has been significantly increased from an annual income of 36,000 CNY (around 4500 Euro) to 60,000 CNY (around 7500 Euro), reflecting the raising salary level in China. In 2017 the country had 187 million individual income tax payers, but the reform now drastically decreases this tax base to just 64 million individuals that qualify by the new rules, according to the treasury department. Since being enacted in 1980, the current income tax law has undergone seven major amendments, but it has now been seven years since the last overhaul. During this time, the average salary level in China has more than doubled.

The reform not only drastically decreases the taxpayer base, but also raises the threshold for most of the existing tax brackets. To a majority of the Chinese taxpayers this means a significant tax reduction. A typical white collar employee with a monthly salary of 15,000 CNY, for example, previously had to pay 1870 CNY in monthly

income tax. The new reform decreases this tax by 58%, and said employee now has a monthly income tax of only 790 CNY.



If the above was not enough to have Chinese taxpayers jumping with joy, there will be more. The government just released a further tax deduction reform that will go into effect with the beginning of 2019. From then on, taxpayers will be able to deduct various additional costs from their taxable income, including care for their elderly, education, treatment for critical illness, home rent and interest payments on housing loans.

Income tax is currently the third largest tax revenue stream, following VAT and enterprise tax, and contributed 1.2 trillion CNY to the state treasury in 2017. This means that the reforms will be costly, but they have to be understood in the context of the stimulus measures that are being implemented following the trade war. Officials hope that the reforms will boost domestic consumption in a time when exports are being hit. The Minister of Finance said that “It’s necessary to make policy adjustments as the external pressure increases”. Considering this, we might be expecting even more reform on the tax side if the US-Chinese exchange of import tariffs intensify.

Individual income tax brackets

Taxable income is total income in a tax year minus the personal deduction of 60,000 yuan, specific deductions, itemized deductions for specific expenditures, and other deductible items.

Rate	(Range of monthly taxable income, yuan)	
	Current brackets	New brackets
3%	Less than or = 1,500	Less than or = 3,000
10%	1,500 - 4,500	3,000 - 12,000
20%	4,500 - 9,000	12,000 - 25,000
25%	9,000 - 35,000	25,000 - 35,000
30%	35,000 - 55,000	Unchanged
35%	55,000 - 80,000	Unchanged
45%	Greater than 80,000	Unchanged

Source: NPC Observer

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Premier Li and Jack Ma at “Summer Davos”

The so called “Summer Davos”, or *12th World Economic Forum Annual Meeting of New Champions* was held in Tianjin on September 18-20th. The event was attended by over 2,000 leaders and public figures from across the world, that came to discuss this year’s subject *Shaping Innovative Societies in the Fourth Industrial Revolution*. Chinese Premier Li Keqiang was there to deliver a speech about the economy and the country’s development. China is at a crossroad between globalization and de-globalization, he said. It is the country’s firm position that China will stick to globalization and even open itself at a faster pace. As an evidence, China’s financial market are undergoing a transformational opening and are attracting overseas investments, the premier added. Premier Li also stated that China has no intention of weakening its currency in order to boost exports and that it will never engage in any “competitive devaluation” of the exchange rate. This statement comes as a response to the US president’s claim that China is manipulating its currency.



Chinese Premier Li Keqiang at 2018 World Economic Forum in Tianjin, China



Alibaba founder Jack Ma at 2018 World Economic Forum in Tianjin, China

China is experiencing a fast-paced shift from traditional growth drivers such as labor intense manufacturing to new economic drivers. The new drivers, including industrial and technological innovation, are encouraged and strongly supported by the government. This shift was also reflected at the conference with key speakers such as Jack Ma, the founder of Alibaba Group. Mr. Ma focused his speech on the importance of China embracing opportunities in advanced technology. Analytics and computing capabilities will accelerate the evolutionary transition from labor-based manufacturing to automatic production, he emphasized.

Businesses all across the world are seeking to develop and find new applications for Internet of Things (IoT), advanced robotics, artificial intelligence (AI) and many other frontiers of digital technology, Mr. Ma continued. These new areas are expected to create new markets of around 3.7 trillion US dollars worldwide by 2025, and China has to fix its aim at following this development and at gaining a prominent position in these new markets.



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Asia Perspective has established itself as a trusted partner and service provider on the East Asian and South East Asian markets. We have decades of business experience in the regions, and we have supported businesses from a multitude of industries in reaching their goals and visions. Thanks to our reputed advice and practical support, we can proudly count many leading global companies amongst our returning clients.

We are clearly specialized in providing the services that are needed by foreign enterprises operating in Asia – whether it is relating to market entry and growth, to the supply side or to the operations and organization in the region. Our approach has always been to offer realizable advice and hands-on support – more often than not supporting our clients in the actual implementation of our recommendations. By doing this we are ensuring sustainable added value for our clients. The efficiency of our hands-on approach is best demonstrated in our enduring relationships with the many former clients who now look to us as trusted partners.



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