



CHINESE EXPERIENCES ON FISCAL COUNTERMEASURES AGAINST THE EPIDEMIC OF COVID-19 PERSPECTIVE OF PUBLIC FINANCIAL

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Faced with the epidemic of COVID-19, apart from tax countermeasures, in the area of public finance Chinese government acted quickly to pour money into the fields of the medical and economic emergency, providing the subsidies for the in-patients, medical workers and taking the shopping coupons as the main way to recover the economy. Reserve fund was always insufficient and increasing the fiscal debt is nearly the most prominent way that the government can do to cover the expenditure effectively. Transfer payment mechanism also played a key role for the local government to receive the fiscal assistance against the COVID-19. Overall, The Chinese government's rapid and proactive fiscal measures exert a enormous function on controlling the epidemic timely and restoring people's livelihood and macro-economy.

SUMMARY: 1. Introduction – 2. Main aspects of public expenditure (How the government use the funds?) – 3. Sources of fiscal financing to respond to emergencies (How Chinese government collect funds?) – 4. Transfer payments from the central government to the local government. – 5. Conclusion.

1. Introduction. In 2020, Chinese government have confronted with huge financial pressure. According to the data issued by the Financial Ministry of China, China's fiscal revenue decreased 3.9 percent year on year to around 18.29 trillion yuan (about 2.8 trillion U.S. dollars) in 2020, especially from January to February, when the COVID-19 pandemic just outbreak. The general public budget revenue has fallen down by 9.9 percent year compared with the same period last year. By contrast, the data also showed that the country's fiscal spending expanded 2.8 percent year on year to around 24.56 trillion yuan in 2020. More money was put into some crucial areas, with total expenditure on public health rising 15.2 percent from a year earlier to 1.9 trillion yuan. An Extremely high number is that the country's direct spending on the fight against COVID-19 surged 74.9 percent¹⁴⁶.

¹⁴⁶ See 2020 fiscal revenue and expenditure of China, available at http://gks.mof.gov.cn/tongjishuju/202101/t20210128_3650522.htm, accessed 5th, April 2021.

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During the period of COVID-19 epidemic in China, the fiscal revenue has been greatly reduced, mainly in two aspects: on one hand, the lockdown order has battered traditional physical marketing, resulting in the government's financial resources shrinking. On the other hand, a large number of tax relief policies have been released to relieve the pressure of the public economy. At the same time, the financial expenditure is growing rapidly, and the direct expenditure of COVID-19 control is mainly reflected in the field of medical treatment and economic recovery. So it was urgent for Chinese government to strengthen the public finance to support the health and economic expenditure.

2. Main aspects of public expenditure (how the government use the funds?). In the area of health expenditure, in the early days of COVID-19 epidemic, the government afforded all the Covid-19 medical expenses of patients. All the COVID-19 patients, confirmed or suspected, could receive the fiscal subsidies from state finance for any medical bills not covered by basic medical and serious disease insurance. According to an official report issued by the State Council of China, as of May 31 in 2020, the medical bills of 58,000 in-patients with confirmed infections had been settled by basic medical insurance, with a total expenditure of 1.35 billion yuan and 23,000 yuan per person. The average cost for treating Covid-19 patients in severe condition surpassed 150,000 yuan, and in some critical cases the individual cost exceeded 1 million yuan, all covered by the state.¹⁴⁷ The government also provided subsidies for medical workers participating in Covid-19 prevention and control. For those who do the job of directly contacting the cases of infections, such as diagnosis, treatment, nursing, infection control, case specimen collection, etc., the central finance will give a subsidy of 300 yuan per person per day. For other medical workers who participate in the prevention and control during the epidemic, the subsidy was about 200 yuan per person per day¹⁴⁸.

As more countries announced the implementation of universal vaccination for free, and so does China. The financial fund for vaccination in China comes partly from the general budget fund, partly from the balance of deposits in the Medical Fund. In every fiscal year, the China's Medical Fund would have some balance and accumulated this part of money year by year. Up to 2020, the accumulated balance reached about 3 trillion yuan and it is time for it to afford such major spending.

In the area of economic emergency, different from the plan of distribution of relief payments to the qualified person like US administration have done recently. Issuance of shopping coupons is the main countermeasure Chinese government took to recover economy. It is designed to stimulate the economy and to encourage the public to consume, a certain amount of money will be deducted when consuming, and the state finance will cover this part of expenditure. Just in Beijing, a total of 39 million government coupons were issued, and the total amount of financial subsidies reached about 800 million yuan. However, shopping coupons are considered not necessarily the best method of care for the needy groups caused by the epidemic¹⁴⁹.

Cash subsidies is not a large-scale fiscal tool for Chinese government to use, some local governments took this policy. To ensure the living standard of fundamental lives, the government

¹⁴⁷ See Fighting Covid-19: China in Action, available at http://english.scio.gov.cn/whitepapers/2020-06/07/content_76135269.htm, accessed 5th, April 2021.

¹⁴⁸ See Notice of the Ministry of Finance and the National Health Committee on the funding guarantee policy for prevention and control of New Coronavirus(No.2 2020), available at http://www.gov.cn/zhengce/zhengceku/2020-01/30/content_5473079.htm, accessed 5th, April 2021.

¹⁴⁹ See Xiongwei, Legal Review on Issuing Rules of Consumption Vouchers By China's Local Governments Against the COVID-19 Pandemic, *Wuhan University Journal(Philosophy & Social Science)*, Vol. 73, No. 5, 2020, 14.

like that of Qishui county in Shandong province distributed the price subsidies for the qualified person, such as the group who apply for the minimum wage and unemployment insurance benefits, totally 4.5 million yuan. In Shanghai, government provided the needy workers a one-time subsidy of 2,000 yuan, totally about 1.27 million yuan. While certain subsidy policy was designed to the epidemic prevention. In Hangzhou, In the Spring Festival period, migrant workers who guaranteed not to return hometown can apply for a cash subsidy of 1000 yuan, aiming to encourage them to stay there, reduce the flow of people during the festival.

3. Sources of fiscal financing to respond to emergencies (how Chinese government collect funds?). The first financing tool is the reserve funds. At the beginning of a fiscal year, when making a budget planning, 1~3 percent of the expenditure in the general public budget shall be set aside as reserve funds¹⁵⁰. Any natural disaster or other emergency occurs, the reserve funds shall be first used to cover the additional expenditure. If the emergency occurs, the government at any level is authorized to use the fund.

According to the China Financial Yearbook in recent three years, the amount of central government's reserve fund was fixed 50 billion yuan in 2015, 2016 and 2017, accounting for 2%, 1.8% and 1.6% of the expenditure in those three years respectively¹⁵¹. With the increase of expenditure, the proportion of fund decreased year by year. For the local government at the provincial level in 2020, the proportion was generally less than 2%, the median of the legal percentage range. Even for the government at the prefecture-level cities, which rank below that of provinces, was generally less than 1.5%. Some cities did not reach the legal minimum percentage, 1%¹⁵², like Jinan and Wuhan. It can be seen that in response to emergencies, there is a problem of insufficient setting of reserve funds in China's fiscal budget, and it has not become the government's main source of financing during the COVID-19 epidemic.

If the reserve funds are inadequate, a government at any level may first allocate funds from other budget accounts to cover the expenditure, and include it in the budget adjustment proposal¹⁵³. Adjusting the budget requires the authorization from the people's congress, who makes the final decision about whether we should use it. The Financial and Economic Affairs Committee of people's congress makes a technical evaluation to the preliminary budget adjustment proposal, which is then submitted to the Standing Committee of the People's Congress¹⁵⁴. In the parliamentary meeting of China in 2020, the government proposed to set its fiscal deficit above 3.6% of gross domestic product(GDP), which is already higher than in recent years. Expanding the scale of debts is the most powerful way for the government to raise funds in response to such a major emergency such as COVID-19 epidemic.

Fear of the possibility of debt crisis from local government, who has issued a large amount of bonds via local government financing vehicles in the past years to raise funds for municipal infrastructure, without strict legal restrictions at that time. While as the implementation of the Budget Law of 2014, the issuance of the local government bonds shall get the approval from the State Council. So even the local government had no full right to issue bonds, in the year of

¹⁵⁰ See Article 69, paragraph 1 of Budget Law of the People's Republic of China (2018 Amendment).

¹⁵¹ See Qiaobin Feng, Emergency Financial Management System Reflected by the COVID-19 Epidemic in China, *Social Governance Review*, Vol. 56, No.12, 39.

¹⁵² See Xinkai Zou, Financial Reserve Fund for Emergency: System Reflection and Type Correction, *Chinese Public Administration*, Vol. 424, No.10, 138.

¹⁵³ See Article 69 paragraph 2 of Budget Law of the People's Republic of China (2018 Amendment).

¹⁵⁴ See Article 69, paragraph 3~7 of Budget Law of the People's Republic of China (2018 Amendment).

2020, the open data of bonds from the local governments reached 3.75 trillion yuan, increased by extremely high 74.4% compared with that of 2019 which had only 2.1 trillion yuan.

Except for the normal bonds, of which the government submit the proposal to congress for review at the beginning of the fiscal year, a new and special bond called “special government bonds for COVID-19 control” was issued to recover the economy triggered by the Covid-19, totally about 1 trillion yuan (about 141 billion US dollars). Different from the ordinary bonds, the special bonds was mainly for pandemic-related spending. Such bonds were issued twice in the history. In the first time, during the Asian financial crisis in the 1990s, China sold 270 billion yuan of special government bonds -- at the time the country’s largest bond issue -- to raise capital for its big state banks and help offset losses from nonperforming assets. The second time was in the 2007, 1.55 trillion yuan of special government bonds were issued to capitalize China Investment Corp.(CIC), the sovereign wealth fund.

A further issue around the bonds is how to “digest” them? When the epidemic just ended in China, a powerful opinion call for that Chinese central bank should buy the government bonds directly, in this way it was argued that “the crowding out effect of the issuance of government bonds to the market can be avoided.”¹⁵⁵ It is known as “monetization of fiscal deficit”. And this fiscal countermeasure also face legal barriers from the Law of People's Bank of China, which prohibited the government from overdrawing the financial budget or from directly subscribing to or acting as sole sales agent for treasury bonds and other government bonds¹⁵⁶. So far, China have not resorted to a "broad irrigation" style stimulus package to revive its economy, nor the so-called monetization of fiscal deficits or negative interest rates that some developed countries are carrying out.

In the face of the financial needs caused by COVID-19, we were trying to solve the problem by issuing bonds and expand the fiscal deficit. For local governments, due to the control of the right to issue bonds, they must obtain the approval of the central government. In addition, in terms of financial sources, they also need to turn to the central government for transfer payment. Generally speaking, the financial power of local governments is limited much.

3. Transfer payments from the central government to the local government. Local government has very limited legal authority to issue their government bonds, while it is far insufficient to use the funds from the local government to pay medical supplies. It is necessary to apply for the assistance from the upper government and the transfer payment mechanism plays a key role for the local administration to cover the expenditure about the COVID-19 in China.

In the general budget at the central level, a specific sub-account called “transfer payments” does this job¹⁵⁷. In 2020, the central government's fiscal transfer payment to local governments has reached 8.4 trillion yuan, increased by 12.8% from the year before. The growth rate is the highest in recent years.

In early time when COVID-19 outbreaked in Wuhan, the central government responded quickly to make the special-purpose transfer payment to help the local government to fight against the COVID-19. According to the official documents issued by the Ministry of Finance,

¹⁵⁵ See “Shangxi Liu: Moderate monetization of the fiscal deficit is one of the policy options under certain conditions”, available at <https://new.qq.com/omn/FIN20200/FIN2020051800324100.html>, accessed 5th, April 2021.

¹⁵⁶ See Article 29 of Law of the People's Republic of China on the People's Bank of China (2003 Amendment).

¹⁵⁷ See Article 6 of Budget Law of the People's Republic of China (2018 Amendment).

it just allocated the funds in advance twice, about 4.3 billion yuan¹⁵⁸ and 8 billion yuan¹⁵⁹ respectively. And the Ministry of Finance has specially established a weekly funding system for Hubei Province¹⁶⁰.

In the late stage when the COVID-19 was controlled at the end of April, the expenditure commission had changed from the health emergency to economy emergency. In May of 2020, when the annual parliamentary conference has been held, the prime minister Keqiang Li announced that a new transfer payment mechanism would be established in China, called “special transfer payment”¹⁶¹. Different from the special-purpose transfer payment, the money transferred is not used for a specific purpose, but for the general commission to recover the economy, ensure the living standard of people and help the local government to balance the fiscal deficit. Actually it is a special general-purpose transfer payment. However, compared with ordinary transfer payments, the funds can reach the basic level government straightly, such as city or county, without the approval of the provincial government. It is only needed to be filed to the provincial government and allocated directly. Thus, it can improve the speed of transfer and limit the power of the province government to determine the distribution of the money to the lower-level government. It delivered additional fiscal funds about two trillion yuan (about 299 billion U.S. dollars) to basic level government straightly and in full.

On the whole, China's central government played an extremely important financial role in the COVID-19 epidemic control. In practice, the response from the central government was very rapid, and the funds were allocated in place. However, one of the hidden worries is that local financial autonomy for the local government is limited, resulting in possible low efficiency for the financial use.

4. The division of fiscal responsibilities between the central and local governments. It is not clear about what situation the central government take the whole fiscal responsibility. If the local government received funds from the central level, it will be refunded to the central later? What part of them should be refunded?

After SARS coronavirus in 2003, China establish and improve emergency management system based on territorial principle¹⁶². In other words, if an emergency occurred, the local government should bear the responsibility for fiscal expenditure in principle. As mentioned above, the limited financing authority of local governments can hardly cope with such a major public health emergency. Therefore, under certain circumstances, the central government must assume financial responsibilities that exceed the financial capacity of local governments. This is also one of the contents of China's fiscal reforms in recent years. In 2018, the State Council issued an official document¹⁶³, stipulating that “The basic public health service is clearly defined

¹⁵⁸ See Notice of the Ministry of Finance on the Advance Appropriation of Subsidy Funds for the Prevention and Control of the Epidemic of New COVID-19 in 2020, available at http://sbs.mof.gov.cn/zxzyzf/ggwsfwbzj/202002/t20200211_3468073.htm, accessed 5th, April 2021.

¹⁵⁹ See Notice of the Ministry of Finance on the Advance Appropriation of Subsidy Funds for the Prevention and Control of the Epidemic of New COVID-19 in 2020 (the second batch), available at http://sbs.mof.gov.cn/zxzyzf/ggwsfwbzj/202002/t20200217_3470305.htm, accessed 5th, April 2021.

¹⁶⁰ See supra note 6, 38.

¹⁶¹ See “Establish a special transfer payment mechanism”, available at http://www.gov.cn/xinwen/2020-06/13/content_5519137.htm, accessed 5th, April 2021.

¹⁶² See Article 1.5 (3) of National Overall Emergency Plan for Public Emergencies of 2004 and Article 60 of Law of Prevention and Treatment of Infectious Diseases of China of 2004.

¹⁶³ See Notice of the General Office of the State Council on the Reform Plan for the Division of Financial Affairs and Expenditure Responsibilities between the Central and Local Governments in the field of Medical and Health (No.67 2018).

as the fiscal responsibilities shared by central and local governments", "Major public health services (major public health services such as national or trans-regional prevention and control of major infectious diseases)... are designated as the responsibility of the central finance, which is responsible for the expenditure." It can be seen that from a legal perspective, it is in fact judged whether it constitutes a "national or trans-regional infectious disease" to determine whether the central government should assume responsibility, and then implement transfer payments, or liquidate financial appropriations afterwards. The COVID-19 should undoubtedly be a "major infectious disease", and it seems that the central finance should be responsible.

However, if we study the specific connotation of "major infectious disease" in the law, we cannot get a definite answer. China's Law on Prevention and Treatment of Infectious Diseases has a statutory standards for the levels of infectious diseases¹⁶⁴, but in fact, the Ministry of Finance has formulated a separate standard about the major infectious disease to divide the financial responsibility among the government at different levels. This may provide more flexibility and scientific adjustment space for the government to allocate and transfer funds, but in fact the law does not provide a basis for authorization to the government.

5. Conclusion. In summary, Chinese government had taken very quick and effective steps to control the COVID-19, including the area of public financial law. In the field of public health, the government pays for COVID-19 patients, provides government subsidies for medical workers, and provides free vaccinations. In the economic field, it used shopping coupons rather than cash subsidies, as the main means of stimulating the economy after the epidemic.

The government has guaranteed sufficient financial funds by expanding the scale of ordinary debt and issuing a new government bonds for COVID-19 control. To speed the funds allocation to the local governments, a new special transfer payment mechanism has been established aimed to recover the economy of the cities and counties in China.

Nevertheless, how to map the factor of emergency into the public fiscal rules is a problem globally, we should not rely heavily on the government's post-event response. Maybe highly complex rules are unlikely to get it right, but through this pandemic the direction that we should march on and improve is clearer in China. For example, the laws should provide more certainty about at which levels governments to bear the fiscal responsibilities, and it is still necessary to strengthen fiscal autonomy of local governments, in order to improve their capacity and enthusiasm to respond to unexpected emergencies in the first place.

¹⁶⁴ See Article 3 of Law on Prevention and Treatment of Infectious Diseases (2013 Amendment).