**Excerpt of the Outline of Shared Development in Shenzhen**

**Foreword**

Shenzhen has outpaced most of Chinese cities to realize the goal of building a moderately well-off society by 2020 set by the central government, with its GDP per capita in 2015 reached to 158,000 RMB (25,400 USD). Then what directions of social and economic development will Shenzhen follow? How will Shenzhen suit itself within the context of the comprehensively deepening reform? These are the critical questions that Shenzhen needs to address at the new starting point.

From Deng Xiaoping’s vision of “Common Prosperity” to President Xi Jinping’s idea of “promoting fair-sharing in a firm and solidly manner”, to the ideal of “shared development” set out in the *13th Five-Year Plan,* the government’s determination to improve people’s livelihood and welfare is evident.

The Shenzhen Innovation and Development Institute (SZIDI) initiated the project and published the *Outline for Shared Development in Shenzhen* in response to Shenzhen’s reality and the government’s determination. The Outline proposes the goal to shift the city’s priority from rapid and healthy economic growth to common prosperity with which every resident can enjoy the benefits of development. It starts by identifying the achievements of the Reform and Opening-up policies as well as problems surfaced along the way in terms of shared development. It goes on illustrating the vision, 20 policy recommendations and 5 relevant measures to enforce. The Outline is a proposal to the government elaborating suggestions on reforms for fair-sharing and inclusive development. It is also a white paper to express our expectations for the city’s future to the public. .

1. Achievements in Shenzhen’s Reform and Opening-up and Problems related to Shared Development

Shenzhen, as instructed by Deng Xiaoping’s idea to engage in reform and opening-up and by the government’s policy to build special zone, has conducted a number of reform trials under the market-oriented mode over the past 30 years. It has now grown into a metropolis with a population of nearly 20 million, and captured wide attention with its impressive economic growth.. The residents of Shenzhen are among the first group of beneficiaries of China’s Reform and Opening-up policy, and constitute a substantial proportion of those who “become rich first” (先富起来) in the country. They are an integral part of the construction and development of this Special Economic Zone.

On one hand, we should be proud of the city’s great achievements in terms of reform, opening-up, economic growth and urbanization, and feel rewarding when it comes to the improvements in the quality of life of local residents. On the other hand, **we have to admit that the income level and livelihood of local residents, the city’s capacity in social security and public service provision are in fact inconsistent with the city’s economic performances. .The city still has a long way to go to fully realize the vision of “fair-sharing and inclusive development”. Below are the ten major problems that pose challenges to the socioeconomic well-beings of the city:**

1. Great gap between Shenzhen and cities in developed and high-income countries in terms of income level, quality of life, and social security provision;

Figure 1 Employee average salary, minimum wage standard and per capita disposable income of Korea, Taiwan and Shenzhen (in RMB)

1. Growth rate of income level is left behind by that of GDP and government revenues;

Table 1 GDP, fiscal income, per capita annual disposable income of resident and local average salary in 2005 and 2015

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **2005** | **2015** | **Growth multiple** | **Average growth** |
| GDP (100 million) | 4926 | 17500 | 3.55 | 13.52% |
| Fiscal income (100 million) | 412 | 2727 | 6.62 | 20.80% |
| Per capita annual disposable income of residents (RMB/year) | 21494 | 44633.3 | 2.08 | 7.58% |
| Local average salary (RMB/month) | 2706 | 6753 | 2.50 | 9.58% |
| Average salary of public servant (RMB/month) | 6000 | 10000 | 1.67 | 5.24% |

Source: Shenzhen annals of statistics of each year

1. Widening gap in the distribution of income; millions of low-income residents remain poor;
2. Significant defect in policy and system of public aid and social welfare; approximately 8 million permanent residents not registered as Shenzhen household are exlucded from the social security networks;
3. The social security system is not well-developed; certain groups of people do not receive fair treatment in the social security system;

Table 2 Shenzhen medicare payment criteria 2016

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Insurance category** | **Grade** | **Total** | **Percentage by employer** | **Employee** | **Payment base** |
| **Medical insurance** | Grade 1 (Basic package + Local supplementary package) | 8.2% | 6%+0.2% | 2% | Total income of previous month— max: three × local average salary; min: 60% of local average salary  |
| Grade 2 (Basic package + Local supplementary package) | 0.8% | 0.5%+0.1% | 0.2% | Local average salary |
| Grade 3 (Basic package + Local supplementary package) | 0.55% | 0.4%+0.05% | 0.1% |

Source: Shenzhen Human Resources and Social Security Bureau

1. Wage-earning class suffering severely from the weak housing security system; High housing price and high rent;

Figure 2 Average transaction cost of newly-built commercial residence in Shenzhen 2005-2015 (RMB/m2)

Source: Shenzhen annals of statistics of each year

1. Unaffordable and inaccessible healthcare continue to trouble local residents;
2. Inequality and imbalance still prevail in education opportunities;
3. High unemployment rate, unfairness in terms of employment opportunity and entrepreneurship policy and environment;
4. Non-registered permanent residents become the disadvantaged group and the one suffering loss in Shenzhen’s fair, sharing and inclusive development;

**We believe that Shenzhen shall undertake strategic transition in reform and development in response to the aforementioned challenges and problems. It shall target at sharing and inclusive development in the future. It is going to transition from prioritizing rapid and healthy economic growth to shared development.**

II. 20 Pieces of Policy Recommendations for Shared Development in Shenzhen

1. Implement 100-billion tax reduction program
2. Continue the increase of local minimum wage
3. Increase the income of wage-earning class
4. Increase the salary of public servant
5. Establish state-owned asset dividend system for all local residents
6. Launch the “Common Prosperity Program”
7. Increase the minimum livelihood security package
8. Include low and middle-income residents of permanent population into the local public aid system
9. Reform discriminatory policies on non-registered residents in the social security networks
10. Include of non-registered residents into the housing security system
11. Establish welfare and service system for the elderly
12. Implement inclusive social welfare and aid policies
13. Charity as a key driving force to promote a shared Shenzhen
14. Reduce railway and bus fare
15. Adhere to the policy of encouraging employment, sharing and joint efforts
16. Promote a fairer education system
17. All residents’ enjoying a sharing and sound Shenzhen
18. Increase the number of registered residents on a large scale
19. Control and cut of high housing price
20. Permanent residents’ enjoying their rights and assuming liabilities in public administration
21. 100-billion tax reduction program

To conduct distribution reform, Shenzhen shall first significantly adjust the structure of the distribution of national income by cutting the share of government revenue. **It is suggested to reduce the share from 55% to around 50% in the short run**. Therefore, based on government revenue in 2015, the government revenue will go down from around 970 billion to less than 870 billion RMB. That is what 100-billion tax reduction program means: to considerably increase the share of personal and corporate income by allowing corporates to earn more and sharing the gains of economic growth with residents.

Figure 3 Shenzhen’s government revenue in GDP and that of developed countries in 2015: calculated based on Shenzhen’s annals of statistics in 2015

Given that the government revenue of Shenzhen includes the part to be paid to the state as national fiscal income, the program, run under the existing tax system, will only reduce local income without affecting the amount to be paid to the state. In addition, with regards to the laws and regulations relating to China’s taxation, it is suggested to “impose the tax first and then to refund” for some projects. The program can be run as below:

1. Remove a total of 10 billion personal income tax in order to alleviate burdens of low and middle-income population and to increase their income

In 2015 the personal income tax levied (local-level) reached RMB 22.4 billion; residents with a salary of less than RMB 7,000 take up around 5%. **Therefore, the tax of this group shall be reduced first.** Currently the tax threshold for personal income specified by the state remains to be set at a monthly salary of RMB 3,500. It is suggested to raise it to RMB 7,000 given Shenzhen’s current situation that the local average salary is RMB 6,753 per month. That means the local government imposes RMB 245 monthly for those whose salary is less than RMB 7000 and then refunds them. By doing so, the local government revenue is cut by RMB 1.5 billion, and exempt most of the income tax of millions of labor workers and low-income employees, thus alleviating their tax burdens. Meanwhile, for those with a monthly salary more than RMB 7,000 and less than RMB 20,000, the tax will be cut by half. Likewise, they will get their tax refunds. Currently, those whose salary is RMB 20,000 per month need to pay RMB 3,120 of personal income tax. After the imposition of the tax reduction program, they will pay less RMB 1,500 each month. The program aims to cut around RMB 8.5 billion for middle-income population each year, and **about 6-million low and middle-income population will benefit from it.**

2. Lower the social security payments

**The current social security package (including five categories of insurance and the housing fund) accounts for 34.1% of employees’(registered residents) total salary. The local income reached RMB 104.8 billion in 2015, and the balance of the year was around RMB 70 billion. It is suggested to reduce the share of social security package down by 9% to 25%.** By doing so, RMB 25 billion would be less paid each year estimated based on the data of 2015, and the balance of the social security fund of the year will be reduced from RMB 70 billion to around RMB 45 billion, which could mitigate corporate’ and residents’ burdens while keeping the fund sustainable.

3. Cut the income from land auction to keep the revenue within RMB 40 billion instead of the current amount of hundreds of billions, so as to cut housing prices and relieve the burdens of local residents.

4. Call off an amount of 10 billion-government subsidies through the reimbursement schema to avoid dual tax payment and to alleviate operation costs for corporates.

Corporate entities have paid various taxes throughout their day-to-day operation. **The taxes are part of government revenues to invest in education, social welfare and other public services. However, the government imposes supplementary levies under various names outside the law-specified tax system, which constitutes dual taxation that shall be definitely abolished.** Since the levies are based on laws and regulations of the state, the Shenzhen government can resort to the reimbursement schema.

5. Call off the auction of license plate of cars in order to reduce the costs for car-purchasing

It is suggested that Shenzhen remove the auto plate auction policy and learn from the “license plate lottery system” implemented in Beijing after restrictions on car-purchasing were imposed in Beijing.

6. Reduce or remove corporate income tax for SMEs

Currently, corporate entities, especially SMEs, are in difficult situations. To cut tax could help drive the local economic growth and keep employment rate stable. **Therefore it is suggested to resort to the reimbursement schema to impose SMEs first and refund 40% of the tax paid back to the corporates. The total amount is estimated to be approximately RMB 15 billion.**