Talking Point
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North Korea’s 70th Anniversary and China’s ongoing tax reform

On 9 September, North Korea celebrated its 70th founding anniversary with a military parade; the absence long-range nuclear missiles and the focus on peace and economic development distinguished it from previous ones, especially post-Kim-Trump Summit.

However, to date, no concrete steps have been taken by North Korea to denuclearise after the Kim-Trump Summit held in Singapore; according to the game theory, this could be due to the fear of being cheated by the other side. North Korea hopes for a peace treaty to secure its national security, while the United States requires CVID (complete, verifiable and irreversible denuclearisation) to be accomplished by North Korea first.

Further, the Korean Peninsula issue has become much more complicated especially as more parties, namely, China, Russia and Japan, are involved, which a multilateral geopolitical game theory applies. North Korea will be the biggest beneficiary from all sides in this game which proved that Kim Jung-un is not an easy politician to deal with. Looking at the bright side, i Kim has expressed his intention to meet President Trump a second time, and if it materialises, some sustentative progress could be expected.

The question was whether the dilution of military demonstration substituted by economic and social development during the anniversary was only a showcase or an implication of the upcoming reform of North Korea. If so, which reference model would North Korea adopt in terms of economic reform?

EAI scholars observed that there have been signs of normalising and opening happening in North Korea, which is not only an indirect propaganda for North Korea, but also a sign of economic reform and openness in the future. Like many other countries, North Korea’s political legitimacy will be based on economic development. At present, North Korea is heavily dependent on China’s exports (80% in North Korea’s overall imports), with India ranking second but with a far less share. Its foreign trade is however highly influenced by US sanctions.

As North Korea has long been expected to kick-start economic reform and exposed its economy to market forces, will North Korea learn from China as it did in the 1980s for its economic reform and open up or learn from Singapore with the successful hosting of the Kim-Trump summit and the good impression it had left on the North Korean leader and the public? In the meantime, some scholars are not too certain if the Kim Dynasty could survive once its economy has integrated with the global market.
Currently, the geopolitical game revolves around US-China interaction in the four areas, namely, the US-China trade war, Taiwan, South China Sea and the North Korea Peninsula. All sides involved are linked, complicating the situation further. Some EAI scholars pointed out that the circumstances now is much better than that in the 1990s when the Soviet Union collapse. Currently, most parties have shown a willingness to engage with North Korea and participate in further interaction.

**China’s recent move on tax reform**

The high business cost has long been an issue of companies and enterprises operating in China. In July, it was announced that the tax bureau will take over social security collections at the central and local levels from 2019 which is seen as an enforcement of compliance by companies at a time when the Chinese government has been bogged down by challenges of an ageing population and pension deficit. Companies could no longer save business cost by paying employees higher salaries to avoid the cost of social security contributions.

EAI scholars pointed out that, previous reform on replacing business tax (BT) with value-added tax (VAT) has alleviated the burden of enterprises operating in China. However, with heavier financial burden borne by the Chinese government, the integration of tax and social security collection by the tax bureau requires a more capable information system, which would greatly consolidate and facilitate the inspection of national tax revenue by the Chinese government.

Recently, to what degree should the threshold of income tax exemption be raised has been heatedly debated among domestic China. Evidently, lifting the threshold of income tax exemption would conserve more money for households at the expense government revenue; however, this is only a relatively small part in comparison to corporate tax. China has shown the intention to levy property tax on multi-properties holders to stem soaring property prices; however, challenges await as this measure is likely to meet with resistance from vested interests.