More equitable fiscal systems are needed to improve welfare provision for migrant workers in China and Vietnam

China and Vietnam have a relatively low proportion of tax revenue contributing to their public expenditure budgets. Various forms of tax incentive are given to investors, which has come at the expense of government fiscal revenue. Although this has facilitated fast economic growth, public expenditure on social protection in Vietnam and China has lagged behind most developed and developing economies, which constrains the scope and scale of social protection to citizens. The costs of social protection in both countries, particularly for the working population, have been mostly shouldered by employers and employees, with increasing involvement of the market players.

This article starts with an overview of taxation revenue in China and Vietnam—two countries that are comparable due to their socialist legacies and similar development trajectories—before illustrating the public expenditure structures in both countries. To do so, it seeks to explore the logics of revenue making and public spending, and how they work for the welfare of the people, particularly migrant workers who work at global factories in China and Vietnam, making the two countries known as 'the factories of the world'.

An overview of taxation revenue in China and Vietnam

China has experienced waves of fiscal reform since 1980s. The 1994 Tax Sharing System aimed to build a decentralised modern fiscal framework in response to its developing market economy and resulted in fiscal expansion and growing revenues from the late 1990s through 2013. As government expenditures increased even more rapidly under the leadership of Hu Jintao and Xi Jinping, the burden of welfare provision was disproportionally on local governments. While similarly moving towards fiscal decentralisation since 1980s, Vietnam has done so to a lesser extent and all taxes in Vietnam are imposed at the national level. Overall, different phases of tax reform in Vietnam paved the way for its transition towards an export-oriented market economy.

China

The corporate income tax system in China is often used to stimulate economic growth and shape economic and industrial structures. Preferential treatment is given to certain sectors or areas that are in greatest need of attracting capital. Although all tax resident enterprises are subject to the standard tax rate of 25 percent according to the corporate income tax (CIT) law, a lower CIT rate is available for certain sectors and industries. For instance, qualified new/high technology enterprises are eligible for a reduced CIT rate of 15 percent and designated key software enterprises are eligible for the first five-year of CIT exemption while enjoying a reduced CIT rate of 10 percent after the exemption period. To stimulate regional economic growth, from 2011 to 2030, preferred enterprises in the poorer Western Regions are eligible for a reduced preferential CIT rate of 15 percent.

At the same time, China's national government budget increasingly relies on revenue generated by local authorities' allocation of the rights to use state-owned land. Local governments generate significant non-tax revenue by selling rural land-use rights acquired at low cost to urban property developers, the primary land market for expensive real estate and related developments. According to the Chinese Ministry of Finance, land revenue grew from 64 percent of total revenue (1 trillion yuan) in 2008 to 86 percent of the National Governmental Funds (7.54 trillion yuan) in 2018. Land conveyance fees accounted for less than ten percent of total fiscal revenue in 2000, but they grew to a high of 46 percent in 2020.

In terms of personal income tax, although China's income tax rate seems nominally progressive (with a top tax rate of 45 percent), critics have pointed out that China's income tax is highly fragmented and generates little government revenue. According to the International Monetary Fund, only 1.3 percent of GDP came from personal income tax in China in 2020, while that number was around 10 percent in the US. The burden of tax disproportionately fell on the poor, as the bottom 50 percent of Chinese households pay more tax than the next 45 percent of households. Moreover, the absence of a property tax system contributes to the persistent gap between the rich and poor, although in recent years there have been pilot schemes testing out the implementation of property tax in some cities.

Overall, China's tax regime has limited effect on income and wealth redistribution and contributes relatively little to government's spending on social welfare.

Vietnam

Compared to China, the standard corporate income tax (CIT) rate is lower in Vietnam, which stands at 20 percent, with preferential CTI rates of 10 percent, 15 percent, and 17 percent applied where certain criteria are met. For example, new investment projects related to advanced technologies, the export-oriented manufacturing of garments, textiles and footwear, and car assembly or mechanics are entitled to CIT incentives. Besides tax incentives, qualified investors can also be considered to have CIT exemption for a period of time followed by a 50 percent tax rate for a further period. For example, some of the enterprises which invest in new projects in underdeveloped rural areas and socialised sectors that involve state investment are entitled to a four-year tax exemption and subsequent 50 percent tax reduction for nine years. Tax incentives are part of Vietnam's strategy of competing for foreign capital. Statistics from 2019 show that Vietnam relied heavily on corporate income tax (26 percent of tax revenue) compared to other OECD countries (10 percent of tax revenue). However, since 2011, revenue collected from corporate income tax had been decreasing despite much higher growth of foreign investment. While generous tax incentives had been given to enterprises, especially foreign investors, high income individuals were likely to pay more tax than enterprises. Additionally, tax evasion is pervasive in Vietnam, which further reduces the revenue that could be used for public spending to reduce inequality.

Land revenue is also an important source of government budget in Vietnam, as multiple levels of government rely on land development to relieve pressure on finding resources for their expenditure. Land-use revenue in Vietnam was based mainly on the Agricultural Land Use Tax, as well as land-use charges, land rentals, and the sale of state-owned housing. In 2008, land-related revenue constituted up to 46 percent of Hanoi's municipal budget. The percentage was substantially lower than China, yet it also points to the crucial role of land revenue in constituting government budget.

Similar to China, personal income tax is not sufficiently progressive in Vietnam, with the top personal income tax rate being 35 percent, which only applies to people with a monthly taxable income of more than 80 million VND. In 2021, personal income tax comprised 10 percent of Vietnam's tax revenue, which was substantially lower than the OECD's average ratio of 24 percent. Notably, Vietnam has no separate taxation category for social security contributions, compared to OECD countries, which on average have 26 percent of tax revenue coming from social security contributions. Moreover, Vietnam's tax on goods and services (34 percent) was remarkably higher than OECD countries' average (12 percent), which means that low-income groups such as migrant workers are subject to high consumption tax rates.

Tax revenue, public spending and welfare provision

China and Vietnam have a relatively low proportion of tax revenues contributing to their public expenditure budget. Table 1 demonstrates how the ratio of tax revenue contributing to GDP were both relatively low in China (9.4 percent) and Vietnam (18.5 percent) comparing to other developing and developed countries such as South Africa (28.4 percent) and Germany (38.2%) (both selected because they represent good examples of welfare provision in a developing and developed country). Accordingly, public expenditure on healthcare was much lower in China (2.9 percent) and Vietnam (2.7 percent) compared to South Africa (4.4 percent) and Germany (8.7 percent).

Table 1. Tax revenue and public spending of selected countries

	China	Vietnam	South Africa	Germany
Population	1.4 billion	96.5 million	58.6 million	83.1 million
Economic freedom index	107th mostly unfree	90th moderately free*	99th mostly unfree	29th mostly free
GDP (PPP)	$27.3 trillion	$1.0 trillion	$804.7 billion	$4.4 trillion
GDP growth (5-year compound)	6.7%	6.9%	0.8%	1.7%
FDI inflow	$141.2 billion	$16.1 billion	$4.6 billion	$36.4 billion
GDP per capital (PPP) 2020	$16,785	$8,374	$12,999	$56,052
Tax revenue to GDP ratio	9.4%	18.5%	28.4%	38.2%
Public expenditure on healthcare 2017	2.9%	2.7%	4.4%	8.7%
Labour rights index	Rating 5 No guarantee of rights	Rating 4 Systematic violations of rights	Rating 3 Regular violations of rights	Rating 1 Sporadic violations of rights

Source: Developed by authors, data of economic freedom from www.heritage.org; data of public expenditure on healthcare from ILO's website www.social-protection.org (WSPR 2017-19). *Vietnam's economy broke through into the 'moderately free' category in 2021 for the first time. Labour rights index 2020 from www.ituc-csi.org.

China's total public spending is generally high, with a ratio of 34.15 percent of GDP in 2019, which was close to the OECD average standard at 40.8 percent of GDP in 2019. However, the proportion of public spending on basic welfare and public goods (e.g. education, health, social security) is relatively low.

An OECD report (2005) specifically points out that local-level governments in China lacked sufficient tax revenue to finance their expenditure. Since the 1980s, welfare provision and social protection has become mainly the responsibility of local governments, which leads to regional disparities and variations in welfare provision that some call 'welfare regionalism'. The stark regional differences on welfare provisions are closely related to differing local fiscal capacities. Cities with better fiscal capacities such as Shanghai provide many more public services and welfare programs for residents with local household registration (hukou).

Such regional disparities are less pronounced in Vietnam with a more centralised welfare system.

China and Vietnam have increased their public spending on welfare in recent years, but it has not caught up with the even more rapid rise of costs of social protection. Since 2003, China has committed to expand its welfare programs, with the percentage of government expenditure on social security and social assistance, education and health increasing from 4.69 percent of the GDP in 2003 to 7.82 percent in 2013.

Similarly, Vietnam has increased state expenditure on social protection, which reached 4.7 percent of the GDP in 2009, exceeding other South East Asia countries. Yet, access to public services and public goods comes with an increasing price tag in both countries. In the name of socialisation (*Xa hoi hoa*), the Vietnamese government mobilises citizens to use out-of-pocket payments via introducing various fees and charges to public services, which have disproportionately impacted people with low income. Various public institutions such as schools, clinics and hospitals are being transitioned into 'public service providing enterprises' with increasing fees and charges. As a result, people have to pay much more for essential public services that used to be provided for free or a nominal fee, which creates greater burdens for lower income groups. Similar trends can also be observed in China, as the expanding welfare programmes only provide a thin layer of protection, especially for migrant workers, who increasingly turn to other sources such as family care, private providers, and financial institution for social protection.

The following section takes social insurance contributions as an example to explore both China's and Vietnam's commitment to expand welfare provision in recent years and their actual outcomes.

Social insurance contributions

China and Vietnam have increasingly relied on collecting social insurance contributions to sustain their toward-universal-coverage welfare systems.

In China, for instance, social insurance premiums accounted for 28 percent of tax revenues in 2019, much higher than most developing countries, and even higher than the OECD average, which stood at 26 percent. Social insurance contributions to pension funds, medical care, unemployment, work-related injury, and maternity insurance are mandatory for Chinese employers and employees, according to the China Social Insurance Law (2011). Monthly employer and employee social security contribution rates, applicable caps, etc. are governed by local rules, which may vary by jurisdictions.

Vietnam also passed Law on Social Insurance in 2006, which requires workers with contracts longer than one month to participate in a mandatory scheme that covers pension, sick leave, maternity leave, survivorship allowance (money paid to an eligible family member of the dead employee and a burial allowance in the case of employee death), work accidents and occupational disease (diseases that are contracted because of the work). Informal workers, in contrast, can voluntarily join the social insurance scheme which only covers pension and survivorship allowance.

In both countries, the official contribution rates of social insurance, particularly from employers, are very high by international standards, even for the OECD countries (see Table 2). This means that social protection costs have been disproportionally shouldered by employers and employees, and increasingly involve other for-profit market players in China and Vietnam, and their governments contribute less than OECD countries. Notably, social insurance payment to employees can be treated as reasonable salary expenses and therefore can be deducted from corporate income tax.

Table 2. Social insurance contribution in China and Vietnam

	China		Vietnam	
	Worker	Employer	Worker	Employer
Pension	8%	14%	8%	14%
Medical (Maternity incl.)	2%	6.35%	1.5%	6%
Unemployment	0.2%	0.32-0.8%	1%	1%
Work-related injury	-	0.1-0.7%	-	0.5%
Total	10.2%	20.77-21.85%	10.5%	21.5%

Source: Developed by authors, with data from Social Security Programs throughout the World: Asia and the Pacific, 2018 (ISSA, 2019). In contrast to China, Vietnamese workers have to pay two percent towards trade union contributions.

In China in recent years, social insurance coverage has expanded from urban workers to migrant workers in most cities by law. Vietnam's Law on Social Insurance also includes a voluntary social insurance scheme for informal workers. However, weak compliance is evident in both countries. It is still common for employers to pay inadequate social insurance contributions to migrant workers. Research data shows that the actual coverage rate of social insurance for rural-urban migrants in China was just around 10 percent. This has sometimes led to worker protests, such as China's Yue Yuen Strike in 2014 and Vietnam's Pou Yuen Strike in 2015, both of which called for better pension provisions and stricter enforcement of the law. Because of weak compliance, social insurance fund deficits are also a pressing issue in both countries. Finding sustainable ways to finance social protection may require governments to increase tax revenue (especially from private enterprises and the wealthy) and reallocate more public expenditure to social protection. This remains a challenge in both countries, which similarly prioritise economic growth over social protection.

Conclusion

In summary, the taxation systems are regressive in both China and Vietnam, with tax incentives largely given to corporations in order to attract investment and develop local economies. At the same time, local governments from both countries rely heavily on land-use transactions for alternative revenues. Low tax revenues are clearly related to relatively low public spending on welfare and social protection. For rural migrant workers, who rely on land as a major form of social welfare, land expropriation by local governments for development strips them of their last resource of social protection on which they have depended for generations.

If we regard tax as a form of social contract between citizens and the state (although this perspective has been increasingly challenged as well) low tax in China and Vietnam would inevitably lead to low public expenditure on welfare. However, both these constitutionally socialist states promise to expand social policy coverage not just for the sake of workers' welfare, but increasingly for their own agenda of maintaining social stability and political legitimacy. Moreover, the rapidly rising costs of living and privatisation of public services constitute a form of hidden taxes for ordinary people, particularly migrant workers. Future tax and social policy reforms should take these issues into account and aim to build a more effective and equitable tax regime that provides sufficient fiscal support for a more progressive and redistributive social welfare system.

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Image: A migrant worker with her family in Hanoi. Credit: UN Women Asia and the Pacific/Flickr.