

# *Analysis of Dongguan Industrial Structure from the Perspective of Taxation*

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**Abstract:** The strategy of the development of the Greater Bay Area proposed has brought great opportunities to the development of Dongguan industry. Under this background, it is necessary and timely to study Dongguan's industrial development. This article first expounds the orientation of industry and opportunities it faces from the perspectives of Dongguan's address and manufacturing base. Secondly, it introduces the challenges faced by Dongguan's industrial development, including lack of high-end talents and differences in tax system. Finally, it puts forward suggestions and countermeasures, including improving modern service industry, promoting integration of modern service industry and advanced manufacturing, helping innovation-driven development, and so on.

## **1. Introduction**

According to the "Greater Bay Area Development Plan", as a key node city in the construction of the Bay Area, Dongguan will be built into a base for advanced manufacturing and modern service industries. This new developing concept provides opportunities for Dongguan to upgrade from a processing and manufacturing center to an advanced manufacturing center. Taxation mainly depends on industrial development, and the new industrial development plan will also help Dongguan's taxation industry enter a new stage of development. According to the Development Plan of Dongguan's Key Emerging Industries (2018-2025), in the coming years, Dongguan's key emerging industries will build a development layout of "one core, three belts and ten districts" on a spatial scale to create ten industrial clusters.

As an important functional department of Dongguan government, the tax authorities should give full play to the role of taxation in serving the economic development and help Dongguan's industrial transformation and development enter a new stage. This paper analyzes from the perspective of taxation, and puts forward comprehensive suggestions for realizing the great development of Dongguan's industry[1-2].

## **2. Dongguan's development strategic positioning**

The Outline of the Plan has mentioned Dongguan many times, making it clear that Dongguan and Shenzhen should jointly build a world famous advanced manufacturing industry cluster, and encourage Dongguan and Hong Kong to work together to build the Binhai Bay area into a new high-end manufacturing and emerging industry research and development base. In addition,

Dongguan is also an important part of the new scientific and technological innovation corridor, and its development ushers in new opportunities and challenges.

## **2.1 Geographical advantage**

The Greater Bay Area includes 11 cities. As one of the seven important node cities, Dongguan is located in the middle of the hinterland. The convenient comprehensive rapid transportation network of airport, expressway, high-speed rail and urban rail has achieved 1 hour access to the central city. At the same time, Dongguan has a strong ability to transform innovative achievements, which is conducive to high-end manufacturing industries. The integrated development of the Greater Bay Area can also effectively further the progress of internationalization of Dongguan, drive developing modern service industry, eventually build an advanced industry base with international influence and competitiveness.

## **2.2 Characteristics of industrial development**

Compared to surrounding cities, Dongguan's manufacturing industry has obvious traditional advantages. Dongguan is an international manufacturing city, with many characteristic industrial clusters such as Chang'an smart phones, Humen garment trade, Houjie furniture exhibition, Shatian harbor industry, and strong support for the industrial chain. In 2020, Humen, Chang'an, Shatian and Houjie will achieve a total regional GDP of 207.123 billion yuan, accounting for 21.46% of Dongguan. The unique industrial advantages have injected a strong impetus into economic development, and also gathered a large number of innovative elements. Since the comprehensive reform and opening up, the industrial structure of Dongguan's economy has gradually changed. The private economy occupies the dominant position, and the content of scientific and technological innovation continues to rise. An advanced manufacturing industry structure system mainly based on electronic information manufacturing has been formed. From 2017 to 2021, Dongguan's GDP has increased from ¥758.21 billion to ¥1,085.54 billion. From ¥331.696 billion to ¥500.881 billion, the proportion of GDP has remained above 40%. In 2021, Dongguan realized a regional GDP of ¥1,085.54 billion, an increase of 8.2%. The primary industry added value was ¥3.466 billion, an increase of 11.8%, contributing 0.4% to GDP; the secondary industry was ¥631.941 billion, increasing 10.5%. The tertiary industry was ¥450.128 billion, increasing 5.1%, and contributing 26.6% to GDP[3-4].

## **2.3 Opportunities for optimizing industrial development in Dongguan**

The national strategy provides direction for Industrial structure optimization. The strategy has been highly valued by government departments, enhancing the confidence of enterprises to invest and start production in Dongguan. The construction of the Greater Bay Area will push forward industrial clusters and create new cooperation models of "Guangzhou-Shenzhen-Hong Kong R&D + Dongguan Transformation" and "Hong Kong Service + Dongguan Manufacturing".

The concept of talent sharing and development helps Dongguan to cultivate talents. The talent sharing development concept advocated will help Dongguan gathering talents and improving the ecological chain of talent training. With the development of inter-city industrial integration, it probably attract non-urban talents to transfer to cities, and overseas high-end talents to gather in internal cities. The implementation of the "Ten Million, Ten Thousand Million" project and the "Talent Dongguan" strategy will help Dongguan build a demonstration platform for the combined training of talents with a high degree of integration of innovative resources.

On February 25, 2021, Dongguan Municipal Government issued several opinions on accelerating the creation of new kinetic energy to promote high-quality development, clearly pointing out that Dongguan will accelerate the construction of a new development pattern, focus on new economic growth poles and power sources, take stimulating and activating new kinetic energy of industries, enterprises, science and technology, investment, markets and platforms as the main theme, and constantly optimize the development environment of new kinetic energy through the continuous empowerment of talents, figures and brands, We will make every effort to build a new system of modern industries with diversified development and multipolar support, and inject a steady stream of strong new momentum into high-quality development.

### **3. Challenges faced by Dongguan's industrial development**

#### **3.1 The supporting industry is not perfect**

At present, there are 144 development zones in Guangdong Province, including 102 provincial development zones, 14 national high-tech zones, 6 national economic development zones, 17 customs special supervision zones, and 2 national self created zones. These development zones have their own characteristics and are developing vigorously, forming a situation of letting a hundred flowers bloom, and forming competitive pressure on Dongguan's industrial development in terms of investment attraction and policy support. The high-speed development of Dongguan mainly relies on the manufacturing industry, while modern service industry is relatively slow. In 2021, the modern service industry added value was ¥281.473 billion, increasing 3.2%. From the Structure of Modern Service Industry, Dongguan is lagging behind in product research and development, design, etc., and its independent innovation capability is relatively weak, making it difficult to provide adequate support for the manufacturing industry innovation drive.

#### **3.2 Lack of high-end talents for industrial development**

Dongguan has relatively insufficient advantages in attracting talents. Whether Guangzhou, Shenzhen, or Hong Kong are all first-tier cities, with complete educational and medical facilities, cutting-edge innovation resources and a mature high-end talent living circle, with a high degree of talent agglomeration. Although the amount of foreign personnel has increased, the number of high-income people who are high-end and in short supply is declining. With the accelerated pace of transformation and upgrading, the gap of technologically innovative talents required by Dongguan's advanced manufacturing industry will continue to expand, and the lack of high-end talents will become a bottleneck restricting the development of Dongguan's "smart manufacturing industry".

A large number of tax avoidance behaviors are that taxpayers take advantage of the negligence and loopholes stipulated in the tax law to adopt certain technical means to achieve the purpose of paying less tax or even no tax. Dongguan is in the stage of vigorously introducing high-quality enterprises. Large enterprises generally design tax planning plans before investment to minimize the tax burden of enterprise groups. However, at present, in the process of introducing large projects in Dongguan, tax talents are rarely included in the investment promotion team and the project is subject to tax measurement and assessment, which is not conducive to industrial development.

#### **3.3 Significant differences in tax rates**

The Greater Bay Area is a very special cross-border bay area. The "one country, two systems" policy has led to a step-by-step difference between the tax systems of inland cities and Hong Kong\Macao. Hong Kong and Macao have absolute advantages both in tax system and tax

preference; The Free Trade Zone retains some special preferential policies, such as 15% corporate income tax preferential policy for qualified corporate legal persons in Qianhai, Shenzhen, Hengqin, Zhuhai and other places, forming a tax depression. However, Dongguan is a non free trade zone in Guangdong Province. There is no preferential tax policy with "new area characteristics", and only the national unified and Greater Bay Area personal income tax preferential policies are implemented. In particular, the recently issued Overall Plan for the Construction of Hengqin Guangdong Macao Deep Cooperation Zone specifies that eligible capital expenditure for Cooperation Zone is allowed to be deducted or accelerated depreciation and amortization before one-time tax in the current period, and income from new overseas direct investment in tourism, modern services and high-tech industries established in the cooperation zone is exempted from corporate income tax. It can be seen that the state has given great policy support to the Hengqin Guangdong Macao Deep Cooperation Zone, while Dongguan is at an obvious policy disadvantage in competition compared with Hong Kong, Macao and the Free Trade Zone. The above factors will have a certain impact on the investment attraction of Dongguan, and may cause the original high-quality enterprises in the New Area to change their registration places to special policy areas in order to seek greater development.

Table 1: Comparison of Tax Policies in Dawan District

Main projects	Hong Kong	Macao	Guangdong Free Trade Zone	Dongguan
corporate income tax	Profits tax: Enterprise legal person: 16.5% Non legal person: 15%	Supplementary income tax: progressive tax rate 3%-12%	Zhuhai Hengqin and Shenzhen Qianhai eligible enterprise legal persons 15%	25%
Individual income tax (salary income)	Salaries tax: progressive tax rate 2% - 17% (The upper limit is 15% of the standard tax rate)	Occupational tax: Progressive tax rate 7%-12%	Progressive tax rate: 3% - 45% (only qualified persons can apply for partial subsidies)	Progressive tax rate: 3% - 45%
Turnover tax	nothing	Sales Tax	VAT, consumption tax	
Import and export duties	Limited scope	Limited scope	Wide range	
stamp duty	Limited scope	Limited scope	Wide range	

#### 4. Suggestions and measures for industrial development in Dongguan

Firstly, The Dongguan government should increase the basic investment to improve the supporting facilities of the modern service industry, and vigorously promote the integration of the modern service industry and the advanced manufacturing industry. By strengthening inter-city cooperation, Dongguan can timely seize the opportunity of modern service industry cluster and innovative development, optimize local industrial facilities, create a new model of regional cooperation, and promote the development of Dongguan's advanced manufacturing industry. Dongguan can also undertake the spillover needs of the modern service industry in Guangzhou, Shenzhen and Hong Kong due to high operating costs, absorb projects that are suitable for its own potential, increase policy incentives, and promote Dongguan's transformation and upgrading. In addition, to promote the development of Dongguan's service industry towards specialization and high-end value chain, it is necessary to focus on the development of finance, technology services and modern logistics, and deeply integrate with advanced manufacturing.

Secondly, improving tax policies to help innovation-driven development. The package of tax

incentives will bring a "big gift package" to manufacturing industry, which will help reduce costs, update equipment, and achieve technological innovation. It is recommended that the tax department carry out multi-channel, full-coverage publicity and coaching training, notice the analysis and application of tax reduction and fee reduction effects, and ensure that tax reduction and fee reduction are implemented in Dongguan. By means of "one case, one discussion" and other ways, a certain degree of financial subsidies will be set to reduce the impact of the tax rate difference between Dongguan and Hong Kong, Macao and surrounding free trade zones, enhance the freedom of the circulation of production factors such as talents, capital and technology, and enhance the advantages of Dongguan in attracting investment and high-end talents. It is suggested that the municipal government actively seek support at the national and provincial levels, narrow the internal policy differences in the Bay Area, and reduce the impact of the tax rate difference between Dongguan and Hong Kong, Macau and surrounding free trade zones through a certain degree of financial subsidies, and enhance talent, capital and technology. The degree of freedom in the circulation of production factors such as Dongguan will enhance the advantages of Dongguan in attracting investment and attracting talents.

Thirdly, creating a dual engine for high-quality development in Dongguan. After more than ten years of development, Songshan Lake has become an innovation-driven gathering area in Dongguan. Although the construction of Binhai Bay New Area is in its infancy, there are already many high-quality production enterprises, undertaking the historical mission of building a new highland for innovation and development in the new era. It is recommended to allow the tax department to participate more in the research and analysis of large-scale enterprises' investment promotion projects, coordinate and deal with tax obstacles, help reduce management costs and conflicts of interest between regions, and promote coordinated development of both parties.

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