

# *Analysis of Fiscal and Taxation Policy for Promoting Economic Development in Free Trade Zone*

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**Abstract:** Efforts to develop social economy are an important task of the country. Since reform and opening-up in China, our social and economic development has made rapid progress, especially the rapid development of market economy. Economic strength is one of the important national strength foundations of a country. Only the steady development of social economy can promote the sustainable development of education, culture and military. Strong economic strength is the basic guarantee for a country to stand steadily in the international environment. Therefore, it is necessary and meaningful to explore and analyze the development of various national economies. This paper mainly discusses the fiscal and taxation policies that promote the economic development of the Free Trade Zone, and explores the corresponding solutions based on the analysis of the problems. Free Trade Zone is a special economic area planned by our country to keep up with the changes of international economic environment. With the continuous development and expansion of trade liberalization in most countries in the world, the status and role of Free Trade Zone in the international arena are becoming more and more obvious and important. In order to keep up with the pace of international economic development, China has also established a Free Trade Zone in accordance with China's national conditions. In order to further promote the economic development of China's Free Trade Zone, this paper studies and analyzes the fiscal and taxation policies of domestic and international major Free Trade Zone, hoping to contribute to the economic development of China's Free Trade Zone.

## 1. Introduction

Free trade was first produced in the United Kingdom in the 19th century. It refers to the removal of restrictions and obstacles to the import and export trade by the state, and the abolition of various privileges and preferences on the import and export of goods, to make commodities be imported and exported freely and have free competition in the market. In the Free Trade Zone, the state has eliminated import tariffs, export subsidies, domestic production subsidies, trade quotas, and import licenses. Apart from these restrictions, free trade has developed rapidly and has a great effect on stimulating the growth of national economy. Since China's accession to the WTO, the international economic structure has gradually changed. Although China has greater opportunities in the international economic situation, the challenges it faces are also growing. In order to adapt to the international economic structure and to develop China's economic opportunities, China began to

plan Free Trade Zone in China, especially the Shanghai Free Trade Zone has developed most rapidly, and gradually became China's free trade pilot. In order to better promote the development of economy of China's newly established Pilot Free Trade Zone, the following is a study and analysis of fiscal and taxation policies of the large-scale Free Trade Zones at home and abroad.

## **2. The Role of Free Trade Policy in the Economic Development of Free Trade Zone**

Compared with the traditional economic policy of our country, free trade policy is a relatively open financial and economic policy. Free trade has its unique role in developing economic vitality and promoting economic growth, but everything has two sides. Free trade in import and export trade under the loose economic policy also needs to formulate relevant management policies. Otherwise, free trade policy will have adverse effects on economic development. Free trade is the symbol and economic characteristic of Free Trade Zone. Free trade, as a regional economic policy implemented in China in recent years, has a great impact on the economic development of Free Trade Zone and the whole society. This paper mainly discusses the impact of free trade policy on the economic development of Free Trade Zone. Free trade policy has two main effects on the economic development of Free Trade Zone, namely static effect and dynamic effect.

Static impact refers specifically to the impact of free trade on the development of business activities in various industries and business transactions among members of Free Trade Zone. Static effect has both advantages and disadvantages for commercial activities and economic benefits of Free Trade Zone. The advantage is that the free trade economy is more lenient than the traditional economic policy, which reduces the cost of products produced in the Free Trade Zone. Loose economic policies and lower product costs provide more opportunities for importers and exporters in Free Trade Zone to trade. Active commercial activities promote the economic situation of Free Trade Zone to be more active than that of ordinary areas, and also promote the economic development of Free Trade Zone. While the disadvantage is that preferential trade and economic policies can not only satisfy the interests of most businessmen, but also damage the interests of a small number of businessmen. Because the falling transaction costs in Free Trade Zone will change the interests of members, and the interests of some people will be damaged in the process of changing trade forms.

The dynamic impact refers to the indirect effect of accelerating economic development among regions, which is caused by the relatively loose economic policy of free trade and the continuous improvement of production efficiency and capital accumulation and expansion of enterprises in each region of the Free Trade Zone. When the scale of free trade continues to expand and develop, there will be scale benefits of supply and circulation, and form an effect of industrial agglomeration. Moreover, there will be continuous competition among monopoly industries in the Free Trade Zone to improve labor productivity. Generally speaking, the impact of free trade policy on Free Trade Zone is more beneficial than disadvantageous. Active commercial activities and the continuous reduction of product costs make capital accumulate in Free Trade Zone and develop the economy of Free Trade Zone steadily.

## **3. Relevant Fiscal and Taxation Policies based on China's Free Trade Zone**

### **3.1 Basic information and related fiscal and taxation policies of the domestic Pilot Free Trade Zone**

China's free trade zone has been set up for a relatively short period of time, but it has achieved remarkable results at home and abroad. In 2013, China set up Shanghai as a free trade zone for the first time. Because the free trade economic policy makes the economic development of Shanghai

Free Trade Zone rapid by taking preferential taxation and special customs supervision as the main means, with the main purpose of trade liberalization and facilitation. The Shanghai Free Trade Zone has become a multi-functional economic zone, and various measures have been widely praised at home and abroad. With the successful test of the Shanghai Free Trade Zone, China's Free Trade Zone became an honorary member of the World Free Trade Zone Association in 2015. And in August 2016, the CPC Central Committee and the State Council decided to establish seven new free trade pilot zones in Liaoning Province, Zhejiang Province, Henan Province, Hubei Province, Chongqing City, Sichuan Province and Shaanxi Province, which represents the construction of China's Pilot Free Trade Zone has entered into a new voyage for pilot exploration.

As Shanghai is the first free trade area in China, it is currently the longest-running Free Trade Zone in all of China's free trade economic zones, and it is more convincing to take the situation and policies of free trade in Shanghai as the research on the impact of fiscal and taxation policies of domestic Free Trade Zones on economic development. At present, China's fiscal and taxation policy towards Shanghai Free Trade Area is a fiscal and taxation policy adapted to the development needs and innovation of Shanghai's basic economy. In each industry, relevant fiscal and taxation policies have been set up to promote the economic development of Free Trade Zones.

For example, in terms of investment, free trade fiscal and taxation policies stipulate that individuals or enterprises registered in the Free Trade Zones can pay in installments, so that the investment cost of enterprises can be greatly reduced, and Free Trade Zones can also absorb more investment, which is of great help in promoting the accumulation of funds in the Free Trade Zone.

### **3.2 The impacts of maintaining the integrity of fiscal and tax environment on accelerating the economic development of Free Trade Zone**

The complete fiscal and taxation environment has a great influence on the stable development of the economy of Free Trade Zone. The integrity of fiscal and taxation environment needs to be specific to every business area of Free Trade Zone, and needs to maintain the smooth development of economy in Free Trade Zone, from domestic services to foreign services, from enterprises to individuals. Only through the thorough implementation of fiscal and taxation support policy from inside to outside and from general to meticulous can ensure the stable development of economy of the Free Trade Zone. Looking at international free trade zones, most countries have provided relatively competitive fiscal and taxation policies for their own free trade zones, like the corresponding adjustment of income tax rate. In some countries, the income tax rates of different types of enterprises in Free Trade Zones have been adjusted according to the nature of the industry to increase the profits of enterprises. There are also adjustments to the nature of the work of employees in special enterprises to adjust the income tax rate to increase personal income. The appropriate adjustment of income tax rate has a great effect on the development of enterprises in Free Trade Zone and the accumulation of funds in Free Trade Zone.

## **4. Conclusion**

Free trade area is the right decision made by our country to adapt to the current international economic situation. However, due to the short time and insufficient experience of setting up free trade area in our country, it is necessary for relevant professionals to conduct research and analysis on fiscal and taxation policies in order to find fiscal and taxation policies suitable for the economic development of our free trade area.

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