# UNIVERSITA' DEGLI STUDI DI PADOVA

**DIPARTIMENTO DI SCIENZE ECONOMICHE ED AZIENDALI**
**"M.FANNO"**

**CORSO DI LAUREA MAGISTRALE IN**
**ENTREPRENEURSSHIP AND INNOVATION**

**TESI DI LAUREA**

**"INCENTIVES FOR THE ATTRACTION OF FOREIGN INVESTORS INTO CHINA "**

**RELATORE:**

**CH.MO PROF. MAURO GIACOMAZZI**

**LAUREANDO: LUYU LIU**

**MATRICOLA N. 2005492**

**ANNO ACCADEMICO 2022 – 2023**

Dichiaro di aver preso visione del “Regolamento antiplagio” approvato dal Consiglio del Dipartimento di Scienze Economiche e Aziendali e, consapevole delle conseguenze derivanti da dichiarazioni mendaci, dichiaro che il presente lavoro non è già stato sottoposto, in tutto o in parte, per il conseguimento di un titolo accademico in altre Università italiane o straniere. Dichiaro inoltre che tutte le fonti utilizzate per la realizzazione del presente lavoro, inclusi i materiali digitali, sono state correttamente citate nel corpo del testo e nella sezione ‘Riferimenti bibliografici’.

*I hereby declare that I have read and understood the “Anti-plagiarism rules and regulations” approved by the Council of the Department of Economics and Management and I am aware of the consequences of making false statements. I declare that this piece of work has not been previously submitted – either fully or partially – for fulfilling the requirements of an academic degree, whether in Italy or abroad. Furthermore, I declare that the references used for this work – including the digital materials – have been appropriately cited and acknowledged in the text and in the section ‘References’.*

Firma (signature) ……LuYu Liu……

# TAX INCENTIVES FOR THE ATTRACTION OF FOREIGN INVESTORS INTO CHINA

## TABLE OF CONTENTS

# ABSTRACT

These preferential income tax policies played an important role in attracting FDI in the early stage of China's reform and opening up. However, these income tax incentives also have some drawbacks. For a long time, the preferential income tax policy granted to foreign enterprises is equivalent to transferring the tax burden to domestic enterprises to a certain extent, and this unfair tax burden hinders the healthy development of domestic enterprises.

In addition, granting tax incentives to foreign enterprises is not in line with China's commitments when it joined the WTO, and will aggravate international trade frictions.

China's economic development level is improving day by day, China's software and hardware facilities to attract FDI have been continuously improved, and the influence of preferential tax policies in attracting FDI has gradually weakened. Therefore, in the new enterprise income tax law promulgated successively, the original preferential tax policies have been reformed and the tax incentives for foreign enterprises have been abolished.

How has China's FDI attraction changed during this period, and how are these changes related to the new preferential corporate income tax policy? This paper will use a combination to study this problem. In the theoretical research part, this paper first reviews the research results of predecessors in this field; Secondly, this paper reviews the theory of the influence mechanism of preferential tax policies on FDI and the factors affecting FDI. In addition, this paper also briefly describes the historical evolution of China's main preferential tax policies since the reform and opening up.

In the empirical part, this paper first analyzes the changes in the scale, quality and structure of FDI in China by using data since the reform and opening up, and analyzes the reasons for this. Then, this paper uses panel data from 34 cities to examine the impact of China's preferential income tax policies on attracting FDI.

The research found in this paper shows that the preferential income tax policy has a significant impact on China's FDI attraction, but it is not the most important impact. However, the use of foreign capital still plays an important role in China's current development, so we must deepen the current reform of preferential income tax policies, retain reasonable preferential income tax policies, and replace the original preferential income tax policies according to ownership and region with industry-specific preferential income tax policies. Finally, based on the conclusions of this paper, the author would put forward corresponding policy recommendations.

# 1. Introduction

## 1.1 Research background

China has continuously adjusted its economic policies according to the status quo at each stage. The government has more and more tools and means to regulate economic operations, and the level have also been significantly improved. Since China’s accession to WTO, it has gradually relaxed the control of FDI, which makes China improve the level of opening to the outside world and promote economic development at the same time. The field of China’s utilization of FDI has gradually expanded from the initial secondary industry to the tertiary industry. In June 2018, the State Council issued the "Notice of the State Council on Several Measures to Actively and Effectively Utilize Foreign Capital to Promote High-quality Economic Development", namely Guofa No. 19. It is mentioned in the article that FDI can not only improve the level of China’s opening up to the outside world, but also promote economic development. The meeting held in July 2018 pointed out that "stabilizing employment, stabilizing finance, stabilizing foreign trade, stabilizing foreign investment, stabilizing investment and stabilizing expectations” work. The proposal of the "six stability" work will escort the steady growth of China’s economic development.

At present, all countries in the world are aware of the importance of using foreign capital to their own economic development, and are trying to attract capital. At the same time, in 2018, China's foreign capital absorption reached a record high of US$139 billion, accounting for 10.69% of the world's total foreign capital absorption, and China's foreign capital inflow is expected to continue to maintain a high level. Zhan Xiaoning (2020), believes that the new "Foreign Investment Law of the People's Republic of China " implemented in early 2019 in China adopts a negative list management model and grants national treatment to foreign-funded enterprises. The measures of market opening have made certain contributions to China’s achievements in attracting foreign capital. Statistics from the Ministry of Commerce show that the actual utilization of foreign capital in 2019 was 941.5 billion yuan, a year-on-year increase of 5.8%, and more than 40,000 foreign-funded enterprises were newly established, maintaining its position as the second largest foreign capital inflow country after the United States3. China has achieved a huge leap through the improvement of capital and technology through FDI. The transition from the initial Chinese assembly to Chinese manufacturing, and then the realization of Chinese research and development, has enabled the overall technology to achieve leapfrog development.

Since the introduction of VAT in France in the 1950s, more than 120 countries have included this tax in management systems. Lin (2022) sorted out the evolution process of value-added tax [P], China first introduced value-added tax in 1979, and by 2010 the proportion of value-added tax in fiscal revenue had reached 21.8%, occupying a relatively large proportion in China's tax collection and management system. China has been adopting a production-based VAT. In this case, the value-added tax payable by the enterprise is equal to the difference between the output tax amount and the input tax amount. Taxes are deducted from the value of the fixed assets to which they belong. The use of production-type value-added tax has advantages and disadvantages. Its advantages are reflected in the fact that the tax base of input tax is relatively large and the scope of deduction is small, so the country's fiscal revenue can be guaranteed. But its disadvantages are also obvious: First, the value-added tax contained in the fixed assets purchased by enterprises cannot be deducted, which will reduce the enthusiasm of enterprises to invest; secondly, under the production-type value-added tax, the cost of machinery and equipment is greatly increased, which will affect enterprises and equipment renewal. Therefore, in the era of rapid economic development, it is necessary to adjust the type of value-added tax. This is because enterprises can deduct the purchased machinery and equipment at one time like other intermediate inputs, which will greatly reduce the cost of purchasing machinery and equipment for enterprises, and then drive the enthusiasm of enterprises to invest, the tax transformation has opened the prelude. After the completion of the value-added tax transformation reform, China began the major change of business tax to value-added tax (referred to as "B to VAT"), and successively deducted value-added tax. The scope is "expanded", the tax rate is adjusted and many other measures to make it match the economic development situation. China adopted two tax rates: the tax rate for sales or import of goods and services was 17%, and the tax rate for sales or import of specific goods was 13%. In 2012, the pilot project was carried out in Shanghai. From May 1, 2016, the pilot project of "replacing business tax with value-added tax" was fully launched nationwide, and the value-added tax was stipulated in four tax rates: 17%, 13%, and 11% %, 6%. From July 1, 2017, the 13% tax rate will be canceled to reduce the tax burden, and the value-added tax rate will be changed to 17%, 11%, and 6%. It is stipulated that taxpayers who have value-added tax sales. On March 5, 2019, the government work report clearly announced the reduction of China's value-added tax rate, the current 17% tax rate in manufacturing and other industries to 13%, and the current 11% tax rate in transportation, construction and other industries to 9%; keep the tax rate of 6% unchanged.

The time lag of the tax policy is relatively short, and it can respond more flexibly to the impact of unexpected force majeure events, so as to maintain market order and protect people's livelihood as much as possible. At the moment when the new crown pneumonia epidemic is shrouded, the country quickly issued relevant documents on the preferential value-added tax policy in the epidemic war , implementing incremental tax refunds for key guarantee material production enterprises, exempting value-added tax for transportation of key guarantee material income, and in specific industries, the value-added tax is exempted, it is exempted for donated goods, and the amount by small-scale taxpayers is reduced or exempted. Through a series of tax policies to help taxpayers tide over the difficulties and get out of the economic downturn caused by the epidemic.

China implemented an enterprise income tax system that was different from domestic and foreign enterprises, and foreign-funded enterprises once enjoyed "supranational treatment" in terms of income tax, which was in sharp contrast to domestic enterprises. Under the historical conditions of China's backward economic development level at that time, this preferential tax policy was of positive significance to China's use of foreign capital and accelerate the improvement of China's economic development level (Pingfang, et al., 2006). However, with the deepening of the reform and opening up process, China's economic development level is improving day by day, the political and legal environment for domestic investment is gradually stable, the hardware facilities for investment are also increasingly perfect, and the influence of preferential policies and measures affecting FDI investment in China has declined. In 2002, China joined the WTO, and after joining the WTO, the competition platforms of domestic and foreign-funded enterprises gradually converged; in this case, the preferential income tax rate enjoyed by foreign-funded enterprises will intensify the competitive pressure of domestic-funded enterprises, which is not conducive to the development of domestic-funded enterprises. In addition, according to China's WTO accession commitment, the supranational treatment granted to foreign enterprises should be abolished, and the original preferential income tax policy for foreign enterprises runs counter to China's WTO accession commitment. Therefore, it is imperative for China to carry out enterprise income tax reform.

However, China's preferential income tax policy reform has been in the stage of strategic change until 2007, and it was not until March 2007, that China's preferential income tax policy was officially changed in the system. The main points of the reform of the new law are mainly two: First, the supranational treatment of foreign enterprises is abolished, the preferential income tax policy is no longer divided according to the ownership status of foreign enterprises, and domestic and foreign-funded enterprises are treated equally 25% income tax rate; Second, the original foreign-funded enterprises are given a certain transition period, and within five years of the new promulgation, the old foreign-funded enterprises can pay enterprise income tax at the original preferential tax rate.

The issue of "merger the two taxes" that has been debated endlessly in theoretical circles and public opinion circles for a long time, and that the calling from experts and scholars has finally made the most fundamental progress. The original situation of parallel taxation has been ended, and the collection and management is applicable to the same law (Cui, et al., 2022).

China's opening up to the outside world has been deepening, the economy has taken off rapidly, the market investment environment has been continuously improved, and policies have vigorously supported economic construction, so that China has huge investment value and development potential, thus attracting the attention of a large number of foreign investors, injecting a lot of valuable and urgently needed funds, and alleviating the problem of capital shortage in domestic economic development.

As China's economic foundation gradually solidifies and funds become abundant, the mode has also begun to change: from extensive to intensive, from blindly pursuing economic quantitative growth to focusing on qualitative growth. This has a new demand for FDI, which now requires not only the quantitative investment of foreign capital, but also its support for the quality development of China's economy. Combined with the new forms and new needs of China's economic development, the disadvantages of the coexistence of the two taxes have become increasingly prominent: the tax rate is not uniform, the preferential policies are not uniform, not only cause the investment environment of domestic and foreign enterprises to be unfair, but also is no longer suitable for the needs of the current economic development, affecting the quality and structure of China's use of foreign capital, foreign entrepreneurs' Generalized System of Preferences policy only stimulates the scale of FDI, without affecting or guiding the quality and structure of the use of foreign capital, some foreign-funded enterprises take advantage of China's preferential policies and cheap labor, The transfer of highly polluting and energy-consuming industries has greatly polluted China's environment, consumed limited resources, hindered China's economic structure and industrial adjustment and upgrading, and restricted the sustained and balanced development of China's economy.

China officially began to implement the new tax system on January 1, 2008, the main content of which is to merge the income tax, in order to build a fair investment environment and provide a good development platform for domestic and foreign-funded enterprises. Among them, the attitude of foreign-invested enterprises has changed and the purpose is also clear: to increase the guidance of FDI.

Enterprise income tax reform has been carried out for more than four years, whether its reform is effective, whether the purpose is achieved, whether the quality is improved, and whether the role of guidance is effective, all of which need to be evaluated in practice, so as to better improve corporate income tax and better provide strong support for social and economic progress.

## 1.2 Purpose and significance of the study

### 1.2.1 Purpose

The new Enterprise Income Tax Law gives full weight to tax incentives, and treats the relevant provisions of tax incentives as a separate part as a separate chapter (Menezes, et al., 2018) (Han, et al., 2015). Therefore, studying how the preferential tax policies in the new enterprise income tax law affect FDI's investment decisions in China is of great practical significance for China's use of foreign capital to develop the economy. There have been many studies on the effectiveness of China's preferential income tax policies in attracting FDI.

However, the time frame of these studies is mainly in the early stage, when China's economic development level was relatively backward and various facilities were not perfect, but the state carried out economic construction The support of foreign capital is also needed (Mayburov, et al., 2017). Therefore, under such circumstances, granting some preferential policies to foreign enterprises, including preferential income tax policies, has an extremely important impact on China's attraction of foreign capital.

The empirical research conducted during this period have a significant impact on attracting foreign investment, which also proves that the preferential tax policies implemented for foreign investors since the reform and opening up are effective. However, with the transformation of China's economic development, the drawbacks of this policy have also begun to become prominent.

In addition, preferential policy measures will also interfere with the dominance. With the continuous improvement of China's socialist market economic system, China's market environment has changed (Xing, et al., 2018). Therefore, in the view of the changed economic market situation, in the current market environment, it is necessary to make a new empirical analysis of the impact of preferential tax policies on attracting foreign investment.

The empirical results can test the effectiveness of the new preferential income tax policy in attracting foreign investment, which will have certain positive significance for the further reform direction of the preferential tax policy. This research is also conducive to improving the quality of FDI in China, improving the structure of FDI, and promoting China's industrial upgrading and economic structural transformation.

### 1.2.2 Significance

Western countries have studied the taxation system for half a century and have established a complete taxation system. However, the research on the taxation system in China is still in the primary stage, and the taxation system is not perfect yet. In the process of formulation and implementation of tax reduction policies in China, factors such as structural adjustment and promotion of people's livelihood will be reasonably added according to the level and speed of economic development. Therefore, improving the tax reduction policy will become an important task for China to build a modern tax system, and it is of great significance to promote social equity and regulate macroeconomic development. Secondly, with the advancement of China's reform process, the growth rate of FDI inflows into China has accelerated. Therefore, it is significance to improve the research on FDI. Researches are carried out at the macroeconomic level, such as labor force, market, infrastructure, and policy environment. This paper mainly does the following work in the construction of the theoretical system : firstly, it sorts out and summarizes the existing research results on tax incentives and FDI, laying the foundation for further research; secondly, at home and abroad, the double difference model is used to study the impact of incentive policy reform, and the heterogeneity test is carried out on different types of enterprises, and the incentive policy is analyzed by ownership, by region, and by capital intensity. In addition, this paper analyzes the impact of incentive policy reform on FDI through sufficient robustness testing.

At present, China's economy is gradually turning into a new normal. The three aspects of economic growth rate, economic structural adjustment and early policy effects are changing. The growth rate is slowing down and the pressure of industrial structure transformation makes

China need to take reasonable measures to deal with this situation. As a powerful tool, macroeconomic policy needs to be properly used. Rational use of foreign capital is not only a basic policy, but also one of the necessary conditions for the country to enter the ranks of opening up. China’s economy is in the process of transforming, but now the global market has problems of "trade protection, US priority and anti-globalization", which poses a great threat to China’s foreign market environment. Therefore, a reasonable estimate of the development of foreign markets is crucial to development, and it is also a necessary step to control the quantity and quality of FDI. FDI is an important source of funds to promote the development of host country enterprises and industrial upgrading. It can not only improve the technology of the host country, but also improve its productivity and increase capital and management capabilities. Especially for enterprises with high productivity, FDI can broaden their financing channels. At the same time, FDI is beneficial to the export of the host country. While improving labor force, capital and technology, it will also increase export capacity. Not only to promote economic growth, but also to promote overall employability. Secondly, FDI can also increase the added value of products, enable the host country to achieve a reasonable allocation of resources, alleviate the degree of mismatch between resources and labor, and thus promote inter-regional economic development. Finally, FDI also has a poverty-reducing effect. While absorbing more labor factors, it can also drive the growth of their income and achieve the effect of poverty reduction. Therefore, it is an important task for China’s current economic development to actively introduce foreign capital and make full use of it to promote the transformation of the economy to high-quality development.

China's economic system is a socialist market economy, which means that compared with other countries under the market economy system, our government can play a greater role in supervision and regulation in the economic market to make up for the shortcomings of the market economy. Taxation has always been an important tool for China’s macroeconomic regulation and control, and it can indirectly regulate the operation of the national economy. And tax policy is also an important factor that foreign-invested enterprises need to consider when investing in China. Although China has no longer given special tax incentives to foreign-invested enterprises alone, according to China’s current tax policies, FDI enterprises can gain a certain guiding effect.

By studying the relationship between FDI and China’s tax policy, this paper analyzes the development trend of FDI under the influence of tax policy at different stages. By understanding the goals and actual effects of tax policies in different periods, it provides more references for China's tax policies in the new stage. In order to maximize the role of taxation, further enrich the theory of China's taxation policy, and provide more help for the improvement of China’s taxation theory system. It is also of great significance to further promote the steady growth.

China's corporate income tax system has been governed by the "Enterprise Income Tax Law of the People's Republic of China" since 2008. Its main content is to unify the corporate income tax system applicable to domestic and foreign-funded companies, that is, to cancel the "super-national treatment" for FDI enterprises. The main purpose is to make domestic enterprises and FDI enterprises enjoy the same treatment and cancel the special preferential treatment for foreign-funded companies. Today, more than a decade has passed since the unification of the corporate income tax system, and the quality and structure of FDI have undergone tremendous changes. In the past ten years, not only the investment amount has grown rapidly, but also the proportion of industries has also increased. Compared with 2008, the proportion of actual investment in the tertiary industry nearly doubled in 2017, while the proportion of the secondary industry dropped to about half of that in 2008. We need to formulate a tax policy that is more suitable for today's development, so that it can fully play the role of regulating the economy and help optimize the structure of foreign investment.

Since 2017, the government has successively promulgated a number of policies targeting FDI enterprises. In particular, at the two sessions held in March 2019, the "Foreign Investment Law of the People's Republic of China" was finally voted and passed, and it was announced that it will be officially implemented from 2020. Subsequent relevant regulations will surely be announced one after another. The current policy update speed is relatively fast, which is also to make it adapt to the fast-growing economy and current social needs. However, in recent years, the research on investment in China is not as detailed as before, and it is necessary to study how to use taxation policies to have a certain guiding effect on FDI.

## 1.3 Research status and development trend at home and abroad

### 1.3.1 Tax incentives have a significant impact on attracting FDI

The findings of Chen et al., (2017) show that tax rates have a negative correlation with attracting FDI. He studied the use of FDI in 50 states in the United States and found that states with higher tax rates used less total FDI (Zhu et al., 2008). There are preconditions for preferential policies to have an impact on FDI, mainly: first, FDI investment is used for profit-based activities.

Second, the fundamental factors that have an impact on the investment are sufficiently influential for the investment. Third, the investment environment for the investment objectives that FDI can choose is relatively similar. Under the condition that these conditions are met, tax incentives have an impact on FDI investment decisions. That is to say, when other factors affecting FDI investment are close to each other, the greater the difference in tax incentives, the greater the impact on FDI. This research result is particularly applicable to investment projects with large investment costs. Zhang (1998) studied 29 provincial units in China and verified the correlation between the total amount of FDI utilization in these 29 provinces and several factors affecting FDI through econometric models. The results show that preferential policies are positively correlated with FDI utilization. Huang et al., (2003) used the data of FDI in some open cities to verify the effectiveness of China's regional preferential tax policies through horizontal and vertical regression analysis. The results show that in the same region, tax incentives can better attract FDI.

In different regions, regions with tax incentives can attract FDI better than regions without tax incentives. Tang (2001) pointed out that there are many factors affecting the choice of FDI location, and during the 20 years of reform and opening up, these factors such as policy preferences, industrial structure, degree of openness, and marketization level have all affected the choice of FDI investment locations in China, and led to differences in the level of FDI attraction between regions. And the influence of these factors on FDI location selection changes over time.

The author believes that preferential policies are the most important factor in attracting foreign investment in China, and has established an econometric model to verify one of the thesis by conducting multiple regressions. The results show that preferential policies have always been a stable and important factor affecting foreign investment.

Cao et al., (2006) selected 43 cities with preferential tax policies as the experimental group and 25 cities without preferential tax policies as the control group, used the Panel Data data of these 68 cities for regression analysis, and concluded that preferential tax policies. However, the effect of a single tax incentive is weaker than that of a combination of multiple tax incentives. Liu et al., (2019) believes that China's domestic and foreign capital income tax is on the same track, while other countries still give foreign tax incentives, which will cause China's foreign capital to outflow and affect the scale of China's FDI attraction. The impact of the merger of the two taxes on the FDI structure depends on the type of enterprise and the investment purpose of the enterprise. It will have a greater impact on foreign investment from tax havens such as Hong Kong and Taiwan, while it will have a smaller impact on foreign investment from developed countries such as the United States and Japan. On the basis of this research, the author gives policy suggestions: the reform speed of China's preferential income tax policy should not be too fast, and the preferential income tax policies of neighboring countries should be referred to give foreign-funded enterprises a certain period of adaptation.

However, there are still some problems with empirical research in this field. Before the promulgation of the new law, the applicable areas of China's preferential tax policies were all at the city and county levels, and the data used in empirical research were mostly statistical data by province, which would have a definite impact on the empirical results (Tung, et al., 2001).

Arthur Betz Laffer, a well-known supply-side economist in the United States, proposed in his Laffer curve that as tax rates rise, the greater the inhibitory effect of taxation on investment, resulting in a reduction in the tax base and a decrease in the total amount of taxation; With the reduction of tax rates, enterprises are encouraged to expand investment and production, which increases the tax base and increases the total tax revenue. Hines (1997, 1999) conducted a time series and cross-sectional analysis of the importance of tax rates for U.S. FDI and concluded that every 1 percentage point increase would reduce FDI inflows by 0.5 to 0.6 percentage points. Gropp and Kostial (2000) used data from OECD countries from 1988 to 1997 to establish equations between FDI flows and statutory tax rates and other macroeconomic variables, and conducted regression analysis to examine the impact of statutory tax rates on FDI. The results show that every 1 percentage point increase in statutory tax rates reduces FDI inflows by 0.3% and FDI outflows by 0.2%.

Hartman (1984) examines the response of FDI to three variables under two FDI modalities (i.e., investment with retained earnings of foreign companies and outbound investment with domestic capital). Capital tax rates applicable to U.S. residents and capital tax rates applicable to foreign residents. The results of Hartmann's regression analysis show that for FDI using retained earnings, FDI/GNP is positively correlated with the after-tax rate of return variable; FDI/GNP is negatively correlated with the relative tax rates of foreign residents and home residents. His basic conclusion is that taxation has a strong impact on FDI. Boskin & Gale used the tax rate at that time (1987), changed some explanatory variables and functional forms, and revalued Hartmann's equation, and the conclusion was basically the same as Hartmann's conclusion, except that the elasticity of FDI to after-tax returns was slightly lower than Hartman's estimate.  Similar equations have been estimated using revised investment, GNP, and foreign investor yields. The conclusion is that the elasticity of FDI to foreign investors' returns and the elasticity of FDI to foreign returns/domestic yields are relatively high.

However, estimates for the form of investment using retained earnings are poor, suggesting that Hartman's simple model is not yet perfect. Newlon (1987) supplemented this model, using the conditions of retained income investment, and his estimate was that the absolute values of the after-tax rate of return and tax rate were relatively large and significant. Qian Kai (2005) believes that the preferential tax policies, while the merger of income tax and the adjustment of the preferential tax policies for foreign-invested enterprises will discourage foreign investment enthusiasm and affect the inflow of foreign capital.

Tax concessions by host governments have not led to FDI inflows. The time series analysis uses capital flow data between seven major industrial countries (France, Germany, the United Kingdom, the United States, Japan, Italy and the Netherlands), and assumes that FDI in the form of equity financing can enjoy tax incentives and capital can be fully moved internationally, and the conclusion is that taxation has no obvious impact on the choice of all capital invested in China and all invested abroad. An Tifu (2016) believes that the key factors determining the choice of FDI location are infrastructure, existing foreign investment, industrialization and market capacity, etc., tax preferential policies are only general influencing factors rather than the main determinants, and tax incentives play a very limited role in enhancing the competitive advantage of host countries to attract foreign investment.

He also pointed out that tax policy can only partially stimulate the existing investment environment, not the decisive factor: because many countries do not implement tax concession systems, most investors do not directly benefit from tax incentives.

The "two taxes in one" will not affect the entry of foreign capital. From the actual perspective of China, throughout the 80s of the 20th century, cross-border investment was mainly based on small and medium-sized investors, and tax incentives were an important consideration for their choice of investment in China.

Since entering the 90s, the composition of foreign-invested enterprises has undergone obvious changes, large investment projects of large multinational companies from other countries and regions have increased rapidly, and some of the original domestic multinational companies are also expanding their scale and improving their products and technology levels, investment in China has become a long-term strategy, tax policy is still important, but not the only and decisive factor.

1.3.2 Tax incentives have a non-significant impact on attracting FDI

Not all scholars' studies show that tax incentives have a significant impact on attracting FDI. Some scholars have found that the impact of preferences on FDI is not significant.

Wei et al., (2016) examines the tax incentives from two perspectives. The results show that the tax policies of host countries have an impact on FDI inflows, but the preferential tax policies of other countries have no effect on the total amount of FDI inflows into host countries.

Tian, et al (2020) believes that the preferential tax policies of the host country may bring certain benefits to the host country, but this does not mean that the preferential tax policy will be beneficial to the host country. He used mathematical models to make rigorous reasoning to prove that preferential tax policies reduce the welfare of host country residents, so host countries should give foreign enterprises the same policy treatment as domestic enterprises.

Sun et al., (2020) performed regression analysis using data from 1985 to 1999 and data from 1996 to 1999. He used the average industrial tax burden to express the difference in tax incentives between the Midwest and Eastern regions, and the regression analysis showed that a higher tax burden would affect the level of FDI attracted by the manufacturing industry in a region, but had no effect on the choice of FDI between regions (Qi, et al., 2023).

However, the scope of this research mainly looks at the investment of several major developed countries. The different results of the total impact of attracting FDI and the impact of location may be related to the data selected by the authors for two time periods (Li, et al., 2014).

Fang et al., (2022) believes that some studies believe that foreign-related preferential tax policies will affect the investment decisions of foreign enterprises, and these views are onesided. These studies did not adequately consider other factors affecting FDI. Foreign-related preferential tax policies will affect the profits, but this does not mean that foreign-related preferential tax policies will choose the location.

Foreign-invested enterprises invest overseas for different investment purposes, and short-term returns do not occupy a major decision-making position in their investment objectives (Zhou, et al., 2022). In addition, the actual tax rate enjoyed by foreign-invested enterprises is not determined by the preferential tax policies of the investing country, but also depends on whether the home country has signed a tax concession agreement with the investing country. In other words, the preferential tax policies of the investing country are not completely effective for foreign-invested enterprises (Tian, et al., 2022).

Many scholars have come to a similar conclusion after research: corporate income tax reform is to improving foreign capital utilization. The "merger of the two taxes" may affect the investment of some enterprises, and in the long run, it will not affect the investment of enterprises, but will effectively improve the quality of China's use of foreign capital, promote the upgrading of China's industrial structure and the coordinated development of regional structure.

Li Xiaoqin's research (2023) concluded that the new enterprise income tax reform has not abolished all preferential policies for foreign investment, and the old enterprise income tax law has gradually revealed its drawbacks: the policy orientation is not clear, and the preferential methods are unreasonable. Because it has not adapted to the development of the economic and social situation, it must be reformed from the "Generalized System of Preferences" to a more reasonable "System of Preferences", so as to reduce the situation of blindly introducing foreign investment, improve the quality of the use of foreign capital, and make the preferential policies more reasonable and standardized. Therefore, the new enterprise income tax reform is changed to adapt to the new form, and will not affect China's enthusiasm for using foreign capital and foreign investment.

Using the 10-year panel data in China for empirical analysis, it is concluded that investors in Hong Kong are more sensitive to preferential tax policies, and investors in developed countries in Europe, the United States and Western countries are insensitive to preferential tax policies.

After the reform of enterprise income tax, the most affected should be Hong Kong and Taiwan foreign enterprises based on processing trade, and the impact on developed countries will be very small, but will guide their investment direction. Therefore, he believes that the "merger of the two taxes" will not have a great impact on China's introduction of foreign investment, that is, the impact will be very limited, and the implementation of the new enterprise income tax will improve the quality level of China's introduction of foreign investment. Increase the attractiveness of other countries, and enhance their competitiveness and economic strength, it is a necessary and important strategy, and China will also take such measures. In fact, the new enterprise income tax reform does not completely abolish the preferential tax policies for foreign investors, but changes the preferential tax policies from the "Generalized System of Preferences" to the "System of Preferences" according to the current economic and social conditions, adjusts the policies with unclear goals, and adopts indirect reduction and reduction policies that are generally applicable internationally.

In this way, the blindness of introducing foreign capital will be reduced. In addition, in order to fulfill China's WTO commitments, it is also an inevitable choice to make preferential tax policies more standardized and transparent. In general, foreign investment is paying less attention to preferential tax policies, and paying more attention to other aspects such as market potential and environment, so that the change of preferential tax policies will not affect the scale of foreign capital inflow, but it has a positive effect on China's optimization of foreign capital structure and utilization level.

If a multinational enterprise has made a decision on FDI and the investment location has been set to several selectable areas, then the guidance of the tax preferential policy will have a significant impact on the final choice of location, if the tax preferential policy is canceled, the foreign entrepreneurs who originally wanted to use the tax preferential policy to invest will choose other places under the same conditions, so in the increase in attracting FDI after the tax reform, the original tax preferential areas will have a smaller increase than the original areas without tax preferential policies.

After studying 80 investment projects, it was noted that fiscal incentives were important for 48% of decisions in export-oriented projects, while protection measures were the most important determinant for domestic market investment. Newly established companies see tax incentives that reduce initial costs as more important. In addition, he also showed that the service industry does not prefer preferential policies related to asset depreciation, while the manufacturing industry is the opposite, because it uses much more fixed assets than the service industry.

And large investors are more sensitive to tax incentives than small investors, because tax costs occupy an important position in the costs of small enterprises, on the one hand, they do not have the capital and the other has no manpower to operate the tax costs to minimize them. Deep-capitalized multinationals adapt more easily and adjust their strategies more quickly than smaller firms, regardless of changes in the host country's tax system. Some domestic research results have also come to similar views. For example, Zhong Wei and Hu Yijian, based on the results of structural analysis, pointed out that FDI, export-oriented enterprises and small-scale enterprises are more concerned about changes in preferential tax policies.

An Tifu and Wang Haiyong pointed out in their analysis of the inevitability of the merger of the two taxes that only small and medium-sized enterprises and enterprises pay more attention to preferential tax policies, but for large-scale multinational enterprises, they have strong capital, first-class technology and high management level, they pursue long-term investment, long-term investment returns, pay attention to the improvement of overall competitiveness and comprehensive operating conditions, and pay more attention to the advantages and disadvantages of the investment environment and the economic prospects.

### 1.4 Research ideas and methods

This paper mainly studies the impact of income tax preferential policies on attracting FDI in China, and this paper is divided into four levels for research: First, raise questions. Clarify the research purpose and significance of this paper, refer to the research literature of predecessors according to the purpose and significance of the research, and review the research results of predecessors. Second, the theoretical basis.

This part provides a theoretical basis for the establishment of empirical analysis models and the selection of variables, and also provides theoretical support for policy recommendations. Third, analyze the problem.

This paper mainly analyzes the problems from two aspects: normative and empirical analysis, which mainly analyzes the development and evolution of China's preferential income tax policies, aiming to strengthen the perceptual understanding of the research content of this paper : Empirical analysis includes data analysis and quantitative analysis using econometric models using panel data, aiming to objectively show the changes in FDI and the correlation between FDI and income tax incentives through the results of data and econometric analysis. Fourth, solve problems. Policy recommendations are given in conjunction with the third level of analysis. Guided by this research idea, this article is divided into 6 chapters to examine this problem:

Chapter 1 mainly explains the purpose and significance and reviews the previous research results. The author first expounds the purpose and significance of the research based on the changes in China's political and economic situation and the changes in income tax policy. Then, through the study of domestic and foreign literature, the author learned about the research situation of predecessors in this field, and reviewed the research results of predecessors according to whether preferential tax policies have a significant impact on FDI. On this basis, the research ideas and research methods of this paper are determined, and the innovations of this paper are introduced.

Chapter 2 mainly introduces the relevant theories of tax incentives and the relevant theories of factors affecting FDI. Among them, the theory of tax incentives includes externality theory, double gap theory, international production compromise theory, negotiation theory and compensation theory, and tax preferential theory explains the reasons why the government gives tax incentives to FDI and how FDI affects tax preferential policies. The theory of factors affecting FDI mainly analyzes the factors affecting FDI, mainly including market, labor, infrastructure, policy, law and other factors. Chapter 2 aims to provide a theoretical basis for the establishment of econometric models and the selection of variable indicators.

Chapters 3, 4 and 5 focus on both qualitative and quantitative aspects. Chapter 3 mainly introduces the historical evolution of China's preferential income tax policy. It mainly shows the direction and thinking of China's preferential income tax policy reform in different periods.

Chapter 4 mainly analyzes the changes in FDI in China from the three aspects of the scale, quality and structure of FDI through data, tables and graphs, and analyzes the reasons behind the changes in FDI in combination with the changes in China's preferential income tax policies.

Chapter 5 is an empirical analysis that uses econometric model research to reveal the correlation between China's preferential income tax policies and FDI. On the basis of the theoretical guidance of Chapter 2, the model is established, the variables are explained, selected, and the impact of the preferential income tax policy on FDI is studied through the panel data model.

Chapter 6 summarizes the research conclusions.

## 1.5 Innovations

Many previous studies have focused on the impact of preferential tax policies on FDI, but these studies are not studies on the impact of China's preferential income tax policies on FDI. In addition, some of the research on the impact of China's preferential income tax policies on FDI was mainly carried out before 2007. After 2007, China's preferential income tax policy has changed, and the previous research is mainly to predict the impact of this change on China's FDI attraction.

Compared with previous studies, the time sample data selected in this article are more sufficient. In 2008, China's new income tax law was promulgated and implemented. Although some domestic scholars before and after the promulgation of the new tax law, they analyzed the tax incentives in the new tax law on China's attraction of foreign investment.

However, due to the limitation of research time, these studies lack data support, and are mostly theoretical studies. In this study, the author will study the impact of changes in preferential tax policies on attracting foreign investment in China.

Most of the existing research results focus on the impact of tax incentives on China's FDI attraction research, recently there is a small number of literature research on the impact of income tax on China's FDI research, in these studies have applied qualitative analysis methods, prediction and inference, do quantitative analysis of the actual effect analysis is very little, at the same time, there is no systematic, multi-angle research, this paper intends to learn from and absorb their own research results on the basis of appropriate quantitative analysis, and from three perspectives, the scale, quality and structure, to systematically study the actual impact of enterprise income tax reform, and put forward some operational countermeasures and suggestions.

## 2. Literature review

2.1 Theoretical basis of tax incentive policy

According to Dunning's international production compromise theory, the preferential tax policies affect FDI through its location advantages.

In addition, FDI often brings higher technology and production technology, more advanced management experience, and positive externalities to the host country, and these positive external economic effects cannot be compensated for through the market, but can only be compensated by the preferential policies of the host country, and preferential tax policies are one of the important means.

This section will elaborate on the important theoretical basis for the existence of several preferential tax policies to attract foreign investment.

2.1.1 Theory of externalities

In the 20s of last century, the famous British economist Pigou used the methods of modern economics for the first time to explain externalities from the perspective of welfare economics by analyzing the divergence between marginal private net product and marginal social net product.

Pigou pointed out that when the marginal net private product (that is, the output value obtained by an individual enterprise by adding a unit of production factor to production) is equal to the marginal social net output value (that is, the output value added by adding a unit of production factor to production from the perspective of the whole society), and the product price is equal to the marginal cost, it means that the allocation of resources is optimal. But Pigou believes that this is an ideal state, and in reality, there is the following relationship between marginal private net product and marginal social net product: if an individual's economic activity brings benefits to other economic individuals, and this favorable effect is called "marginal social gain". Conversely, if individual economic activity causes losses to other economic individuals, then the marginal social net product is less than net product.

When there is a marginal social gain, we say that there is a positive externality; When there are marginal social costs, there are negative externalities. It is only under conditions of a fully competitive market that it is possible to achieve that the return of private is equal to the gain of society, but this situation is only a rational assumption. Under the conditions of a free and competitive market, there will inevitably be a situation where marginal private benefits deviate from marginal social benefits, and marginal private costs deviate from marginal social costs, and it is impossible to maximize social welfare.

It is then up to the Government to adopt appropriate economic policies to eliminate this deviation. When there are externalities, the economic policies commonly adopted by governments are: Taxing external uneconomic behaviors; Subsidies for external economic actions. Through such taxes and subsidies, externalities can be internalized. This policy proposal came to be known as the "Pigou tax".

FDI behavior has obvious positive externalities for host countries. In the transnational movement of capital, it is inevitable to be accompanied by the diffusion of intangible assets such as research and development results, advanced technology, production technology, human capital, and management experience to the host country.

Firstly, the demonstration imitation effect. The demonstration imitation effect refers to the exemplary learning behavior of host enterprises on the advanced technology of TNCs, in order to make up for technological differences and improve their own production level.

Secondly, the competitive effect. The entry of transnational corporations will, on the one hand, compete with host country enterprises for limited market resources and promote host country enterprises to improve production efficiency. On the other hand, if TNCs enter monopoly industries, they will also reduce the degree of monopoly in the industry, thereby improving social welfare.

Thirdly, the chain effect. Knock-on effects include the knock-on effects of technology and investment. Technology knock-on effect refers to the fact that multinational companies will transfer technology to upstream and downstream enterprises in the process of cooperation with upstream and downstream enterprises. Investment knock-on effect means that one investment by a multinational corporation may trigger continuous investment by the same investor, or induce related investments by other multinational corporations.

Fourth, the training effect. Multinational companies recruit employees locally, undergo training by multinational companies, and master more advanced production and management technologies. This pool of personnel may flow to other enterprises in the host country in the future. These spillover effects are positive externalities for the host country. By imitating and improving TNCs, host enterprises can help host countries achieve technological progress in the learning-by-doing model.

At the same time, the investment activities of multinational corporations may give the host country enterprises better conditions for innovation, thereby stimulating the technological innovation willingness of the host country enterprises and improving the technological innovation ability of the enterprises. International direct investment by transnational corporations has directly or indirectly promoted technological progress in host countries and accelerated their economic growth. The social benefits of such technological spillovers cannot be absorbed in their entirety.

Due to the existence of positive externalities, the marginal returns of TNCs are smaller than the marginal benefits of society, and TNCs will lack investment incentives. Therefore. Host countries provide tax incentives to multinational corporations and provide incentives and compensation for positive externalities of transnational corporations.

2.1.2 Double notch theory

According to the basic principles of macroeconomics, the smooth operation of the economy can only be guaranteed when the total supply of society and the total demand of society are basically balanced. From the perspective of total social supply: GNP=C+S+T+M, where C is consumption, S is savings, T is government revenue, and M is import.

From the perspective of total social demand: By the total social demand is equal to the total social supply, that is, C+S+T+M=C+I+G+X. Assuming that government revenue is equal to government expenditure, i.e. T = G, then the equilibrium condition of national income and expenditure can be obtained: M-X = I-T.

In fact, in developing countries, where the economy is in the take-off stage, the above conditions are usually difficult to balance: it is often the case that investment is greater than saving, that is, I-S>0, and there is a "savings gap"; Or imports are greater than exports, that is, M-X>0, there is a "foreign trade gap".

In the late 60s of the 20th century, the famous American Economists H. Chanari and A. Strout proposed the "double gap" model, that is, to make up for the domestic "foreign trade gap" and "savings gap" by attracting foreign investment. By using foreign investment, the demand for domestic construction funds is guaranteed.

In fact, there are two ways for foreign capital to enter: one is reflected in the increase in imports, and the other is the inflow of funds. In the first approach, the increase in imports is directly reflected in the growth of foreign sources of savings, without the need to mobilize current domestic savings.

In the second case, the introduction of foreign capital will create demand for goods and services in the domestic market, which may have an impact on domestic savings through price changes and a number of other factors. However, since many factors such as prices, interest rates, and wages that affect domestic savings can objectively offset each other, the negative effect of foreign capital inflows on domestic savings is small, and overall total savings will increase.

It is very important for developing countries, and many countries that have become developed countries rely on the inflow of foreign capital to sustain economic growth in the early stage of their economic development. Therefore, the role of special policies, especially preferential tax policies, in the investment attraction work of various countries cannot be ignored.

2.1.3 International production compromise theory

In 1977, Professor Dunning of the University of Reading in the United Kingdom (J. H· Dunning proposed The Eclectic Theory of International Production in Trade, Economic Location, and Multinational Firms: An Exploration of Eclectic Theory). At the heart of the theory of international production trade-offs is the OIL Paradigm: TNC behavior and OFDI are determined by three basic elements: Ownership, Internalization, and Location Advantages.

The "compromise theory" explains the reasons for the emergence and development of FDI in a more complete and comprehensive way. This theory emphasizes that enterprises have ownership, internalization, and location advantages for direct investment, and only when enterprises have these three advantages at the same time can they fully meet the conditions for OFDI.

Natural endowments are often a static factor that accumulates over a long period of time and is not easy to change, that is, the hard environment; Factors such as policy, legal, political and institutional factors are characterized by dynamic characteristics. Policy factors include trade barriers, openness to foreign ownership, fiscal regimes and investment preferences. In the theory of international production trade-offs, Dunning reveals the potential role of government preferential policies in changing location resources: the government increases the regional advantages of multinational enterprises through preferential policies. The preferential tax policy to attract foreign investment is an important part of the preferential policy, and its existence has a sufficient theoretical basis (Zhao, et al., 2022).

2.1.4 Theoretical negotiation

Negotiation theory is a well-known theory of national politics. The theory holds that there is a game relationship between host countries and TNCs. The two have different negotiation resources and bargaining chips, and the two parties will reach an agreement in the political, economic and commercial fields.

This theory can be applied to the policy analysis of FDI behavior, and can be used to explain the policy effect of FDI behavior. In the article "International Trade and Investment", Root (1978) argues that in the investment process, the advantages and disadvantages of host countries and multinational companies will change as the advantages and disadvantages of the investment stage progress.

Before investment, the host country is at a disadvantage over TNCs in negotiations, which is necessary for the host country's preferential policies. With the deepening of the investment process, foreign investors continue to invest in funds, plants and equipment, with the formation of these accumulated costs, the negotiation chips of the two sides change, the negotiation advantages of multinational companies gradually decrease, while the negotiation advantages gradually increase, and the country can adjust the preferential policies.

2.1.5 Compensation theory

In addition to the above explanation theory of preferential tax policies, the compensation theory explains the reasons why the state grants tax incentives to FDI enterprises from a new perspective.

The host country has two considerations: First, in addition to encouraging policies, a country's policy towards foreign investors may also have other policies that interfere with the government's direct investment behavior. The government's compensatory policies, including tax incentives, are designed to compensate investors for losses caused by other government interventions.

For example, the return on investment of foreign investors is artificially affected, and the host government can compensate for this loss by reducing the import tax on imported equipment, raw materials and intermediate products. The investment environment of the host country is not perfect, which will affect the foreign investment to a certain extent, or constitute certain market obstacles to foreign investment.

This situation will inevitably increase the investment costs of foreign-funded enterprises and reduce the attractiveness. In order to make up for this market defect, the government should give cost subsidies to foreign investment, which is reflected in the tax policy, that is necessary to give certain tax incentives to foreign investment.

## 2.2 Theoretical analysis of factors affecting FDI

### 2.2.1 Market factors

According to Dunning's theory of international production trade-offs, the direct investment behavior of TNCs is influenced by the location characteristics of the host country.

Market factors, as an important element of location factors, are one of the important factors in attracting direct investment by TNCs in host countries. Market factors include market size, marketization, market openness, etc. The market size here includes both the capacity of the real market and the potential of the future market. Foreign-funded enterprises tend to build factories in areas with large market scale:

First, it is conducive to cost saving. Larger markets are generally closer to consumer and factor markets, which is conducive to obtaining more market opportunities, reducing the cost of collecting information and reducing freight costs.

Second, obtain the effect of agglomeration economies of scale. In areas with a large market scale, there will generally be many enterprises of the same type, thus forming an industrial agglomeration economic effect, which is conducive to reducing production costs. The size of a region's market is generally positively correlated with the size of economic aggregates such as GDP. The larger the GDP of a region, economic development, and the demand for high-quality products or emerging product markets.

Market demand will drive multinational companies with certain production scale and capabilities to enter. Conversely, if a region's GDP is not large, most of the consumption needs of the region's residents will be concentrated on the demand for necessities, and the demand for high quality and emerging markets is small, making it difficult to attract foreign investment. Marketization means that economic operation follows market mechanisms.

The greater the attraction for the FDI behavior of multinational companies,  the measurement of the degree of marketization involves more factors: the degree of government intervention in the economy, the property rights system, etc. Combined with the analysis of China's national conditions, it can be seen that compared with the central and western regions, the economic system transformation of the eastern region was earlier, the proportion of state-owned economic components and collective economic components in the regional economy is smaller than that of the central and western regions, and the eastern region is for multinational companies FDI behavior is more attractive than in the Midwest.

The level of market openness to the outside world, reflects a region's attitude towards foreign investment behavior. The degree of market openness of a region is generally reflected by the proportion of the region's imports and exports to GDP. The higher the degree of market openness in a region, the higher the capacity and economic management level for foreign investment, and the higher the acceptance of foreign-invested manufacturers and their products by the government and residents in the region. Regions with a high degree of market openness can introduce advanced equipment and technology from foreign investors faster, and products produced by foreign enterprises can find sales channels faster.

### 2.2.2 Labor factors

In addition to market factors, FDI behavior is also influenced by labor factors. The labor factors mentioned here include labor cost and labor quality. Cost minimization is often an important criterion for enterprise location selection, and labor costs directly affect the cost of foreign investment and are one of the important costs that enterprises pay attention to. The reason why many multinational companies choose to build factories in developing countries is because of labor costs. Because in developed countries, workers' wages are often higher than in developing countries, workers' high wages increase the cost of enterprises and weaken their international competitiveness.

The emergence of the phenomenon of manufacturing in China is also related to China's huge labor supply and relatively low labor wage levels. This cost competitive advantage has a strong appeal for multinational companies. With the introduction of China's new labor law, workers' rights and interests have improved, labor costs have risen, weakening the labor cost advantage that foreign-funded enterprises can obtain, and many enterprises have re-opted to build factories in Southeast Asian countries such as India and Vietnam. When considering the factors of labor, foreign investors should consider the quality of labor in addition to labor costs. Therefore, when considering labor factors, enterprises will comprehensively consider two factors: labor cost and labor quality.

2.2.3 Status of infrastructure

Infrastructure refers to the production and living service facilities in the region, city, industrial zone, which is the material condition for the enterprise to engage in production activities and the hard environment for the investment and operation of the enterprise. Infrastructure includes transportation facilities, energy facilities, network facilities, communication facilities, etc., and it is shown that the perfection of infrastructure is an important reason for attracting FDI. The perfect infrastructure conditions of the host country can provide smooth logistics and transportation conditions, sufficient energy supply and other external conditions for enterprise operations, thereby helping enterprises reduce additional costs and enhance the country's ability to attract investment.

As an important component of infrastructure, transportation is a key factor affecting the cost of foreign investment. Convenient transportation means less freight costs. Especially for enterprises with relatively large demand for raw materials, such as foreign investment based on resource development, such enterprises need to import a large number of raw materials, transportation costs account for a large proportion of the total cost, and have high requirements for transportation facilities. Therefore, when choosing an investment region, these companies often consider the completeness of transportation facilities as an important consideration. In addition to transportation facilities, infrastructure such as energy and communication also affect the production and operation costs of enterprises, thereby affecting the location choice of enterprises.

2.2.4 Policy factors

Policy factors largely affect a country's investment soft environment. A country's policy on foreign investment shows the country's attitude towards foreign investment, and preferential policies are directly related to the production and operation costs of foreign enterprises. In addition, the stability of a country's policies also greatly affects the regional choice of foreign investment. For example, China introduced various preferential policies for design tax policies, approval systems, and legislative systems, which strengthened China's attractiveness for foreign investment. Since the reform and opening up, China has implemented the method of gradual development of sub regions, giving priority to the implementation of the strategy of opening up to the outside world in the eastern coastal areas, and giving greater policy preferences to the eastern coastal areas.

### 2.2.5 Legal factors

Legal factors include factors such as the perfection of the law, the degree of legalization, and the legal environment. A good legal environment is a necessary condition for foreign ministers' direct investment. In foreign investment behavior, the stability of the investment environment is an important consideration for foreign enterprises.

If there is no sound judicial system to protect it, policies and regulations will be changed at will. It will inevitably affect the production. If the law restricts foreign investment behavior, foreign-invested enterprises cannot make full use of the resources of the host country, and discriminates against foreign investors, these legal factors that restrict the development of foreign-invested enterprises will inevitably reduce foreign investment behavior.

### 2.2.6 Theoretical analysis

The theory was first proposed in "The International Management of Domestic Firms: A Study of Outward Direct Investment", and completed it with his mentor C. P. Kingdleberger. Later, it was supplemented and developed by Kevs, Johnson and others to form a complete theory. The theory states that OFDI needs to meet two conditions: first, TNCs must have a particular advantage to overcome disadvantages in the host country; The theory also states that the root cause of OFDI by TNCs is imperfect competition in the market. The incompleteness of the market is manifested in four aspects: First, the incomplete market for products and production factors; Second, economies of scale lead to incomplete markets; Third, the market is incomplete caused by government regulation or intervention; Fourth, the market is incomplete due to taxes and tariffs. The incomplete performance of the first three types of markets leads to monopoly dominance, while the fourth incompleteness encourages OFDI by TNCs.

The central meaning of this theory is that the fundamental cause of OFDI by MNEs is the incomplete market, and the monopoly advantage of MNE is an important factor for OFDI.

This theory objectively states that American multinational enterprises rely on their monopoly advantages to develop rapidly in OFDI. However, the theory of monopoly advantage mainly analyzes the causes of OFDI from the perspective of the economic, technical and business decision-making relationship of multinational enterprises, and cannot explain the phenomenon of OFDI among developed countries with the same level of science and technology. Moreover, it is impossible to explain the fact that some SMEs in developed countries that do not have a monopoly advantage and some enterprises in developing countries also engage in OFDI. Therefore, the theory only describes the superficial phenomenon of OFDI by TNCs, but does not indicate the root causes of OFDI.

British economist Buckley, Peter J. and Casson, Mark proposed the theory in 1976 in The Future of Multinational Corporations and was developed by Canadian economist Lachman in 1981 in Transnational Corporations: The Economics of Internalizing Markets. Market internalization is the process of building the market within an enterprise. Because the market is incomplete, if the company puts the intermediate products outside the market to trade, the company may not achieve the goal of maximum profit. In order to illustrate the motivation of multinational companies to invest abroad, the theory of market internalization combines the transaction cost theory of Coase et al. Since the incomplete market will inevitably lead to an increase in the transaction costs of enterprises, if enterprises externalize transaction costs into internalization, this can reduce the transaction costs of the market and maximize profits. Then, after the enterprise internalizes the allocation of international resources, the cost will be smaller than the cost of externalization, which will produce multinational enterprises. The theory of market internalization explains FDI in developed countries, pointing out the causes and nature of multinational corporations to a certain extent, so some scholars believe that it is a key turning point in the study of Western multinational corporation theory. However, the theory focuses on the description of the internal decision-making process and business motivation, but does not provide a substantive analysis of the economic relations in the business process, and due to the shortcomings of the above analysis, the theory cannot explain the OFDI of small and medium-sized multinational enterprises and developing country enterprises that do not have ownership advantages in developed countries.

The theory was proposed in 1966 by Harvard University professor Raymond Vernon. This theory mainly explains the dynamics of FDI from the aspects of competitive conditions and product comparative advantages. He believes that the production of products should take into account which stage of production the product is in when choosing the place of production.

The reason why multinational enterprises adopt the strategy of OFDI is to occupy foreign markets to match the development law of product cycles. The theory divides the product life cycle into three phases: the first stage, the innovation phase. At this stage, the enterprise has absolute control of the new technology, the product is in non-standardization, the input of production factors is very large, and the price elasticity of product demand is extremely small, at this time, the choice of where the enterprise produces the product will not affect the size of the production cost of the enterprise. The second stage, the maturation stage. At this time, the product has been finalized and the variety is increasing, and the scale of supply is increasing, which intensifies the price competition between enterprises and makes enterprises begin to consider the problem of production costs. The third stage, the standardization phase. Product production and style have been standardized, a large number of competitors have emerged, so that the monopoly position of the original enterprise has been lost, price competition has become dominant, in order to reduce costs, enterprises usually invest in countries with lower labor raw materials.

In the mid-seventies of the twentieth century, capital exports from developed countries continued to increase, while developing countries also began OFDI activities. In such a situation, it is difficult to explain this phenomenon in investment theories, which are mainly dominated by developed countries. Dunning's theory of international production trade-offs illustrates this phenomenon better.  Only when enterprises have these three advantages will they tend to develop externally. Since some countries or regions have lower transportation costs and production costs than other countries, they have location and ownership advantages and internalization advantages of multinational enterprises, combined with the location advantages of host countries, the effectiveness of OFDI is largely ensured.

Although the theory of international production trade-off explains the phenomenon of OFDI, it is widely accepted as the mainstream theory of OFDI. However, because it is based on microscopic subjects, it is bound to have its limitations and shortcomings.

Many OFDI practices cannot be explained. For example, British and Japanese companies, compared with the United States, do not have ownership or internalization advantages, but still invest in the United States; developing country companies do not have location advantages, but they will also choose to invest in developed countries, these theories cannot be explained.

2.2.7 Reality analysis

The theory of FDI put forward by Marxism explains the fundamental reasons for FDI. Under the premise of dialectical materialism and historical materialism, it analyzes the fundamental causes of FDI from the perspective of history and development and from the perspective of social production relations.

OFDI is part of the international capital movement, and the essence of the international capital movement has been revealed in Marx's "Capital": to realize the appreciation of capital and pursue high profits. In order for capital to increase its value and realize more surplus value, it needs to expand externally, that is, OFDI. They need to realize more surplus value by adding more production sites and labor, so that they can achieve high profits. That is, in Marx's original words, "If capital is exported abroad, then this happens not because it is absolutely unusable at home, but because it can be used abroad with a higher rate of profit."

American scholars conducted a survey of 255 domestic manufacturing multinationals on OFDI between 1979 and 1980, and the results show that the results show: The main investment motivation for FDI is the pursuit of high profits°. United States TNCs make more profits from their outward investments than they do at home, especially in developing countries. For example, in the 70s of the 20th century, the average profit rate of the US manufacturing industry was about 13%, while the profit margin in developed and developing countries was 19.2% and 32%, respectively, in 1985 it was 16.2% and 14.2%, in 1987 it was 21.3% and 13.8%, and in 1989 it was 14.6% and 17.2%.

Some scholars divide the motivations of FDI into several types: resource-oriented; efficiency-oriented, market-oriented, risk diversification, technology-oriented, environmental pollution transfer, global strategy, etc.; For the above types, they are classified according to the characteristics of foreign investment. But we can see that whatever type of motivation they are classified assumes ultimately have the same purpose – to make high profits. Enterprises are centered on profits, and carry out various activities of enterprises. Conversely, if a resource doesn't make sense to investors, it won't be invested in it; If you can't make a high profit by investing in a certain place, then investors will not invest in this place. Therefore, investors use different production and operation methods and focus on different investment points, but the essence of pursuing high profits and realizing capital appreciation is always the same and unchanged.

### 2.3 Qualitative analysis of the impact of tax incentives on FDI

#### 2.3.1 Ineffectiveness of tax incentives

Barlow & Wender (1955) and Robinsen (1961) found that the inconvertibility of currency is the most important influencing factor for investors when studying the motivation of investors for foreign investment.

In addition, investors also pay attention to issues such as whether the political situation is stable, whether resources are abundant, and whether the market is huge, while investors only pay one-tenth of their attention to preferential policies provided by the government, including tax incentives. Aharoni (1966) studied the overseas investment behavior of the US manufacturing industry and believed that the host country's incentive policies such as tax concessions and income tax relief did not affect investors' investment decisions. Root & Ahmed (1978) used the panel data of developing countries to study some factors that may affect the inflow of FDI, and found that preferential tax policies can significantly affect the decision to invest overseas.

Jack M.Mintz & Thomas Tsiopoulos (1992) believed that tax incentives may become a decisive factor affecting foreign capital inflows only when the tax burden level of the host country and its own capital are relatively high. Figlio & Blonigen (1999) found that the inflow of FDI in South Carolina has exceeded the new domestic investment, which caused the state's tax revenue to decline and infrastructure and education expenditure to increase, which brought a great burden to the state's finances. In addition, the two major financial institutions also have relevant research on this issue. They believe that tax incentives have a greater impact on investors' overseas investment decisions than other factors such as markets, resources, and infrastructure, especially in the long run.

There are also some studies that believe that the tax incentive policy is relatively ineffective, that is, only under certain specific conditions, the tax incentive policy will not work. Hartman (1984) found that the way of profit reinvestment is more sensitive to changes in the tax rate of the host country through the study of the impact of tax incentive policies on different investment models. In addition, the study also divides enterprises according to their financing channels, and analyzes the sensitivity of internal financing models and external financing models to tax incentives. Response to changes in tax incentives is greater. That is to say, different sources of FDI funds have different responses to changes in tax policies.

Devereux & Griffth (1998) studied the investment preferences of American investors in the European Union and other regions, and believed that if other location factors are the same, then tax incentives will have a certain impact on investors' choices. If the choice of investment location is limited to the member states of the European Union, then the tax incentive policy will become a direct influencing factor, but if the investment scope is extended to all countries in the world, then the tax incentive policy will not have a great impact on the location choice. Magnus Blomstro & Ari Kokko (2002) showed through research on the investment behavior of multinational corporations that the economic strength of the host country is the most important factor in attracting overseas investment.

In addition, overseas investors also give a higher weight to the social environment, and a stable political situation and a stable social environment have a significant impact on investment behavior. Only relying on preferential measures such as tax cuts to attract foreign investment has little effect, and even if tax preferential policies play a certain role in the short term, the existence of this promotion effect is not sustainable, and still needs to rely on the economic strength and political environment of the host country. Relying on other aspects, it has a significant impact on attracting foreign capital.

2.3.2 Effectiveness of tax incentives

With the in-depth study of the relationship between tax incentive policies and FDI by scholars from various countries, more scholars believe that tax policies can have an impact on the inflow of FDI and that the tax burden level of the host country is negatively correlated with the inflow of foreign capital. Moden (1995) found that FDI has a high sensitivity to changes in the marginal tax rate of the investing country through the study of Swiss FDI flows and tax policies from 1965 to 1990. Wei (2000) also concluded that there is a negative correlation between FDI and the country's tax rate through the analysis of investment data in some countries.

Some scholars have studied the impact of preferential tax policies on FDI inflows. It can be seen that preferential tax policies have a very important impact on FDI. When most investors make cross-border investments, some tax policies will be their key considerations, and Subsequent survey data from the World Bank also confirmed that tax policy is a determinant factor. Chen & Jo Hui (1998) believed that the host country’s preferential tax policy has a positive and significant impact on FDI. Through the analysis of macro variables such as labor costs and GDP and some tax incentive policies such as property tax and consumption tax, he found that the preferential tax policy is Determinants of FDI inflows. Xu Kangning, Wang Jian (2002) also found that the existing domestic tax incentives can significantly promote the inflow of investment capital to the United States through the study of domestic policies. Li Zonghui, Lu Minghong (2004) analyzed the impact of tax policies on foreign capital inflows from both macro and micro levels, and analyzed policy factors such as regional opening factors, reinvestment relief, corporate income tax rates, and import link relief, and found that the single policy factor was foreign capital inflows The incentive effect of is positive and significant, and when these policy factors are considered together, the incentive effect is even more significant. Le Wei, Sun Peiyuan (2002) analyzed relevant preferential tax policies and relevant data in different regions and found that the inflow level will also be affected by different regional policies, and regions with more preferential tax policies are compared with regions with less preferential tax policies, the former type of regions are more likely to attract FDI. Zhong Wei (2008) also found that different regional tax policies have different impacts on FDI. By constructing a panel data model of relevant data from 1988 to 2005, he found that different provinces have different attractiveness to FDI due to differences in policies, and preferential tax policies can significantly promote the inflow of foreign capital into China. Li Yongyou and Shen Kunrong (2008) also confirmed that different regional policies have different impacts on FDI. Some scholars have studied the relationship between international tax competition and FDI. Haaparanta (1996) found that for its own development, the host country will comprehensively consider the tax policies of other countries when formulating tax policies to attract foreign capital, so as to formulate tax policies that are more conducive to the inflow of foreign capital into the country, which can be recognized as employment-creating foreign capital. James R. Hines Jr. & Joel Slemrod, ed. (1996) found that investment behavior is highly sensitive to tax rates, preferential tax policies have a significant impact on the investment behavior of multinational companies, and international tax relief policies have a significant impact on it. The flow direction of FDI plays a guiding role, and policies such as "forgiveness and credit" in some countries can accelerate the inflow of FDI into the country. Therefore, international tax competition has a significant impact on FDI inflow. Mooijde & Ederveen (2003) found that although the inflow of FDI will intensify the international tax competition, the tax competition will not go on endlessly, and also confirmed that different countries have different attractiveness to FDI due to differences in tax policies.

### 2.3.3 The heterogeneous impact of tax incentives on FDI

In the 21st century, the academic circle generally accepted the view that taxation has an impact, deepened and refined its related research, and began to explore the impact of tax incentive policies on foreign capital inflows. Some scholars have analyzed the temporal heterogeneity of FDI.

Yuan Meng (2008) selected 22 years of data, and tested the effect of changes in China's tax rate and export tax rebate system. The study found that the higher the tax rate, the less the inflow of FDI, and on the contrary, the more preferential export tax rebates, the more inflow of FDI. Afterwards, the author divides the process of foreign capital inflow into different stages for research, and finds that the incentive effect of tax incentives on FDI is gradually weakening as time goes on. Dong Jingjing (2009) used the panel fixed effect model to analyze the relevant data of FDI in 47 cities in China, and found that the scale of foreign investment in China has staged characteristics. The study found that at all stages of opening up, tax incentive policies have a positive effect on the inflow of foreign capital, but with the passage of time, the incentive effect of tax policy shows a downward trend, while factors such as the level of economic development, market size, and foundation facility construction and other factors have gradually increased the influence of foreign capital inflows.

In addition, some studies have found that policies in different regions have different impacts on FDI. Kang Fengli (2009) divided China's 31 provinces into different economic regions, and used a spatial econometric model to verify that differences in taxation policies in different regions affect the ability to attract foreign investment. Impact. The study found that the impact of tax competition on FDI is dependent on other regional characteristics, and this impact is significantly related to the degree of local marketization. Yang Luping (2008) innovatively added the dummy variable of tax preference level into the econometric model, and found that general tax preference policies have a significant impact, but the impact of different levels of tax preference policies vary widely. Among them, the preferential tax policies of cities with economic development zones, high-tech zones, and bonded areas have an important impact on the inflow of overseas investment, while the preferential tax policies of special economic zones only significantly promote the introduction of foreign investment in the eastern coastal areas. Wang Hui (2010) established a gravity model based on the data of 49 countries from 1999 to 2008, and studied countries with different levels of development: for countries with a medium level of development and a large scale, the impact on tax rates is more sensitive to changes in the country, and preferential tax policies can, to a large extent, promote these countries to attract foreign investment.

Some scholars believe that the impact of tax policy on FDI is different among different investment subjects. Guisinger (1985) divided the investment motives of multinational corporations into three types: export-oriented, market-oriented and seeking location advantages, and found that investors with different motives had different responses to changes in host country tax policies. In his opinion, export-oriented enterprises are most sensitive to tax policy. First, because the market competition faced by enterprises mainly producing export products is very fierce, which will directly lead to the inability of enterprises to obtain expected profits by setting high prices, so business owners will try to reduce their costs to obtain benefits, tax costs are an important factor. Second, because export-oriented companies tend to have higher liquidity, business owners can choose countries with more favorable tax incentives for investment. Rolfe et al. (1993) based on the life cycle theory , divided the FDI enterprises according to the years of establishment, and conducted empirical research using the survey report data of major American enterprises , and found that the initial stage enterprises can reduce the preferential tax policies for initial investment costs are more preferred, and these preferential policies are mainly aimed at fixed asset investment and raw material purchases; for growing companies, tax incentives for corporate income tax are obviously more attractive. In addition, Rolfe also found that manufacturing companies are more interested in the depreciation of fixed assets. Coyne (1994) divided overseas investors according to asset size and found that smaller investors are more sensitive to tax incentives, and believed that the main reason is that small investors have weaker capabilities in tax planning and capital operation, compared with large investors, its tax cost accounts for a higher proportion of the total cost.

## 2.4 Quantitative assessment of the impact of tax incentives on FDI

Wei (1994) through the empirical analysis of the tax rate of the OECD member countries and the amount of FDI, found that the change of the tax rate of the home country can significantly affect the change of the amount of FDI. The data of the 45 developed countries in the sample show that the amount of change in investment is three times or more than the change in tax rate. Gropp & Kostial (1994) also used the data of OECD member countries to find factors affecting FDI. They found that after controlling the interference of other factors on the regression results, tax rate changes are significantly negatively correlated with changes in FDI inflows. Every 10-percentage point increase in tax rates will lead to a decrease of 0.2 percentage points in FDI.

Chinese scholars have also done some research on related issues. Xu Ziyun (2018) selected the statistical data of 33 OECD member countries and 25 Asian developing countries from 2005 to 2015 as representatives, and analyzed the impact of changes in tax burden rates in different economic environments in developed and developing countries. The magnitude of the impact on FDI inflows. While in Asian developing countries, the tax burden rate and FDI inflows are also significantly negatively correlated, and the correlation coefficient is - 0.32. Qin Jingli (2019) took 36 cities in China from 2001 to 2016 as samples, and empirically analyzed the impact of the tax preference index on the actual amount of FDI attracted, the result is the same.

## 2.5 Theoretical analysis of FDI and tax policy

### 2.5.1 Theories related to FDI and tax policies

**The Eclectic Theory of International Production**. According to the eclectic theory, Dunning believes that the willingness of enterprises to form cross-border investment is jointly determined by three basic factors: ownership advantages, internalization advantages, and location advantages. Based on the premise that enterprises have reached cross-border investment intentions, that is, they have these three advantages, we will discuss where efforts need to be made if we want to encourage FDI enterprises to invest in China. First of all, the enterprise's ownership advantage and internalization advantage are beyond our influence, so we must analyze it from the location advantage.

Location advantage refers to the advantages that the host country can give FDI enterprises in terms of investment environment, including both direct advantages and indirect advantages. Among them, the direct advantage refers to the certain advantages of the host country itself, which can directly attract FDI enterprises to invest in the host country according to some objective conditions of the country. The indirect advantage refers to the investment environment of the investing enterprise's home country has certain defects, and there is a certain gap compared with the host country, which cannot attract domestic enterprises to invest, and indirectly causes these enterprises to invest in other countries. Since the indirect location advantage is due to the conditions of the investing country itself, we cannot make an impact, so we need to attract FDI enterprises to invest in China by enhancing the country's direct location advantage.

One is the advantages that cannot be easily changed by humans. They are usually natural, static factors that are difficult to change through long-term accumulation, such as natural resources and geography. environment etc. The other category is the investment environment advantages that can be artificially formed by the host country, such as political system, economic system, etc. These factors are relatively easy to change and are dynamic in the short term.

Since the advantages of natural endowment cannot be changed by manpower in the short term, according to the international production eclectic theory, if the situation of FDI is to be improved, it is very important to enhance the attractiveness of FDI enterprises by changing the advantages of the investment environment. It also reveals the potential role of government. Among the advantages of the investment environment, the government can attract FDI by changing the preferential policy factors that are relatively easy to control. Tax incentives have always been an important tool for economic regulation in China, and its research has sufficient theoretical basis.

**Externality theory**. The British economist Pigou pointed out that when the product price is consistent with the marginal cost, and the marginal private net product is consistent with the marginal social net product, it means that the allocation of social resources is at its best. When there are marginal social interests, that is, other people get certain benefits in addition to the marginal private net product value, it is considered that there is a positive externality; and when a certain activity of the producer will cause certain adverse effects on the society, that is, there is a negative externality. At this time, certain policies can be formulated to alleviate this imperfect allocation of resources.

However, the investment and development of foreign enterprises in the host country will produce more significant positive external effects. When FDI enterprises invest in the host country, there must be some excellent results such as science and technology and management experience spilling out. By absorbing these excellent technologies overflowed by foreign-invested enterprises, it can help the host country to further improve its own technological level by learning from its technological achievements and conducting research. Moreover, FDI enterprises will definitely hire a certain number of local residents to work for them in the host country, and these people may master more advanced production and management concepts after receiving training from foreign enterprises. And some of these people will definitely work for the host country company in the future, and these employees can bring better production experience and ideas to the host country company. Moreover, if a foreign-invested enterprise enters the monopoly industry market of the host country, it will also reduce the degree of monopoly in this industry, which is conducive to more fair and healthy competition among enterprises. However, the probability of this situation in China is relatively small. China and some other countries generally do not allow FDI enterprises to enter some monopoly industries in their own countries. This is also to protect their own capital.

Improve their technical level or management results by learning from foreign-invested enterprises, which will benefit the technological progress of the host country. Making investment decisions in the host country through FDI will definitely bring a certain level of technical improvement to the host country, and this behavior that brings certain benefits to the host country indirectly shows that the benefits of FDI companies have not been fully absorbed, and will produce certain benefits. This may cause enterprises to reduce their investment intentions, and the government can encourage and compensate the positive external influence of multinational companies by providing certain preferential policies to FDI enterprises to promote the investment behavior of FDI enterprises.

**Compensation theory**. In addition to the tax incentive theory mentioned above, the compensation theory can also explain the reasons for providing tax incentives to FDI companies. In addition to incentive policies, foreign investment policies formulated by a country may also have compensation policies, including preferential tax policies, etc., which aim to use certain preferential measures to compensate investors for the adverse effects of other interventions made by the government. For example, if the investment of FDI enterprises is affected, the host country government can make up for this loss by reducing the import tax on imported equipment, raw materials and intermediate products. Or it may be because the host country's investment environment is not perfect, which will bring certain market obstacles to FDI enterprises. Therefore, in order to make up for some market defects that may exist, the government will provide certain preferential policies to compensate FDI enterprises. This kind of compensation is reflected in government measures, generally by giving certain preferential policies, such as tax incentives.

2.5.2 The necessity of using tax means to optimize the orientation of FDI

**Help to improve the quality of FDI**. Through the formulation of corresponding tax policies to indirectly guide the investment behavior of FDI enterprises. FDI enterprises can be divided into the following two types according to the types of main activities they engage in: one is labor-intensive companies. This type of company chooses to make cross-border investment mainly because the cost of labor in the country is too high, and they want to take advantage of the relatively cheap labor force in the host country, thereby reducing corporate costs and increasing profits. In addition, the scale of these enterprises is relatively small, and they mainly focus on basic manufacturing industries. Since these enterprises take creating the maximum profit for their own enterprises as the ultimate goal, they are more sensitive to the production and operation costs of the enterprises. The tax policy will have a more obvious impact on such enterprises. When the tax incentives that these enterprises can enjoy are gradually reduced or even eliminated, due to the increase in their own tax burden and cost, such enterprises usually choose to withdraw from the host country.

The other kind of company is a market-oriented company. The purpose of this type of company investing in the host country is mainly to expand overseas markets. Generally speaking, the scale of such enterprises is relatively large, and their main concern is the objective market environment and future development expectations of the host country. Compared with the final profit level, such enterprises pay more attention to the economic development of the host country, the stability of the investment environment and the quality of the labor force. Such enterprises pay less attention to short-term operating costs, including tax burdens, so reducing tax incentives will have less impact on such enterprises.

According to the characteristic that different types of enterprises respond to tax policies differently, China can formulate corresponding tax policies to indirectly guide the operation types of foreign-invested enterprises in China.

**Help guide the industry's investment tendency**. Before 2008, the actual amount of FDI in China's three major industries was mostly in the secondary industry, the scale of FDI in the tertiary industry was smaller than that in the secondary industry, and the amount of foreign investment in the primary industry was less than one hundred percent. In addition, the distribution of investment among different industries is not balanced. Manufacturing is the main industry invested by FDI enterprises, while basic industries such as energy and raw materials receive less FDI, and the distribution is extremely uneven.

It can be seen that without external intervention in the decision-making of FDI enterprises, foreign capital is more inclined to invest in processing trade industries with low technology level but high energy consumption, rather than investing in high-cost and high-risk industries. In the technology industry, this is not inconsistent with the idea that enterprises need to maximize profits, but it cannot help the industries that China urgently needs to develop.

This unreasonable investment structure among industries is also related to China's original policies. Since China did not pay much attention to the industry structure of FDI enterprises in the early stage, it only blindly gave the same preferential policies to increase the introduction of FDI. Due to the large scale, most of the early FDI enterprises tend to choose the industries that can make the enterprises have lower risks and higher profits for investment. After 2008, China canceled the original tax policy that was only applicable to FDI enterprises, and instead implemented a policy of preferential tax policies that focused on industries and supplemented by regions. In recent years, policies have been issued to encourage the development of high-tech and high value-added industries, and preferential tax rates have been adopted for enterprises in their industries that meet certain requirements. Through the adjustment of tax policies, different preferential policies are implemented for different industries and types of enterprises, which can indirectly guide the industry selection of FDI enterprises.

**Contribute to the promotion of regional development.** Moreover, the eastern region itself has relatively good infrastructure construction, relatively convenient transportation, and a large number of ports. These factors have accelerated the development of the eastern region. However, due to their poor natural conditions and backward infrastructure, compared with the eastern regions, the central and western regions have no natural endowment advantages to attract FDI enterprises, and cannot achieve the goal of attracting FDI enterprises. In terms of policies, it is not as flexible as the eastern region. The introduction of foreign companies in the central and western regions of China has always been far from that in the eastern regions.

Until the reform of the enterprise income tax system implemented in China in 2008, a unified income tax system was implemented for all enterprises regardless of the source of capital, and the original "super-national treatment" for FDI enterprises was cancelled. Instead, a tax system based on industry preferences supplemented by regional preferences has been implemented, which has enabled more FDI enterprises to enter regions or industries encouraged by the state. Through the country's implementation of a series of measures to encourage the development of the central and western regions, the ability of the western region to attract foreign investment has been continuously enhanced. In particular, on the basis of publishing the foreign investment guidance catalogue, China has also issued a guidance catalog for the central and western regions, highlighting the advantageous industries of each province.

Some FDI companies have changed their investment plans, choosing to shift their investment areas from the eastern coastal areas to the western areas. However, due to the small amount of investment transferred by these enterprises, the scale is generally small. So far, the regional structure of FDI enterprises investing has not yet been reversed. However, the imbalance of China's foreign investment structure is gradually improving and developing in a better direction, and through the improvement of tax policies and other corresponding policies, it will provide more assistance to the optimization of the regional structure of FDI.

## 2.6 Summary of this chapter

It is mainly divided into two aspects: one is whether tax incentives have an impact on FDI. Second, assuming that tax incentives have an impact on FDI. Scholars at home and abroad have conducted in-depth research on these two issues, and have drawn similar or contradictory conclusions. This chapter sorts out the existing literature and lays the theoretical foundation for the follow-up research of this paper.

## 3. Development of China's tax policy to attract FDI

China faced a situation of backward economic development. With the continuous development of China's economic level, China's economic development goals and the focus of attracting foreign capital in each stage are also changing, so China's preferential tax policies are also changing. This chapter will focus on the analysis of the development and changes of China's corporate income tax preferential policies with the continuous deepening of reform and opening up.

### 3.1 Phase I

Since 1979, China's reform and opening up has taken solid steps. In 1979, the "Sino-Foreign Joint Venture Enterprise Law" was the first foreign investment law promulgated by China. Since then, the "Sino-Foreign Cooperative Enterprise Law" and "Foreign-funded Enterprise Law" have been promulgated one after another, establishing a basic framework for China's utilization of foreign capital. During this period, foreign capital was mainly concentrated in special economic zones and coastal cities in the southeast, and the absolute amount of foreign capital inflow was relatively small.

Due to the lack of experience in the use of foreign capital during this period, the ideology was still deeply constrained by the traditional planned economy, and foreign entrepreneurs, especially large multinational companies, lacked confidence and trust in the foreign investment policies of the Chinese government. The confrontation between the two major military blocs. Therefore, no matter whether foreign entrepreneurs invest in China or our government utilizes foreign capital, there are various concerns about political risks and economic security. Therefore, China's foreign investment policy is in the stage of prudent exploration and accumulation of experience, and foreign investment in China is mainly tentative investment. Most of the main measures adopted by China to actively introduce foreign investment were gradually implemented after the reform and opening up. Among them, preferential conditions were given from multiple perspectives such as tax policies to actively strive for foreign investment. The main preferential policies adopted by China at this stage are summarized in the table.

Table 1 Tax Policies for FDI Enterprises from 1978 to 1993

| time | policy name | content and meaning |
|---|---|---|

| | | |
|---|---|---|
| 1979 | "Sino-Foreign Equity Joint Venture Law" | Since the promulgation of the first law in 1979, it means that the basic policy structure of FDI enterprises in China has begun to be established. And with the promulgation and implementation of two laws one after another, it marks the completion of the establishment of the income tax system used by foreign companies investing and operating in China. |
| 1980 | "Income Tax Law of the People's Republic of China on Sino-Foreign Equity Joint Ventures" | |
| 1981 | "Foreign Enterprise Income Tax Law of the People's Republic of China" | |
| 1980 | "Guangdong Provincial Special Economic Zone Regulations" | The regulations include preferential policies for FDI in special economic zones, and more preferential policies for enterprises investing and operating within the scope of special economic zones. In terms of tax policies, they also greatly encourage the activities of FDI enterprises. . |
| 1984 | "Interim Provisions on the Reduction and Exemption of Corporate Income Tax and Consolidated Industrial and Commercial Tax in Special Economic Zones and Fourteen Coastal Port Cities" | This period is the initial establishment stage of China's preferential tax policies, mainly to expand the scope of preferential tax policies implemented only in special economic zones to other coastal cities, thereby further enhancing China's attractiveness to FDI enterprises. |
| 1986 | "Regulations on Encouraging Foreign Investment" | The regulation mainly delegates certain autonomy to local governments. Local governments can formulate preferential policies for FDI enterprises according to their actual conditions, including but not limited to tax policies. This provision is also to better attract FDI enterprises in various regions. |
| 1991 | "The Income Tax Law of the People's Republic of China on Enterprises | The relevant provisions of the Income Tax Law previously used by FDI enterprises will also be discontinued. At this time, China has established a |

| | | |
|---|---|---|
| | with Foreign Investment and Foreign Enterprises" | relatively unified foreign enterprise income tax regulation. |

On July 1, 1979, the "Law of the People's Republic of China on Sino-Foreign Equity Joint Ventures" came into effect, and China began to establish preferential tax policies for foreign investors. The "People's Republic of China Sino-Foreign Joint Venture Operating Enterprise Income Tax Law" and the "People's Republic of China Foreign Enterprise Income Tax Law". The promulgation and implementation of these three laws marks the preliminary establishment of China’s taxation system for foreign-invested enterprises. In April 1979, Comrade Deng Xiaoping proposed for the first time the establishment of "Export Special Zone". Later in March 1980, "Export Special Zone " was renamed "Special Economic Zone" and implemented in Shenzhen.

The "Guangdong Provincial Special Economic Zone Regulations" promulgated in 1980 stipulated special preferential policies for the use of foreign capital in special economic zones, expanded the economic autonomy of local governments, including approval authority, foreign exchange funds, financial credit and income tax incentives for foreign-funded enterprises, and granted in terms of taxation great incentive for FDI enterprises. This period is the initial establishment stage of China’s preferential tax policies, which are mainly used in special economic zones.

On November 15, 1984, the State Council promulgated the "Interim Regulations on the Reduction and Exemption of Enterprise Income Tax and Consolidated Industrial and Commercial Tax in Special Economic Zones and Fourteen Coastal Port Cities". The regulations stipulate that in order to facilitate the expansion of foreign economic cooperation and technological exchanges in the four special economic zones of Shenzhen, Zhuhai, Xiamen, and Shantou, and the fourteen coastal port cities such as Dalian, absorb foreign capital, introduce advanced technologies, and accelerate socialist modernization, special companies, enterprises and individuals from foreign countries, Hong Kong, Macao and other regions (hereinafter collectively referred to as merchants ) who invest in the establishment of Sino-foreign joint ventures, Sino-foreign contractual joint ventures, and wholly foreign-owned enterprises in the above-mentioned special zones and cities will be given tax reductions, exemptions from corporate income tax and unification of industry and commerce.

The "Regulations" further improve the tax environment for investment, and at the same time expand the scope of preferential tax policies to 14 open coastal cities.

In 1985, the state decided to further open three coastal areas with convenient transportation conditions, and listed three areas including the Yangtze River Delta as coastal economic open areas. In 1988, the division of coastal economic open zones was further expanded, extending to Liaodong, Shandong Peninsula and other regions in the region, and expanding to the county level in the administrative level. In 1992, China's reform and opening up process was further deepened, and the country decided to further establish coastal open cities, extending to cities along the river and along the border. With the continuous expansion of China’s open areas, the area covered by income tax incentives is also becoming wider and wider.

With the continuous expansion of China’s open areas, the areas where foreign entrepreneurs can enjoy preferential policies are becoming wider and wider. In addition, in terms of tax preferential policies, the intensity of preferential policies that foreign entrepreneurs can enjoy is constantly increasing and the content is constantly improving. On September 3, 1983, the Central Committee of the Communist Party of China and the State Council issued the "Instructions on Strengthening the Utilization of Foreign Capital". The "Instructions" made specific regulations on the issues that should be paid attention to in the work of utilizing foreign capital in China, relaxing certain policies, improving the legislative work, strengthening the planning work of utilizing foreign capital, and strengthening centralized and unified leadership. Foreign enterprises can enjoy the policy of "two exemptions and three half reductions"; the tax reduction and exemption period for established Sino-foreign joint ventures is extended; there is also a corresponding tariff exemption policy for imports. On October 11, 1986, the State Council issued the " Regulations on Encouraging Foreign Investment" to give special preferential treatment to foreign-invested enterprises that meet the regulations. It is a further preferential tax policy that foreign-funded enterprises can enjoy after the expiration of the reduction and exemption period. At the same time, it also provides support, fund raising, and independent decision-making for enterprises. This regulation allows local governments to promulgate FDI policies according to their respective conditions, forming the foreign investment policies of local governments. In 1991, the "Income Tax Law of the People's Republic of China on Foreign-Invested Enterprises and Foreign Enterprises" came into effect. At the same time, the original income tax law applicable to Sino-foreign joint ventures and foreign enterprises is abolished.

After a series of adjustments to FDI policies in China since 1984, the areas enjoying tax incentives have continued to expand, gradually developing from the earliest special economic zones to coastal open cities, coastal economic open areas, and inland provincial capitals, forming a decreasing gradient tax preferential system and achieve the unification of tax jurisdiction principles.

In the stage of development and promotion of preferential tax policies, Chinese domestic-funded enterprises and foreign-funded enterprises follow different laws and regulations on tax collection and management. In addition, the beneficiaries of tax incentives at this stage are limited to productive foreign-funded enterprises. Although the inland provincial capital cities have been opened up and the tax policies of open coastal cities have been referred to, the focus of tax incentives at this stage is still tilted towards the east.

From the above policies, it can be seen that since the reform and opening up, China has realized that attracting FDI enterprises to invest in China can play a certain beneficial role in the economic development of China, and since then, it has continuously issued corresponding preferential policies for FDI enterprises, make appropriate adjustments according to different situations. From only the most basic legal provisions in the early stage to the implementation of regional preferential policies for FDI enterprises in special economic zones in the later stage, and then continue to develop and expand the scope of application. The eastern region enjoys extremely high tax preferential treatment, which greatly enhances the investment intention of foreign companies.

### 3.2 Phase II

Since 1994, in order to simplify the tax system and rationally distribute taxation rights and responsibilities, China has carried out the reform of the tax sharing system. The previous corporate income tax law that was especially applicable to foreign-invested enterprises has become invalid, and it has been changed to use the same income tax law as local enterprises, and foreign-funded enterprises will no longer be established separately with different income tax law. Of course, in order to ensure the stable operation of FDI enterprises, a certain policy buffer period is reserved for them. Moreover, due to the rapid economic development and relatively complete infrastructure in the eastern coastal areas, there is a large gap in the development of FDI enterprises between the eastern and western regions. In order to alleviate this gap, improve the situation of FDI in the western region, and ensure the coordinated development between regions, China began to gradually change the regional tax policy.

Since 1995, China promulgated the "Foreign Investment Industry Guidance Catalog" for the first time, and has revised the catalog many times since then, so that foreign companies can understand China's policy orientation in a timely manner. It also proposed to focus on the development of the western region, and promulgated and implemented a number of regulations to encourage the development of the western region in 2000, including the "Catalogue of Advantageous Industries for Foreign Investment in the Central and Western Regions" and other preferential tax policies to promote the economic development of the central and western regions. To ensure the balanced development of all regions, the industry catalog has been revised several times since its promulgation. This stage is mainly due to the fact that China realizes that the economic development and infrastructure construction of the eastern and western regions are far apart , and both domestic and foreign enterprises have low willingness to invest in the western region, so certain changes have been made to the tax system. , reduce the special preferential policies for the eastern coastal areas, try to make the basic policies of the eastern and western regions the same, and encourage the development of some industries in the central and western regions. However, due to the better development of the eastern region, under the same system, FDI enterprises still tend to invest in the eastern region at this stage.

Since joining the WTO, it agreed to apply its basic rules, that is, all enterprises investing and operating in China should promote fair competition as the main purpose, and enterprises with different sources of capital should not be subject to excessive differences in policy treatment. According to this situation, China needs to change the previous tax policy and unify its tax policy for all enterprises investing in China. This also marks that China's policy formulation for foreign investment is about to enter a new stage. We need to abolish all super-national treatment for FDI enterprises to make it the same as China’s enterprise treatment. From this stage, China began to gradually reduce the preferential policies enjoyed by FDI enterprises, and began to conduct research.

At the beginning of 1992, Comrade Deng Xiaoping inspected the south and delivered an important speech. As a result, the Chinese government's foreign investment policy showed a change from tentative to active in attracting foreign investment. On the "Beijing 1993 International Symposium on Transnational Corporations and China", Vice Premier Li Lanqing delivered a speech on behalf of the Chinese government, welcoming multinational corporations to invest in China and seeking common development with Chinese business circles on the basis of equality and mutual benefit.

During this period, the Chinese government issued the "Guiding the Direction of Foreign Investment" and "The Catalog of Foreign Investment Industries", and further opened up six ports along the river in China, 13 inland border cities and 13 inland provincial capital cities, forming a nationwide pattern of opening up to the outside world. Since 1992, FDI has continued to accelerate, reaching US$45.463 billion in 1998. In 1999, due to the impact of the Southeast Asian financial crisis, the flow of foreign capital in China declined, but it still reached US$40.319 billion (Source: China's National Bureau of Statistics). Growth resumed in 2000, and the actual utilization foreign investment was US$40.71 billion (Source: World Bank data).

Large multinational companies have entered China one after another. Therefore, at this stage, China's foreign investment policy has become more and more mature, and proactive encouraging policies have been adopted to encourage foreign entrepreneurs to invest in China, while foreign entrepreneurs have strengthened their confidence in China's investment environment and policies, and have listed China as a key area for overseas investment.

On December 15, 1993, the State Council promulgated the "Decision on Implementing the Tax-sharing Financial Management System", which decided to implement the tax-sharing financial management system from January 1, 1994. The guiding ideology of the tax system reform in 1994 was: unify the tax law, simplify the tax system, fair tax burden, and rationally decentralize powers. This is the first step towards a unified tax system for domestic and foreign-funded enterprises.

In order to maintain the stability of the tax system and give foreign-funded enterprises a certain buffer time, foreign-funded enterprises will implement a five-year transitional policy of "returning excess tax burden". After the 1990s, with the deepening of reform and opening up, the inter-regional development gap caused by policy differences between the eastern coastal areas and the central and western regions gradually widened. In order to coordinate development among regions and narrow the gap between regions, the government began to adjust tax incentives and other policy measures, creating an all-round regional opening pattern.

In June 1995, the state promulgated the "Interim Regulations on Guiding the Direction of Foreign Investment" and the "Guiding Catalog of Foreign Investment Industries", which divided the industrial catalog into four categories, thus greatly reducing domestic policies and regulations. The meeting mainly adopted China's "Ninth Five-Year Plan". The state proposed that in China's "Ninth Five-Year Plan", coordinated regional development was highlighted, and the meeting documents specifically pointed out that more attention should be paid to supporting the development of the inland.

According to China's WTO commitments, China's economic policies must abide by WTO rules, which means that China's use of foreign capital has entered a new stage. The basic principle of WTO - the principle of promoting fair competition mainly emphasizes that fair competition should be followed in trade. The principle of non-discrimination occupies a relatively low position in trade between member states.

In response to the new situation of China's accession to the WTO, China's foreign capital utilization policy began to change from three aspects: First, gradually change the original means of attracting foreign capital through preferential policies to standardized competition order and perfect investment environment; Second, according to the requirements of the WTO, gradually cancel the "super-national treatment" enjoyed by foreign capital , and change it to uniform national treatment for domestic and foreign-funded enterprises ; Third, change the original purpose of attracting foreign capital, and the focus has gradually shifted from attracting funds to introducing advanced technologies. In order to fulfill China's WTO commitments, China will focus on the reform of preferential taxation at this stage to change the differential policies.

3.3 Phase III

Since 2008, China has officially implemented the "Enterprise Income Tax Law of the People's Republic of China", and all enterprises in China are uniformly applicable to the same income tax law. Since then, FDI enterprises have reached an agreement with all tax policies of local enterprises in China, and no special treatment will be promulgated for FDI enterprises.

Before the reform of the income tax system in China, FDI enterprises could enjoy more preferential tax policies than our local enterprises, which is contrary to the principle of fair competition of the World Trade Organization, to treat FDI enterprises and local enterprises equally. After reaching a consensus on the income tax system for domestic and FDI enterprises, although the amount of FDI in China declined in 2009, through the analysis of the situation in that year, this situation was mainly due to the global financial crisis that occurred in 2008. In 2009, the amount of global FDI showed a sharp decline (Source: United Nations

Conference on Trade and Development). Although the actual amount of foreign investment in China has declined, the proportion is still relatively good. Due to the different preferential tax policies among different regions, the FDI situation in the eastern and central western regions of China is quite different, which indirectly leads to more obvious external spillover effects of FDI enterprises in the eastern region of China. And because there is a certain natural resource gap between the western region and the eastern region, and FDI enterprises have successively invested in the eastern region, the gap between the eastern region and the western region has become more and more obvious. In recent years, China has been committed to guiding the investment direction of FDI enterprises, hoping to encourage more FDI enterprises to invest in places with relatively poor economic development such as the central and western regions, so as to promote local development. Moreover, because China’s early preferential policies did not distinguish the industries engaged in by FDI enterprises, most of the initially developed FDI enterprises were labor-intensive enterprises. After the merger of corporate income tax, China’s tax policy has gradually shifted from regional preferential policies to industry-based incentive policies. Through the successive implementation of these policies, it can be seen that China's current relative requirements for technological levels are relatively high. The degree of encouragement for high industries is relatively high, and these policies are also applicable to FDI enterprises.

The year 2001 was another turning point in China’s foreign capital utilization policy. According to statistics, in order to adapt China’s foreign investment policy to the new international competition rules, the State Council has cleared up more than 2,300 laws, regulations and departmental rules in accordance with relevant WTO rules and the needs of China’s economic management system reform, and revised them through the National People's Congress, the State Council and various departments, 325 items were abolished, covering the fields of trade in goods, trade in services, intellectual property rights and investment. At the same time, in order to adapt to foreign investors entering China in different ways, in November 2002, relevant state departments successively issued the "Notice on Issues Concerning the Transfer of State-owned Shares and Legal Person Shares of Listed Companies to Foreign Investors", "Temporary Provisions on the Administration of Domestic Securities Investment by Qualified Foreign Institutional Investors" "Measures" and "Provisional Regulations on the Reorganization of State-owned Enterprises Using Foreign Capital" and other three important documents. Specific provisions are made on the approval procedures and the deadline for capital contribution payment. At the end of 2002, the country accumulatively approved the establishment of 424,196 FDI enterprises, and the actual use of foreign capital amounted to 447.966 billion US dollars, thus surpassing the United States for the first time to become the "largest country" in attracting FDI. In 2004, the "Regulations on Guiding the Direction of Foreign Investment" and the "Catalogue of Advantageous Industries for Foreign Investment in Central and Western Regions" were revised (Source: Ministry of Commerce of the People's Republic of China). By 2005, China's actual use of foreign capital was 60.325 billion US dollars, becoming the country that attracted the most foreign capital in the world for several consecutive years.

The 25th meeting of the Standing Committee of the 10th National People's Congress deliberated for the first time the State Council's proposal to submit for deliberation the "Enterprise Income Tax Law of the People's Republic of China (Draft)". On March 16, 2007, the Fifth Session of the Tenth National People's Congress of the People's Republic of China passed the "Enterprise Income Tax Law of the People's Republic of China" and promulgated it with the Order of the President of the People's Republic of China [2007] No. 63, in 2008 It will be implemented from January 1st. The promulgation and implementation mean the end of the parallel situation of the two taxes for domestic and foreign-funded enterprises. The "Interim Regulations of the People's Republic of China on Enterprise Income Tax" and the "Law of the People's Republic of China on the Income Tax of Enterprises with Foreign Investment and Foreign Enterprises" were abolished and implemented at the same time, leaving the historical stage of China's tax legal system. From the date of implementation of the "Enterprise Income Tax Law", the enterprise income tax of foreign-funded enterprises in China has been incorporated into a unified and standardized tax collection and management system.

The Enterprise Income Tax Law, an international practice, serves as a reference, reflecting the idea of overall planning and management of corporate tax collection and management in China, and has achieved "four unifications": the unification of income tax collection and management laws for domestic and foreign-funded enterprises; income tax rate; unification of pre-tax deduction methods and standards for corporate income tax; change the original differential treatment of domestic and foreign-funded enterprises, apply unified preferential tax policies, and change the original situation of preferential tax policies based on regions. Focus on industrial tax incentives.

After the "integration of two taxes", Chinese and foreign enterprises are applicable to the unified corporate income tax rate and collection management regulations, and the overall corporate income tax burden in China has decreased. From a regional perspective, special economic zones and the western region still enjoy tax incentives. The original regional preferential tax policies for attracting foreign investment have been transformed into industrial tax preferential policies.

3.4 Evolutionary characteristics of China's FDI policy

1. Evolution from a single foreign investment policy to a diversified foreign investment policy

China's initial foreign investment policy is mainly quantitative preferential measures, that is, super-national treatment for FDI enterprises in terms of taxation and land transfer prices; centralized construction and development of infrastructure and supporting projects, and low land prices and labor costs to attract foreign investment. After a period of attracting foreign investment, China’s foreign investment policy has developed in many aspects. For example, it has begun to adopt the method of combining target positioning and preferential policies. Management level and other soft and hard environments; on the other hand, according to their own comparative advantages, they formulate a package of preferential policies for specific foreign-funded enterprise projects and take the initiative to attract foreign-funded enterprises. In order to optimize the industrial structure of foreign capital and balance the geographical distribution of foreign capital, various industrial policies and regional economic incentive policies related to FDI have been introduced one after another, enriching the content of China's foreign capital policy.

2. Evolution from exploratory foreign investment policy to targeted foreign investment policy

Foreign entrepreneurs are entering the exploratory stage of China, and China's foreign investment policy is also in the exploratory stage accordingly. With the adjustment of FDI strategy in China, in order to adapt to this adjustment and play a guiding role in FDI in China, rather than blindly increasing FDI inflows, the economy only grows but not develops, and China's FDI policy has also adopted a series of purposeful adjustments. For example: in order to balance the economic development of the central and western regions and adapt to the western development strategy, the policy that is conducive to the introduction of investment in the western region has been revised; in order to attract foreign advanced technology and management experience, the foreign investment industry policy that encourages high-tech industries has been adopted; in order to encouraging the development of high-tech industries, the foreign investment policy has been modified to a certain extent, and many high-tech industries that have been restricted in the past have been opened. In short, with the development and growth of the economy, the country 's demand for FDI will change. If the policy lags behind the economic changes, the actual situation of FDI in a period of time will deviate from the predetermined goal. Therefore, China's foreign investment policy has been and needs to be periodically and consciously reviewed and examined the gap between the goal of FDI and the reality in the future, and revise and update it in time to make it consistent with the demand.

3. Evolution from preferential foreign investment policies to fairness-based preferential policies

In order to attract foreign capital, China has adopted many preferential policies, and even many local governments, in order to attract more investment, blindly compare preferential policies, thus forming an unfair external competition environment before enterprises with different ownership systems, and at the same time causing national interests' loss. Under the trend of economic globalization, some new trends have emerged in the direct investment of multinational corporations in China. The location decision of FDI no longer depends only on the preferential degree of foreign investment policies as an important determinant. With China becoming a member of the WTO, in order to meet the requirements of the WTO, in addition to making a lot of adjustments and revisions to the policies of foreign-invested enterprises, China has also established the WTO Notification and Consultation Bureau, and the General Administration of Quality Supervision, Inspection and Quarantine Set up Technical Barriers to Trade (TBT) and Sanitary and Phytosanitary Measures (SPS) consultation points, regularly report the situation to the WTO, and carry out trade policy consultation services. As of the end of April 2004, China had notified 439 items to the WTO, involving 18 fields and 46 categories. The content included not only the fulfillment of commitments, but also the formulation and implementation of laws and regulations: Ministry of Commerce Inquiry Point Written Response Consultation answered 70 cases, thousands of telephone consultations, AQSIQ consultation points answered 50 consultations. Domestic academic circles also believe that the adjustment of direction of China's foreign investment policy in the future is to implement national treatment for foreign investment. The reasons are as follows: First, according to the requirements of the World Trade Organization rules, China must cancel the policy of restricting foreign investment and implement national treatment. Second, the "super-national treatment" for foreign capital is unfair to domestic enterprises, and there is no need for foreign capital enterprises, especially multinational companies.

3.5 The Evolution path of the FDI scale of Multinational Corporations in China

Since the reform and opening up, FDI in China has been greatly increased. Before 1979, there was almost no FDI in China. Since 1992, the scale of China's FDI has shown a rapid growth trend. In 2003, it reached 52.743 billion and once became the second largest FDI host country next to the United States. Judging from the total amount of foreign capital inflows, the amount of foreign investment has been on the rise. Since the entry of foreign capital, the investment strategies of FDI enterprises in China have also undergone great changes, showing different investment characteristics in each stage, and the scale of FDI is also correspondingly presents a different growth trend at different stages.

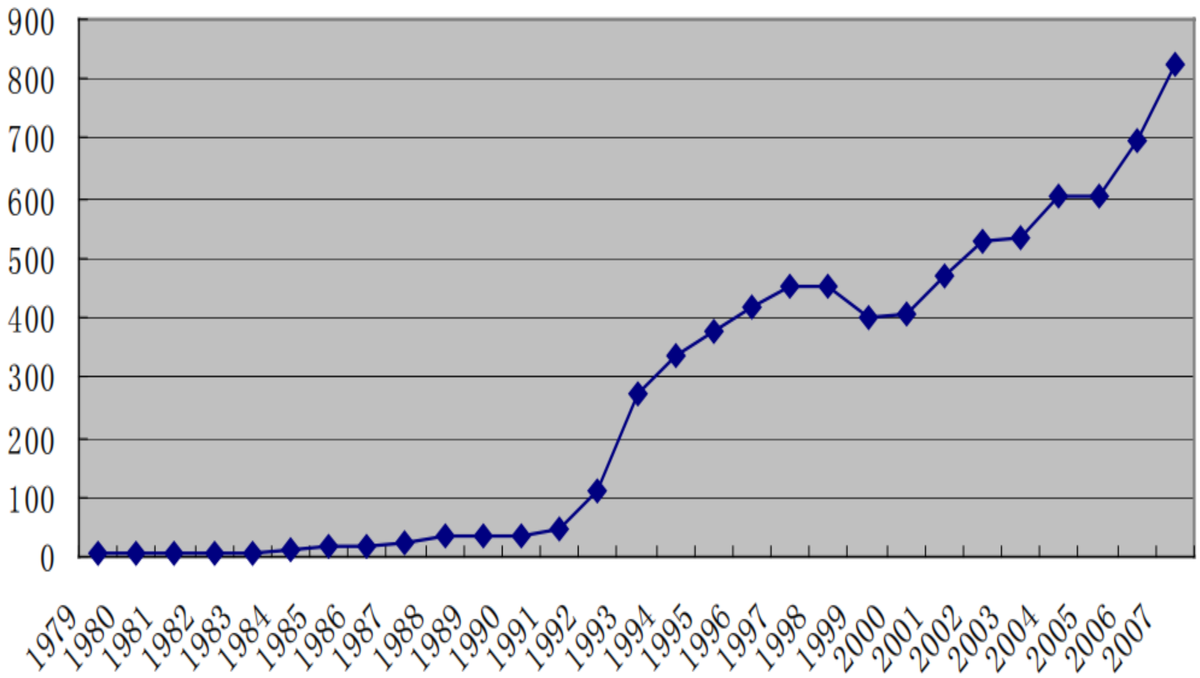


Figure 1 Periodic changes in continuous FDI

1. Exploratory investment stage (1979-1991)

The exploratory investment strategy is the initial corporate strategy adopted by foreign entrepreneurs entering the Chinese market. The main purpose is to understand how the company operates and manages in the Chinese market, and to evaluate the risks and potential benefits of the Chinese market, so as to prepare for further investment. Therefore, foreign-funded enterprises mainly exist in the form of offices, and the investment amount and investment scale are very small. Even if some of them exist as production-oriented enterprises, they are often invested in China by enterprises that have trade with China. It can be said that it is an expansion and replacement of the previous trade mode, the purpose is to realize the localization of products, and its investment industry is also limited to general processing and manufacturing industries. According to China's Statistical Yearbook (1991), the scale of FDI from 1979 to 1983 was very small, and the range of change was not large, with a total of 1.8 billion US dollars in five years. According to Figure 1, it can be seen that the inflow of FDI from 1983 to 1991 increased compared with the previous years, but the increase was very small. At this stage, the inflow of FDI only showed a slight increase.

2. Strategic investment stage (1992-1998)

With the increasing familiarity with the Chinese market, investors choose strategic investment strategies. Compared with the tentative stage, the amount of foreign investment in China has increased significantly. At this stage, on the one hand, most multinational companies pay more attention to the operation and management of enterprises; on the other hand, the competition among investors begins to intensify, trying to gain the first advantage in the Chinese market, so as to obtain more market opportunities and higher profits. income. The field of investment has also expanded from manufacturing to service industry, product design and distribution. At the same time, foreign-invested enterprises began to increase production scale and production capacity in order to enhance their competitive advantages and gain a larger market share than their competitors. According to Figure 1, it can be seen that at this stage, the rising curve is convex, and the slope of the tangent line gradually increases, that is, the scale of FDI in China is increasing.

3. Market-leading investment stage (1999-present)

Then, foreign investors began to enter a higher level of investment stage - market-leading investment stage. The goal of investment is to occupy the market, establish a leading position in the industry, and compete more comprehensively with other competitors. Correspondingly, the amount of foreign investment in China, especially large multinational companies, has increased significantly. Take Motorola as an example. It set up its first office in Beijing in 1987. By June 2000, the company had established 1 holding company, 1 wholly-owned company and 7 joint ventures in China, with an investment of 1.5 billion U.S. dollars. Drive suppliers to invest 4 billion U.S. dollars. In August 2000, it announced an increase in capital in China of 16 billion yuan, bringing the total investment to 3.4 billion U.S. dollars. By 2006, the cumulative investment in China will reach 10 billion U.S. dollars (Shi Tongwei, 2002). At this stage, the scale of FDI is generally still on the rise, but due to the host country’s policy entering into an adjustment phase and other factors including the economic environment and strategic adjustments of multinational companies, the scale of FDI in China has fluctuated and adjusted: In 1999, due to Affected by the financial crisis in Southeast Asia, the scale of FDI has declined. In 2000, it began to resume an increasing trend. In 2005, there was a slight decline, but in 2006, it resumed an upward trend.

**4. Analysis of the impact of tax incentive policies on FDI**

4.1 The Impact of preferential tax policies on the scale of FDI attracted by China

In 2019, the amount of foreign capital utilized has declined significantly. In 2019, China's utilization of foreign capital amounted to US$94.065 billion, a decrease of 13 percentage points from the US$108.312 billion investment in 2018. The downward trend of China's actual utilization of foreign investment is consistent with the trend of global FDI inflows. Compared with 2020, global FDI outflows in 2021 will also show a downward trend. Global FDI inflows in 2018 were US$1,816.3 billion, and this value was US$1,216.5 billion in 2019, a decrease of 33%. Based on the economic situation in 2019, the main reason for the decline in international FDI inflows may be the sluggish global economy. Foreign investors are not optimistic about the investment form after the economic crisis, thus reducing the amount of investment in China.

Table 2 FDI since the reform and opening up

| Year | Number of enterprises | Actual use of foreign capital (100 million) | Growth rate of actual use of foreign capital (%) |
|---|---|---|---|
| 1979-1992 | 920 | 17.69 | |
| 1993 | 638 | 9.16 | |
| 1994 | 2166 | 14.19 | 54.91 |
| 1995 | 3073 | 19.56 | 37.84 |
| 1996 | 1498 | 22.44 | 14.72 |
| 1997 | 2233 | 23.14 | 3.12 |
| 1998 | 59445 | 31.94 | 38.03 |
| 1999 | 5779 | 33.93 | 6.23 |
| 2000 | 7273 | 34.87 | 2.77 |
| 2001 | 12978 | 43.66 | 25.21 |
| 2002 | 48764 | 110.08 | 152.13 |
| 2003 | 83437 | 275.15 | 149.95 |
| 2004 | 47549 | 337.67 | 22.72 |
| 2005 | 37011 | 375.21 | 11.12 |
| 2006 | 24556 | 417.26 | 11.21 |
| 2007 | 21001 | 452.57 | 8.46 |
| 2008 | 19799 | 454.63 | 0.46 |

| | | | |
|---|---|---|---|
| 2009 | 16918 | 403.19 | -11.31 |
| 2010 | 22347 | 407.15 | 0.98 |
| 2011 | 26140 | 468.78 | 15.14 |
| 2012 | 34171 | 527.43 | 12.51 |
| 2013 | 41081 | 535.05 | 1.44 |
| 2014 | 43664 | 606.30 | 13.32 |
| 2015 | 44019 | 724.06 | 19.42 |
| 2016 | 41496 | 727.15 | 0.43 |
| 2017 | 37982 | 835.21 | 14.86 |
| 2018 | 27537 | 1083.12 | 29.68 |
| 2019 | 23442 | 940.65 | -13.15 |
| 2020 | 27420 | 1147.34 | 21.97 |
| 2021 | 24943 | 1239.85 | 8.06 |
| 2022 | 24934 | 1210.73 | -2.35 |

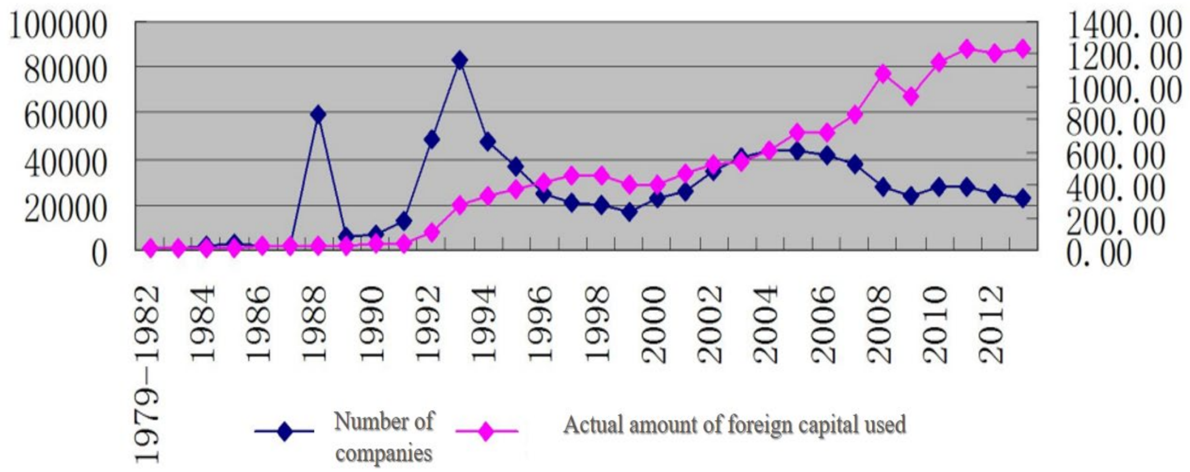


Figure 2 China's utilization of foreign capital since the reform and opening up

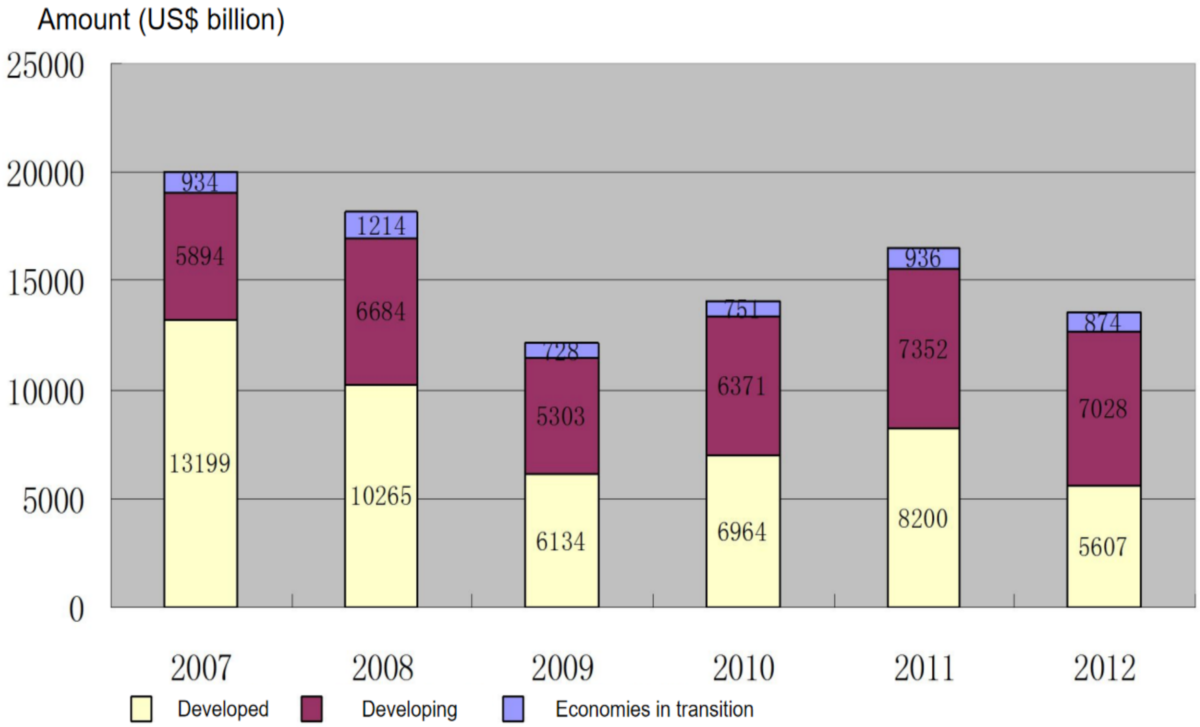


Figure 3 Global FDI inflows

This increasing trend did not change significantly around 2018. The proportion of foreign-invested enterprises contributing to China's industrial output value has also increased significantly. From 1990 to 2022, the contribution of FDI enterprises output value has basically maintained a year-by-year growth trend, from 2.28% in 1990 to 35.87% in 2022, exceeding the total industrial output value of China in that year by one third. Later, the proportion of the total industrial output value of FDI enterprises in China's total industrial output value declined slightly, but the decline was not large, and it has remained above 25% in recent years. Judging from the situation shown in the above chart, China's new enterprise income law was promulgated in 2018, canceling the original preferential tax policy for foreign-funded enterprises. The change of this preferential tax policy has little impact on the overall scale of China's use of foreign funds.

Table 3 Statistics on the proportion of industrial output value of foreign-invested enterprises in China's total industrial output value (2000-2021).

| Year | Number of enterprises | Foreign capital (100 million) | Growth rate of actual use of foreign capital (%) |
|---|---|---|---|
| 2000 | 19701.04 | 448.95 | 2.28 |
| 2001 | 23135.51 | 1223.32 | 5.29 |
| 2002 | 29149.25 | 2065.59 | 7.09 |

| | | | |
|---|---|---|---|
| 2003 | 40513.68 | 3704.35 | 9.14 |
| 2004 | 76867.25 | 8649.39 | 11.25 |
| 2005 | 91963.28 | 13154.16 | 14.30 |
| 2006 | 99595.55 | 15077.53 | 15.14 |
| 2007 | 56149.70 | 10427.00 | 18.57 |
| 2008 | 58195.23 | 14162.00 | 24.34 |
| 2009 | 63775.24 | 17696.00 | 27.75 |
| 2010 | 73964.94 | 23145.59 | 31.29 |
| 2011 | 94751.78 | 26515.66 | 27.98 |
| 2012 | 101198.73 | 33771.09 | 33.37 |
| 2013 | 128306.14 | 46019.55 | 35.87 |
| 2014 | 187220.66 | 58847.08 | 31.43 |
| 2015 | 249625.00 | 78399.40 | 31.41 |
| 2016 | 315630.14 | 99420.83 | 31.50 |
| 2017 | 404489.06 | 125036.94 | 30.91 |
| 2018 | 496248.67 | 147584.30 | 29.74 |
| 2019 | 546320.04 | 152673.60 | 27.95 |
| 2020 | 707772.20 | 191792.80 | 27.10 |
| 2021 | 855136.50 | 223286.90 | 26.10 |

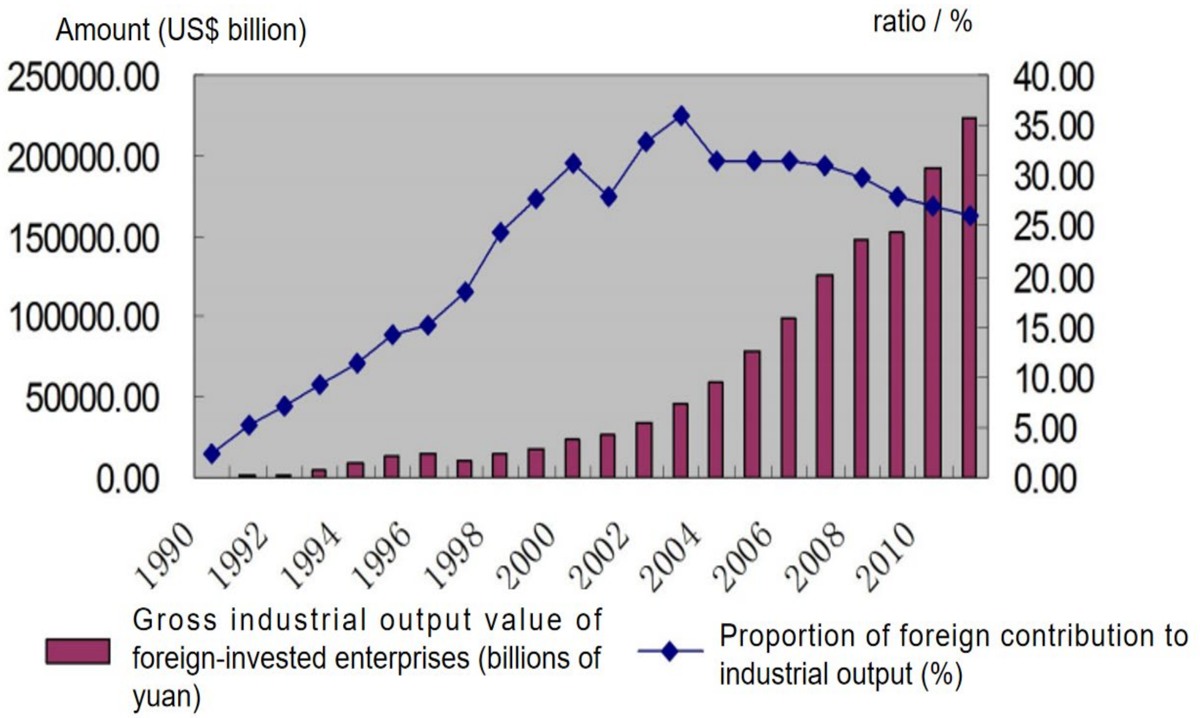

Figure 4 The total industrial output value of foreign-invested enterprises and their contribution rate

4.2 The impact of preferential tax policies on the quality of FDI attraction in China

4.2.1 The impact of preferential tax policies on different types of FDI enterprises

Foreign companies investing in China can be roughly divided into two categories: one is mainly labor-intensive enterprises. For the printing plate of this kind of enterprise, the scale is relatively small, mainly engaged in processing trade, and the raw materials and markets are overseas. The purpose of investment of this kind of "two-headed" foreign enterprise is mainly to use the cheap labor force of the host country. Because such enterprises mainly face overseas markets, the products they produce are generally exported back to their home countries or third countries. Such enterprises are mainly those in Hong Kong and Taiwan. Their production and operation activities are relatively low-tech, and have a small technology spillover effect on China, which reduces the quality of China's utilization of foreign capital. In addition, due to their small scale, such enterprises are sensitive to production and operation costs, and do not pursue large-scale development of enterprises. Therefore, changes in preferential tax policies have a greater impact on such enterprises. When relevant preferential tax policies are cancelled, and the tax burden increases, they will generally be transferred to other countries.

The other type of enterprises are mainly European, American and Japanese enterprises. The investment purpose of these enterprises is to expand overseas markets, and they mainly conduct market-oriented investment. Generally speaking, such enterprises are relatively large in scale and require more initial investment. Such enterprises generally focus on the market prospects of a country or a region. Less attention is paid to short-term operating costs, including tax burdens. So, the reduction in tax benefits doesn't affect them much. The abolition of the super-national treatment enjoyed by foreign capital due to the merger of the "two taxes" will not lead to the withdrawal of these foreign capital in large numbers.

Table 4 2016-2021 Processing Trade Export Value of Foreign-Invested Enterprises

| Amount unit: USD 100 million | | | |
|---|---|---|---|
| years | Export value of processing trade | Accounting for the total export value of foreign-funded enterprises ( %) | Ratio of change ( %) |
| 2016 | 4311.63 | 76.47 | -1.56 |

| | | | |
|---|---|---|---|
| 2017 | 5214.62 | 74.97 | -1.50 |
| 2018 | 5721.95 | 72.37 | -2.60 |
| 2019 | 4937.02 | 73.44 | -1.07 |
| 2020 | 6205.38 | 71.96 | -1.48 |
| 2021 | 6993.25 | 70.26 | -1.70 |

From 2016 to 2021, although China's processing trade exports will maintain an overall growth trend, except for 2019, the proportion of processing trade exports in the total exports of foreign-funded enterprises has been decreasing year by year. There is a shrinking trend of foreign-funded enterprises in processing trade, and the investment composition of China's use of foreign capital is developing towards a better structure. At the same time, combined with the increase in the amount of foreign capital utilized in China in Table 4, it can also be inferred that more policy-guided industries, such as high-tech industries and innovative enterprises, have increased in the amount of foreign investment.

4.2.2 The impact of preferential tax policies on encouraging industries

After the introduction of the new corporate income tax law, not all preferential tax policies will be cancelled. The new law retains tax incentives for all enterprises, including foreign-invested enterprises, for industries that the state encourages investment, such as high-tech, environmental protection, and safety production. For example, high-tech enterprises enjoy a preferential tax rate of 15%. In addition, some other industry-oriented preferential tax policies are still in use, such as: foreign entrepreneurs import advanced technology and equipment from abroad to reduce or exempt tariffs and value-added tax. The tax incentives in the new corporate income tax are still attractive to foreign-invested enterprises engaged in high-tech industries.

The annual growth rate of the main business income of the high-tech industry has dropped to the lowest point in 2008, and has shown a trend of fluctuations in recent years. In 2013, the main business income of the high-tech industry increased by 11.5% over the previous year, and continued to maintain a high-speed growth of more than 10%. In the high-tech industry, foreign-funded enterprises are still the main force. In 2023, in the high-tech industry, the main business income of foreign-funded enterprises will account for 56.8% (Source: Ministry of Commerce of the People's Republic of China). It can be seen that foreign-invested enterprises occupy an important position in China's high-tech industries, and the new corporate income tax is very attractive for enterprises investing in high-tech industries. Various preferential policies will encourage foreign-invested enterprises to play more and they will provide greater support and help for China’s high-tech industries in terms of technological improvement and capital needs. The number of foreign-funded enterprises has decreased, while in industries encouraged by the state, the scale and quantity of foreign capital are gradually increasing. The new tax incentives have a positive impact on the quality of attracting FDI.

4.2.3 The impact of preferential tax policies on different countries of foreign origin

Judging from the countries shown in the table, the countries that invest in China can be divided into two categories. One is cost-based countries, which are mainly based on tax havens, including the most famous tax havens in the world. Enterprises in these countries mainly use the cheap labor resources and preferential tax policies of the host countries to reduce costs, and mainly carry out intermediate processing links in the production of the host countries.

These foreign-funded enterprises cannot bring advanced technology to China, and are of little significance to the upgrading of China’s industrial structure, and are no longer in line with China’s current goal of attracting foreign investment. For these enterprises, the tax policies of their home countries generally stipulate that tax exemption policies or low tax rates are provided for income and property income, and enterprises in these countries do not need to pay corporate income tax in their home countries for their income from overseas investment. Therefore, the main tax burden of enterprises in these countries depends on the tax policy of the host country. Enterprises in these countries are more sensitive to changes in tax burdens brought about by changes in the host country's preferential tax policies, and China’s original preferential tax policies for foreign companies are effective for them. After the promulgation of China’s new corporate income tax law, such foreign-funded enterprises may reconsider their investment decisions.

The other type of enterprises are mainly foreign-funded enterprises. This type of enterprise is a market-oriented enterprise, and the enterprises often have common characteristics such as strong strength and advanced technology. Since many developed countries have stipulated that their resident companies invest so much abroad that they need to pay taxes in their home countries. Although many countries will avoid double taxation on FDI companies to promote international trade and investment, these companies still have to pay taxes. Taxes are paid to the home country on profits other than the tax paid in the host country. Therefore, changes in the tax policy of the host country have little impact on the investment decisions of enterprises in such countries. In the process of foreign investment, such enterprises often bring a large amount of capital to the host country, as well as advanced production technology and management experience. Therefore, such enterprises are the key targets for China to attract FDI. The investment of such enterprises in China is conducive to the development and upgrading of China’s technology-intensive and capital-intensive industries.

However, this changing trend does not appear in the amount of FDI in Hong Kong and Singapore. According to the data given in the 2022 China Investment Report released by the Ministry of Commerce, although the amount of FDI in Hong Kong has increased year by year in China, the proportion of this amount in the total amount of FDI actually utilized in China has shown signs of decline after 2011. The report also shows that Hong Kong's investment in the manufacturing sector has declined. In 2012, Hong Kong's investment projects and actual investment in the manufacturing industry in the mainland decreased by 18.6% and 10.2% respectively year-on-year. The proportion of Hong Kong capital inflows in the manufacturing industry to Hong Kong's total investment in the mainland has continued the downward trend since 2007, falling to .37.2% year by year.

These changes show that China's original " regional preferential tax policy" has been transformed into an "industrial preferential policy", which has enhanced the market competitiveness of foreign companies with high technology, scale advantages, and high value-added, and squeezed out those foreign companies with low-level, high-energy-consuming foreign- invested enterprises.

Table 5 Investment in important tax havens from 2015 to 2022

| year | Virgin Islands | | Cayman Islands | | Mauritius | | Hong Kong | | Singapore | |
|---|---|---|---|---|---|---|---|---|---|---|
| | amount | Growth Rate % | amount | Growth Rate % | amount | Growth Rate % | amount | Growth Rate % | amount | Growth Rate % |
| 2015 | 9.08 | | 19.48 | | 90.22 | | 179.49 | | 22.04 | |
| 2016 | 10.33 | 13.76 | 20.95 | 7.60 | 112.48 | 24.67 | 202.33 | 12.73 | 22.60 | 2.55 |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| 2017 | 13.33 | 29.03 | 25.71 | 22.68 | 165.52 | 47.16 | 277.03 | 36.92 | 31.85 | 40.88 |
| 2018 | 14.94 | 12.10 | 31.45 | 22.34 | 159.54 | -3.62 | 410.36 | 48.13 | 44.35 | 39.27 |
| 2019 | 11.04 | -26.10 | 25.85 | -17.90 | 112.99 | -29.18 | 460.75 | 12.28 | 36.05 | -18.72 |
| 2020 | 9.29 | -15.85 | 24.99 | -3.22 | 104.47 | -7.53 | 605.67 | 31.45 | 54.28 | 50.58 |
| 2021 | 11.39 | 22.65 | 22.42 | -10.28 | 97.25 | -6.91 | 705.00 | 16.40 | 60.97 | 12.32 |
| 2022 | 9.59 | -15.84 | 19.75 | -11.89 | 78.31 | -19.48 | 655.61 | -7.01 | 63.05 | 3.42 |

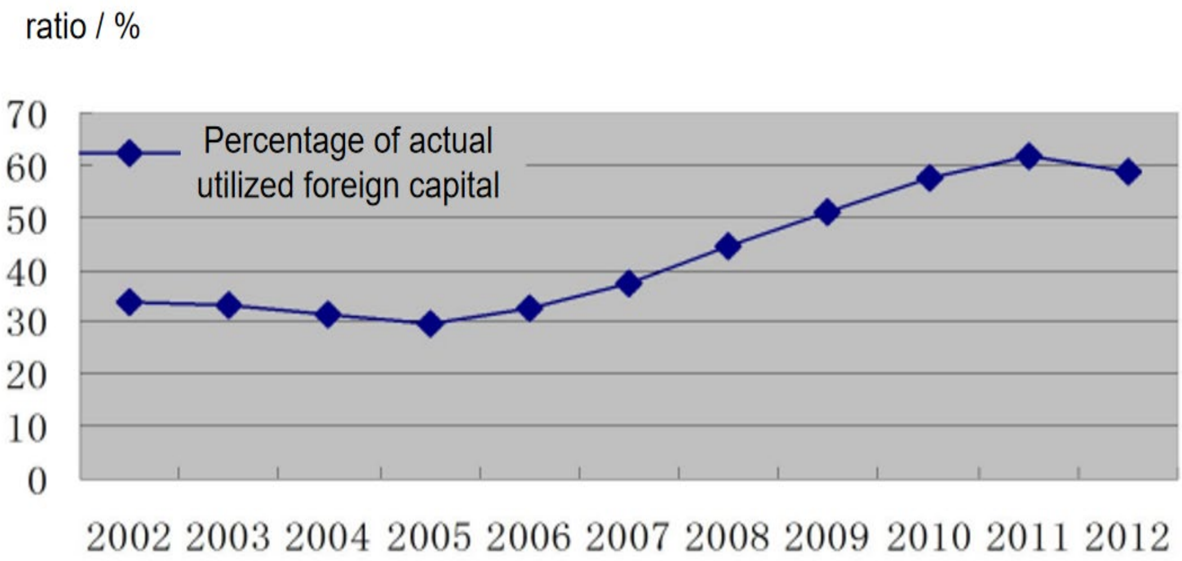


Figure 5 Changes in Hong Kong's share of investment in the mainland

4.3 The impact of preferential tax policies on China's structure for attracting FDI

From the data of the amount of foreign capital actually utilized in China over the years, it can be seen that before the merger of the two taxes in 2008, the scale of China's utilization of foreign capital continued to expand, which shows that China's ability to attract foreign capital is constantly increasing.

However, the good trend of rising total volume cannot meet all the needs for attracting foreign capital. While the total amount is increasing, the quality of China’s use of foreign capital and the industrial and regional structure of attracting foreign capital are far from ideal. For a long time, China’s preferential tax policies have always paid attention to regional orientation and neglected industry orientation.

The original income tax law determined policies based on status, and implemented "super-national treatment" for all foreign-invested enterprises, without distinguishing the industry, industry, scale, and type of foreign-funded enterprises. Under the guidance of such a tax policy, foreign investors will be more inclined to choose industries with low investment risk and high return on investment. However, these industries have little technology spillover effect on China. In addition, the original regional tax preferential policies aimed at special economic zones and open coastal cities have also had a negative impact on China’s regional coordinated development. In the following, we will mainly analyze the influence of the transformation of preferential tax policies on the structure of FDI in China from the perspective of the regional structure and industrial structure of FDI.

4.3.1 The impact of the corporate income tax reform on the structure of the FDI

For a long time, the distribution of foreign enterprises among the three major industries in China is also in an unbalanced state. Before 2008, the situation of China’s three major industries using foreign capital was as follows: China’s foreign investment was mainly concentrated in the secondary industry, the amount of foreign investment in the primary industry accounted for a very small proportion, and the scale of foreign investment in the tertiary industry developed relatively slowly. China’s foreign investment behavior is mainly concentrated in the secondary industry and the tertiary industry. As of 2022, the actual utilization of foreign capital in China’s primary industry will only account for 1.45% of the total amount, the secondary industry will account for 40%. Since 1997, the proportion of FDI actually utilized by China’s primary industry in the total has been below 2%. Before 2007, the proportion of FDI actually utilized by the secondary industry remained above 60%, but since 2008, this proportion has shown an obvious downward trend. From 1997 to 2004, the proportion of foreign capital utilized by the tertiary industry fluctuated greatly, but they were all at a low level of around 20%.

Table 6 Industrial structure of FDI by 2022

| | | | | Amount unit: USD 100 million |
|---|---|---|---|---|
| Industry name | Number of enterprises | Proportion (%) | Actual use of foreign capital | Proportion (%) |

| | | | | |
|---|---|---|---|---|
| Total | 22819 | 100.00 | 1239.11 | 100 |
| primary industry | 757 | 3.32 | 18.00 | 1.45 |
| Secondary industry | 6931 | 30.37 | 495.69 | 40.00 |
| Tertiary Industry | 15131 | 6 6.31 | 725.42 | 58.54 |

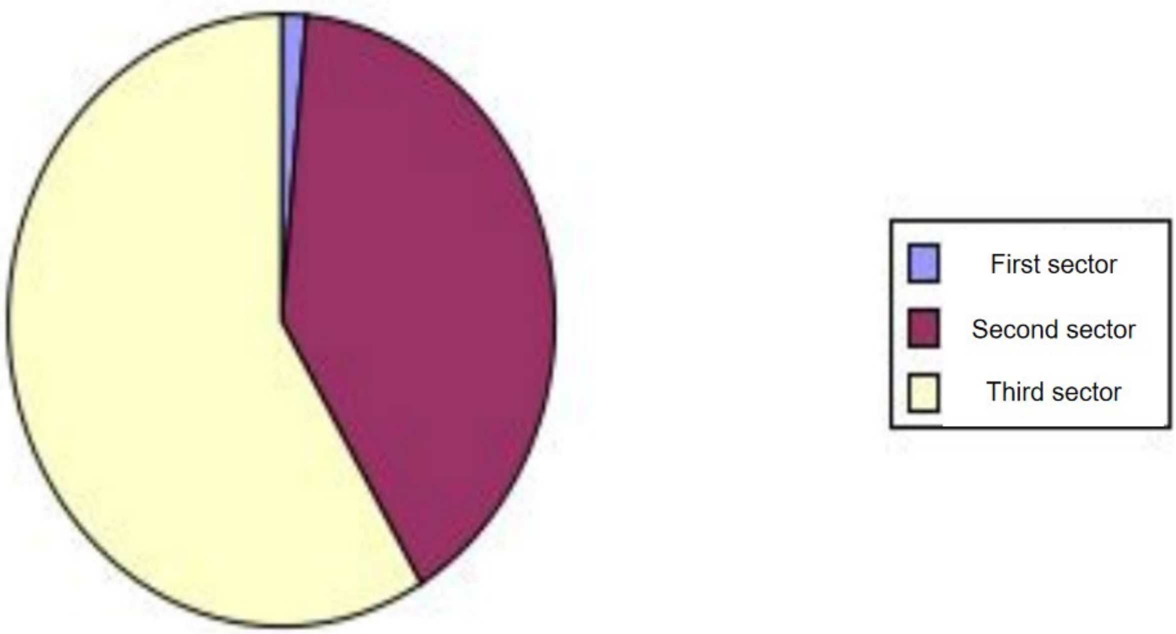


Figure 6 Actual amount of foreign capital used in the three major industries

Table 7 Utilization of foreign capital in the three major industries

| Time | Amount of FDI utilized (US$ billion) | Proportion of primary industry | Proportion of secondary industry | Proportion of tertiary industry |
|---|---|---|---|---|
| 2007 | 452.57 | 1.39 | 71.97 | 19.47 |
| 2008 | 454.63 | 1.37 | 68.91 | 24.24 |
| 2009 | 403.19 | 1.76 | 68.90 | 17.95 |
| 2010 | 407.15 | 1.66 | 72.64 | 19.48 |
| 2011 | 468.78 | 1.92 | 74.23 | 12.97 |
| 2012 | 527.43 | 1.95 | 74.82 | 12.67 |
| 2013 | 535.05 | 1.87 | 73.23 | 11.84 |
| 2014 | 606.30 | 1.84 | 74.98 | 23.18 |

| | | | | |
|---|---|---|---|---|
| 2015 | 603.25 | 1.19 | 74.09 | 24.72 |
| 2016 | 630.21 | 0.95 | 67.45 | 31.59 |
| 2017 | 747.68 | 1.24 | 57.33 | 41.44 |
| 2018 | 923.95 | 1.29 | 57.64 | 41.07 |
| 2019 | 900.33 | 1.59 | 55.62 | 42.79 |
| 2020 | 1057.35 | 1.81 | 50.94 | 47.25 |
| 2021 | 1160.11 | 1.73 | 48.05 | 50.21 |
| 2022 | 1175.86 | 1.85 | 46.96 | 51.20 |

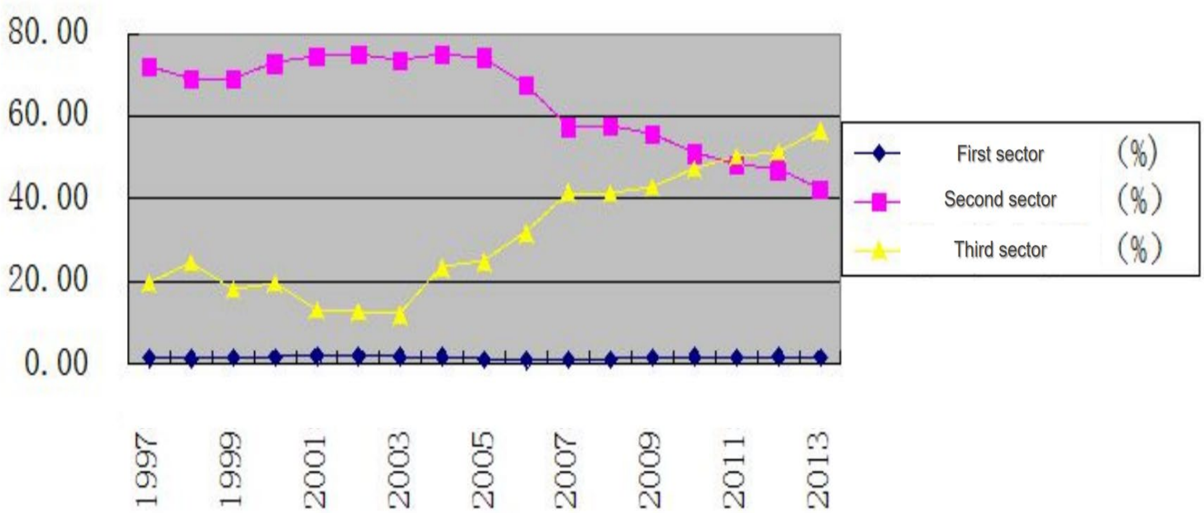


Figure 7 The direct use of foreign capital in the three major industries

In addition, there are also differences in the amount of FDI between industries and within industries, which are not evenly distributed. In the secondary industry, the manufacturing industry is the main industry for foreign investment, ranking first with absolute advantages, while the foreign capital for basic industries such as energy and raw materials is very small. Through the analysis of the second part, it can be seen that foreign companies are more inclined to invest in low-level, high-energy-consuming processing trade industries than in high-tech industries with high risks. The original investment status does not significantly help China’s agriculture, forestry, animal husbandry, fish, transportation, construction and other basic industries that urgently need to be developed. The unreasonable investment structure among industries has a greater correlation with China’s original preferential policies of "emphasizing identity" and "weight rather than quality". Such preferential tax policies also inhibit the guiding role of corporate income tax in investment structure.

To adapt to the development direction and development goals of China at this stage, combined with the law of economic development and the current level of economic development in China, the government reformed the corporate income tax law, and the new tax law played a greater role in repositioning the status and role of FDI, and adjusting industrial structure and regional structure of FDI.

Although the primary industry has a low base, it is also constantly attracting foreign investment. Judging from the industry data given by the Ministry of Commerce's 2022 Foreign Investment Statistical Report, the proportion of foreign investment in manufacturing and real estate has both declined. In basic industries and high-tech industries, such as: transportation, computer services and software, learning research technology services and other industries have improved. The industrial structure of foreign investment is constantly improving and upgrading, and the effect of the reform of corporate income tax is becoming increasingly apparent.

Table 8 Actual utilization of foreign funds in the three major industries

| | Primary industry | Secondary industry | Tertiary industry |
|---|---|---|---|
| 2015 | 7.18 | 446.92 | 149.10 |
| 2016 | 5.99 | 425.07 | 199.07 |
| 2017 | 9.24 | 428.61 | 309.82 |
| 2018 | 11.91 | 532.56 | 379.48 |
| 2019 | 14.29 | 500.76 | 385.28 |
| 2020 | 19.12 | 538.60 | 499.63 |
| 2021 | 20.09 | 557.49 | 582.53 |
| 2022 | 20.62 | 524.58 | 571.96 |

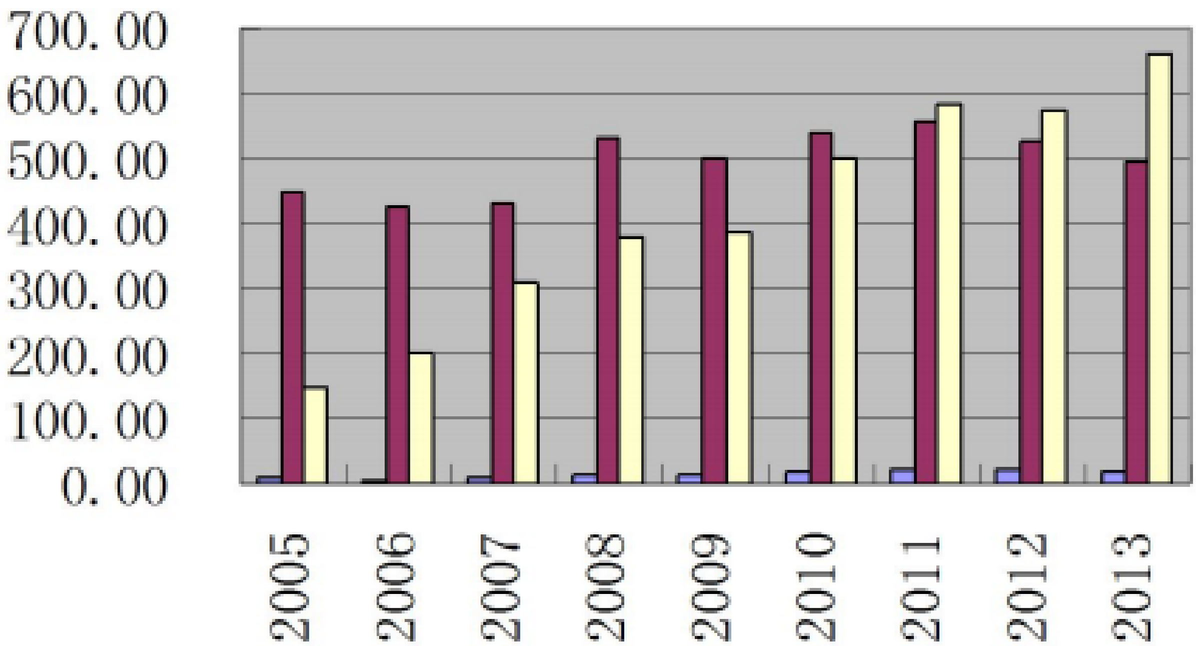


Figure 8 Utilization of FDI in the three major industries

4.3.2 The impact of corporate income tax reform on the regional structure of FDI

The inflow of capital and technology has accelerated the economic development of these regions. However, with the setting of such preferential tax policies, the poorer the localities, the heavier the tax burden. For the central and western regions, they have poor natural conditions and backward infrastructure. Compared with the eastern regions, they are less attractive to foreign-funded enterprises. In 1999, China implemented the Western Development Strategy. In 2000, the State Council issued the "Notice of the State Council on Several Policies and Measures for the Implementation of the Western Development", which decided to implement preferential tax policies for the western region: for projects in the western region's domestic-funded encouraged industries, foreign-invested encouraged industries, and advantageous industries, the import of advanced technology and equipment for self-use within the total investment, except for national goods that are not subject to tax exemption, preferential tax policies such as exemption from tariffs and import value-added tax are encouraged to encourage FDI enterprises to invest. In addition, China's corporate income tax reform in 2008 unified the preferential tax policies, canceled the original "super-national treatment" for FDI enterprises, and implemented a new tax preferential system of "mainly industrial preferential, supplemented by regional preferential". Major regional policy reforms include: cancel the original 15% corporate income tax preferential tax rate; Some have a preferential tax rate of 24%. In addition, some original regional preferential tax policies have also been canceled in the new corporate income tax law.

So far, the regional structure of foreign investment in China has not been reversed, and China's use of foreign capital still shows a pattern of high east and west low. Since 1991, the ratio of the actual use of foreign capital in the eastern region of China to the total has far exceeded that in the central and western regions, maintaining at about 85%. However, since 2000, the proportion of FDI funds utilized in China's western regions to the amount of FDI in China began to show a slow upward trend. In 2008, after the corporate income tax reform, the proportion of one increased significantly. In addition, according to data released by the Commerce Department, the number of FDI enterprises in the western region has accelerated in recent years. These trends show that the western region is more attractive to FDI enterprises, and FDI enterprises have begun to change their investment strategies, shifting their focus from the eastern region, where the market is increasingly saturated, to the western region. Although the amount of foreign capital attracted by the western region is far smaller than that of the eastern region, the quality of foreign investment in the western region is not inferior. Many Fortune 500 companies have settled in the western region. According to the 2021 foreign investment situation in Sichuan announced by the Sichuan Provincial Government, a total of 160 foreign companies listed in the world's top 500 companies have settled in Sichuan. As a model city for attracting foreign investment in the western region, Chongqing was listed as one of the 15 best emerging business cities in the world by Fortune magazine.

Table 9 Proportion of Actual Utilization of Foreign Capital by Region

| | East area | Central Region | Western Region |
|---|---|---|---|
| 2011 | 86.3 | 8.2 | 5.8 |
| 2012 | 87.8 | 8.0 | 4.2 |
| 2013 | 88.0 | 7.7 | 4.2 |
| 2014 | 87.0 | 8.6 | 4.4 |
| 2015 | 87.4 | 8.5 | 4.1 |
| 2016 | 85.7 | 9.8 | 4.5 |
| 2017 | 85.9 | 9.6 | 4.5 |
| 2018 | 85.7 | 9.6 | 4.5 |
| 2019 | 84.1 | 11.2 | 4.7 |
| 2020 | 83.9 | 11.2 | 5.0 |
| 2021 | 85.2 | 9.8 | 5.0 |
| 2022 | 86.0 | 9.3 | 4.7 |

| | | | |
|---|---|---|---|
| 2023 | 85.6 | 8.1 | 6.3 |

Foreign-funded enterprises have also seen the government's determination to develop the central and western regions from China’s policies. In the coming period, foreign-funded enterprises in the central and western regions will usher in an unprecedented development situation. The unbalanced state of China’s foreign investment structure is gradually improving. Whether it is the adjustment of the industrial structure or the change of the regional structure, it is moving in a better direction. Since the corporate income tax reform, the new after-tax preferential policies have gradually become more prominent in attracting foreign investment. Through the analysis of this part, it can be seen that the scale of FDI has maintained a steady upward trend, but the growth rate has gradually returned to a reasonable and stable level. More foreign companies have also entered the places or industries encouraged by the state. In the future, high-quality FDI funds will continue to contribute more to China's economic development. The regional structure and industry structure of FDI are also showing continuous optimization. The scale of FDI in the tertiary industry exceeds that of the secondary industry and still maintains a relatively high-speed growth. The ability of the western region to attract foreign investment is constantly strengthening. While the scale is guaranteed, the new preferential tax policies have better guided the direction and structure of foreign investment.

### 4.4 Mechanism analysis of tax incentives affecting FDI

#### 4.4.1 The transmission mechanism of tax incentives affecting FDI

However, the actual tax rate in the taxation factor has a more direct impact on FDI. It will directly affect the amount of corporate income tax invested by multinational companies, and then affect the size of corporate profits and shareholders' profits. The tax incentive policies that this article focuses on are mainly aimed at the actual tax rate. Specifically, the increase in the tax rate has both positive and negative effects on FDI: generally speaking, the increase in the tax rate will directly lead to the tax burden on the enterprise. Increase, that is, the increase in investment costs and the corresponding decline in investment returns, resulting in a decrease in the amount of FDI; from another perspective, the corporate income tax rate of the host country has increased.

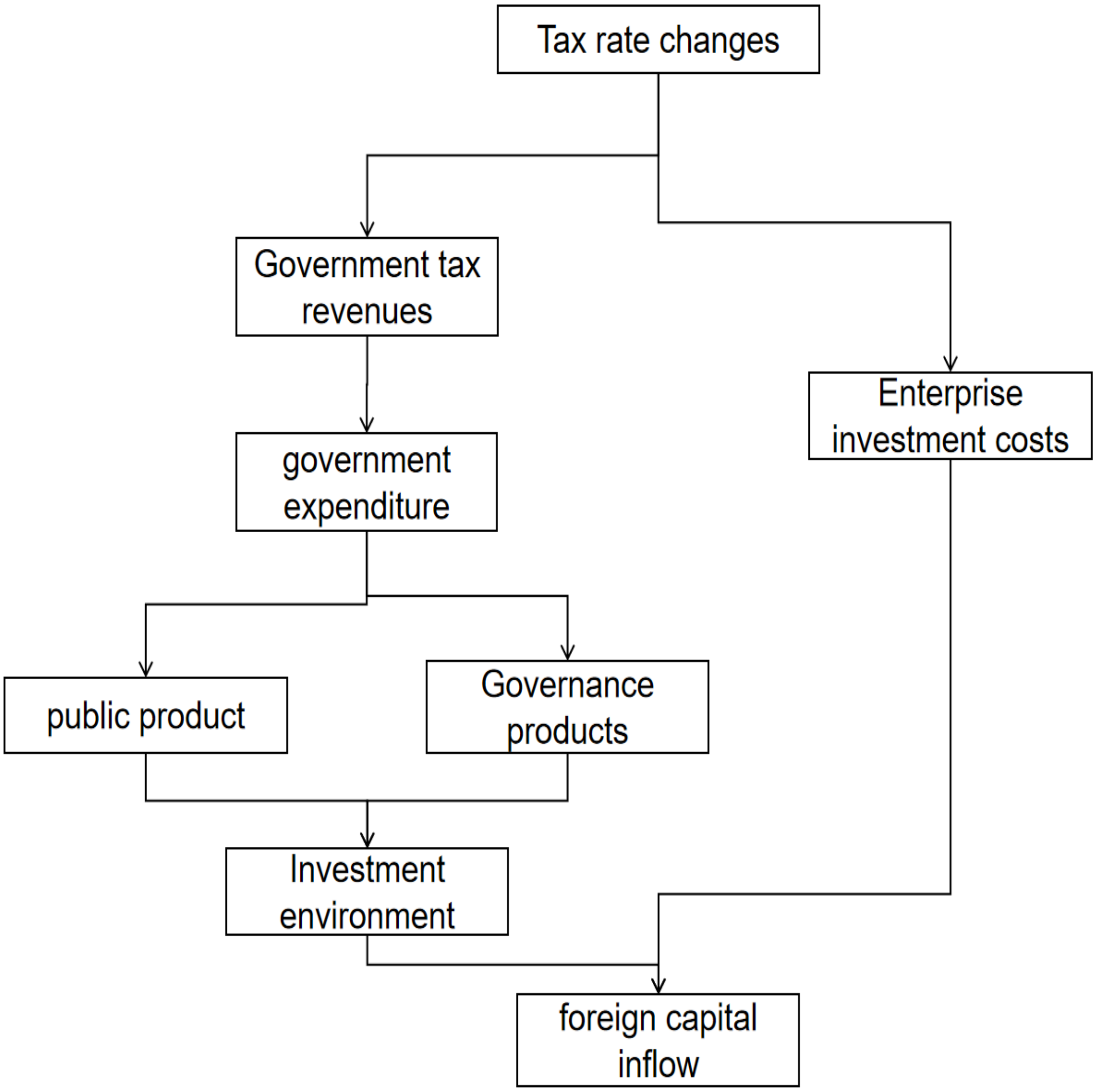

Figure 9 Tax rate affects the transmission mechanism of FDI

4.4.2 The relationship between tax incentives and FDI

If the tax rate stipulated in the tax law is higher, correspondingly, the enterprise will also bear more tax, resulting in an increase in investment costs and a decrease in after-tax benefits. Therefore, the relationship between the tax burden level of the host country and FDI is non-linear. From the above analysis, we can see that changes in tax rates will also affect the level of government fiscal revenue, thereby affecting the construction of foreign investment environment. It can be seen from the Laffer curve that the tax rate and tax revenue of a country have an inverted " U"-shaped relationship. As shown in the Figure 10, when the tax rate is at (O, T'), the tax revenue increases with the increase of the tax rate. When the tax rate is at (T', T), tax revenue and tax rate turn into a negative correlation.

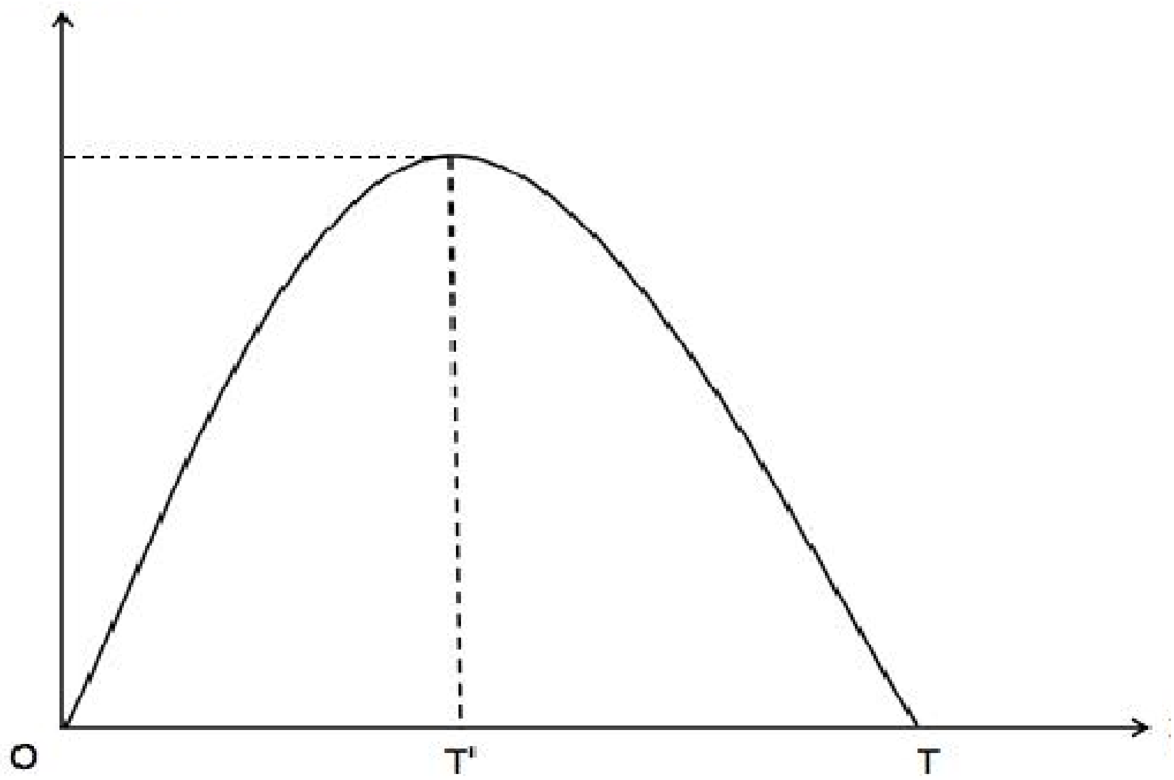


Figure 10 Laffer Curve

Based on the above analysis, the relationship between tax rate and FDI can be simplified as Figure 10-11. Assuming that all the funds required by a government to perform its administrative functions and provide public goods and services come from taxation, then when the tax rate is 0, the government machine cannot operate. Due to the lack of basic investment conditions, the amount of investment by multinational companies in the country is also zero. When the government raises the tax rate to T, due to the excessively high tax rate, the production and operation activities of enterprises cannot operate normally, and the production enthusiasm of enterprises is seriously frustrated, which will inhibit the investment of foreign enterprises. When the tax rate is at (0, T'), although the tax burden borne by the enterprise is gradually increasing, other factors that affect FDI inflow, such as the infrastructure construction and social governance level of the host country, are also playing a role, so the inflow of foreign capital is gradually increasing. When the tax rate is at (T', T), the tax rate of the enterprise further increases, and at the same time, with the gradual decline of government tax revenue, FDI begins to show a downward trend. Of course, if the government of the country improves its own management level and administrative efficiency, then overseas investors can enjoy better public products and services and a more attractive investment environment, which will have a certain effect on the increase of the tax rate of the host country. Tolerance, which is reflected in the Figure 11 as the tax rate T' that maximizes the investment and the maximum tax rate T that reduces the investment to 0, will increase to a certain extent.

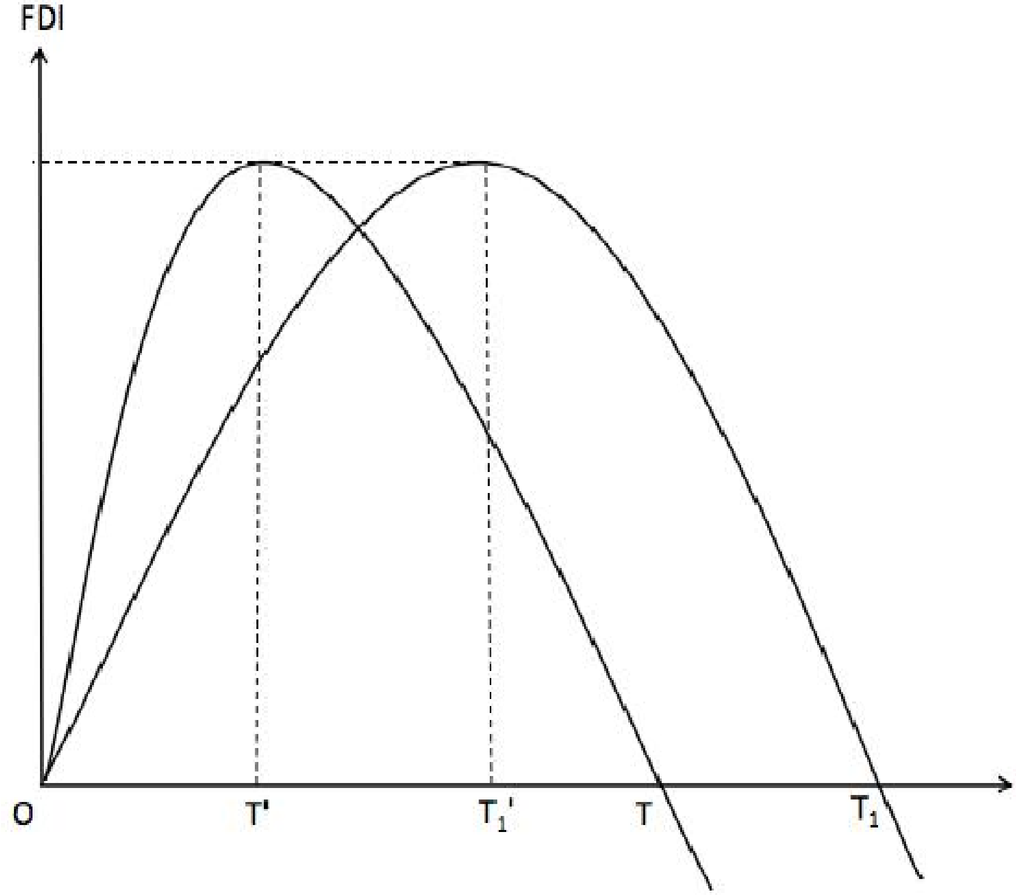


Figure 11 The relationship between tax rate and FDI

4.5 Analysis of the impact of tax incentives on FDI

To adapt to the changing economic situation, several major taxes (corporate income tax, export tax rebates, and import tariffs) are included in each stage of foreign investment policy changes. Corresponding modifications and adjustments have also been made:

1. The main development and changes of income tax in three stages

1) The changes in the first stage mainly include: From 1983 to 1984, China, in two steps, the state-owned enterprise profit payment system, which has been implemented for more than 30 years, was changed to the state-owned enterprise income tax system, that is, the first and second reforms of the "profit-to-tax" reform of state-owned enterprises. June 25, 1988, The State Council promulgated the "Provisional Regulations of the People's Republic of China on Private Enterprise Income Tax", which came into effect in 1988.

2) The changes in the second stage mainly include: On December 25, 1993, the "Implementation Plan for the Reform of the Industrial and Commercial Taxation System" submitted by the State Administration of Taxation approved by the State Council clearly stated that starting from 1994, the income tax of domestic-funded enterprises would be unified, and the next step would be to unify the income tax of domestic-funded enterprises and foreign-invested enterprises.

3) The changes in the third stage mainly include: On March 16, 2007, the Fifth Session of the Tenth National People's Congress passed the "Enterprise Income Tax Law of the People's Republic of China" with a high vote, unifying the income tax of domestic and foreign-funded enterprises. On the same day, it was promulgated by Order No. 63 of the President of the People's Republic of China and came into force on January 1, 2008.

2. The main development and changes of the export tax rebate policy in the three stages

1) The changes in the first stage mainly include: In March 1985, the State Council issued a notice stipulating that the tax rebate policy for export products should be implemented from April 1, 1985.

2) The changes in the second stage mainly include: ① In January 1994, reformed the export tax rebate management method for refunding product tax, value-added tax and consumption tax, and established export goods refund (exemption) based on the new value-added tax and consumption tax system. ② In 1996, the Chinese government reduced the export tax rebate rate from 11%, 13%, and 17% to 3%, 6%, and 9% respectively. ③ Affected by the Asian financial crisis in 1998, the export tax rebate rate gradually increased, and the comprehensive tax rebate rate for export commodities increased from the original 6 % to 15%.

3) The changes in the third stage mainly include: ① In 2002, the export tax rebate method of "exemption, credit and refund" was fully implemented for the export tax rebate of self-produced goods exported by the production enterprises or entrusted by foreign trade enterprises to export as agents; ② In 2003, due to local overheating of the economy , the export tax arrears is serious, the government adjusted the export tax rebate rate from 15.5% to 12.51%; ③ In 2003, the Ministry of Finance and the State Administration of Taxation "Notice on Adjusting the Export Tax Rebate Rate" was officially issued. ④ From January 1, 2006, the export tax rebate policy for a number of leather raw materials was cancelled, and the export tax rebate rate for some products was lowered; ⑤ From September 15, 2006, the export tax rebate rate for 142 tax codes of steel, some non-ferrous metal materials, textiles, furniture and other products will be lowered; there are major technical equipment, some IT

products and biomedical products, and some national industrial policies have encouraged an increase in the export tax rebate rate for high-tech products and some processed products made from agricultural products; ⑥ On April 15, 2007, with the approval of the State Council, the Ministry of Finance and the State Administration of Taxation announced the export tax rebate rate for some special steel products, stainless steel plates, cold-rolled products, etc. in Chapter 72 of the Import and Export Tariff (2007 Edition) reduced to 5%; the other 83 steel products such as profiles and wire rods will cancel the export tax rebate.

3. The main development and changes of the import tariff policy in the three stages

1) The changes in the first stage mainly include: before 1991, the average tariff on more than 6,000 commodities in China was 43.2%, and individual tariffs were raised at any time. The highest tariff on our imported cars was 150%.

2) The changes in the second stage mainly include: ① In 1994, the overall tariff level was lowered to 36%. ② From December 31, 1995, import measures for 176 tax items were cancelled. ③ In 1996, the import tariff rate was greatly reduced, involving more than 5,000 tax items, and the overall tariff level dropped to 23%. ④ In 1997, some tariffs were lowered again, and the overall tariff level dropped to 17%. ⑤ From 1996 to 2000, the special zone preferential tariff policy was gradually canceled.

3) The changes in the third stage mainly include: ① In 2001, the small tax rules implemented in Tibet for 50 years were cancelled, and the overall tariff level was lowered to 15%. ② Beginning on January 1, 2002, the state lowered the import tariffs on automobiles seven times. ③ In 2005, the average tariff on industrial products dropped from 16.1% when China joined the WTO to 9.2%. ④ The non-tariff management measures for automobiles, refined oil, chemical fertilizers, rubber and some mechanical and electrical products were gradually canceled during 2000-2005. The average tariff on agricultural products was reduced from 25.9% when China joined the WTO to 17.2%, and tariff quota management was implemented for bulk imports. Geographical restrictions on most service sectors, as well as restrictions on the proportion of foreign capital in joint ventures, have been removed, and full national treatment has been given to foreign-funded banks. ⑤ 2007: In addition to the 25% tariff, there is no threshold for imported cars.

From the above content, we can see that China's tax policy has the characteristics of transforming from the initial tentative and preferential-based to the objective and fair-based, and the policy regulations are gradually simplified and gradually integrated with the relevant WTO rules. Changes in the economic environment and adjustments to the strategies of multinational corporations make China's taxation policies need to be continuously improved and developed in a direction that is more conducive to the establishment of a fair and harmonious investment environment in China. The impact of the host country's tax policy on its utilization of foreign capital should be analyzed from two different angles. On the one hand, from a static point of view, preferential tax policies are conducive to attracting foreign capital; The role played by expanding the scale of foreign capital will vary in each period. The first one is short term static angle. Taxation is often an important part of the cost structure of multinational corporations' FDI, and multinational corporations tend to flow among countries to take advantage of more favorable tax systems (Wells, 1986). The government incentive theory represented by Loree and Guisinger also believes that the incompleteness of the market requires government intervention to optimize economic resources, especially when the market cannot achieve social goals, the government can guide foreign entrepreneurs by adopting corresponding incentive policies investment flow. The government's incentive policies and measures can guide the flow of FDI to the industries or regions that the host country government values. The enterprise will decide whether to enter the market of the host country according to the size of the return on investment. Therefore, in order to attract the inflow of foreign capital, the host country often adopts various preferential policies including taxation and finance. This paper thinks that: without considering other factors, the preferential degree of foreign investment policies including taxation and finance should be positively correlated with the inflow of FDI. As far as China's current macro-tax policy is concerned, the main measures for implementing preferential tax policies for foreign-invested enterprises are mainly reflected in income tax, turnover tax and tariffs, while the collection of turnover tax is mainly completed through the preferential export tax rebate. Therefore, the impact of China's tax policy on the scale of FDI is mainly reflected in the impact of the three main tax categories: income tax, export tax rebate and import tariff. In other words, corporate income tax and import tariffs are negatively correlated with the scale of FDI, while export tax rebates are positively correlated with the scale of FDI. In order to accurately examine the burden of corporate income tax on enterprises, this paper plans to replace corporate income tax with the tax burden rate.

The second one is long-term dynamic angle. The investment strategy of multinational companies in the host country is in a state of adjustment. The internationalization process model proposed by Johanson of Uppsala University in Sweden proposes that the continuous investment path of multinational companies is as follows: indirect export → establishment of offices → joint venture → sole proprietorship (Johanson and Vah Ine, 1977, 1990).

### 4.6 Analysis of China's current FDI tax policy

#### 4.6.1 Direction of China's current FDI

Since the 19th National Congress of the Communist Party of China, China has adhered to a more proactive opening-up strategy, and a new pattern of comprehensive opening-up is being promoted. The implementation of high-level investment facilitation policies has greatly enhanced China's attractiveness to foreign investors. At present, governments at all levels will focus on promoting the action plan for the introduction of foreign capital. High-level and high-standard pilot free trade zones are attracting more FDI enterprises to invest, and the opening layout of the central, eastern and western regions has been further optimized. Through a series of policies to promote the expansion of the scale of foreign capital available, improve the quality of foreign capital, and provide assistance to China's economic development.

Taking the initiative to expand opening up to the outside world, China has continuously issued a number of laws and regulations to promote FDI since 2017. Among them, the "Notice on Several Measures to Promote the Growth of Foreign Investment" is currently a more comprehensive document. Its core content is shown in the Table 10.

Table 10 Summary of the "Notice of the State Council on Several Measures to Promote the Growth of Foreign Investment"

| | | |
|---|---|---|
| "Notice of the State Council on Several Measures to Promote the Growth of Foreign Investment" | Reduce restrictions on the direction of foreign investment | Fully implement the management system of pre-establishment national treatment and negative list, and gradually expand the scope of industries that FDI enterprises are allowed to engage in. |
| | Publish and implement incentive policies from the perspective of fiscal and taxation | Encourage FDI enterprises to reinvest the profits obtained in China in China to exaggerate development, and promote the transfer of some FDI enterprises to the western region and the old industrial base in the northeast. |
| | Enhance the supporting settings of the development | Give greater autonomy to China's key development zones to enhance the attractiveness of development zones for FDI, and effectively improve the supporting |

| | | |
|---|---|---|
| | area and enhance its attractiveness | facilities and investment environment of development zones |
| | Attract foreign talents to develop in China | Form an effective foreign talent introduction system as soon as possible to attract high-tech and high-level international talents. |
| | Optimize the business environment | By continuously improving the framework of foreign investment laws and regulations, attaching importance to the construction of a soft investment environment for foreign-invested enterprises, reducing the cumbersome affairs in the process of enterprise investment, and ensuring the stability of laws and regulations for foreign-invested enterprises. |

Two of the tax policies are more targeted at promoting the growth of foreign investment, namely:

1. Preferential policy of withholding income tax. FDI enterprises invest in China. According to the original enterprise income tax law, the profits of FDI enterprises need to pay a 10% withholding tax as the base. According to the document released this time, if a foreign company keeps its profits in China for reinvestment, it can temporarily not levy this part of corporate income tax;

2. Extend the preferential income tax policy enjoyed by qualified technologically advanced service enterprises to the whole country. Through the identification of enterprises that meet the scope of the business scope, the income tax rate of 15% is given to technologically advanced service enterprises.

(1) Guiding direction of FDI industry structure. At present, China has implemented a number of measures to attract foreign investment in order to effectively protect the legitimate rights and interests of foreign entrepreneurs and create a high-level foreign investment environment. China encourages foreign companies to increase investment in high-tech fields, significantly relaxes the access restrictions on related service industries and manufacturing industries, and implements a tax policy that encourages foreign investors to use domestic profits to directly invest in the establishment of R&D centers, providing opportunities for overseas high-end talents to come to China, providing convenience for the entry and exit certificates for themselves and their families, allow foreign-invested enterprises to participate in undertaking national science and technology plan projects, and the "Made in China 2025" strategy is also applicable to foreign-invested enterprises. The industry guidance of China's foreign

investment behavior was first based on the "Foreign Investment Industry Guidance Catalogue" (hereinafter referred to as the "Catalogue") as the main basis. Items that are not in the directory are permitted items. The catalog has been continuously revised and improved over the years. During this process, the industries that China allows FDI enterprises to engage in have gradually increased, and the requirements for shareholding ratios have also been gradually relaxed. And last year, China separately released the "Special Management Measures for Foreign Investment Access (Negative List) (2018 Edition)". The negative list is no longer divided into two parts: "restricted" and "prohibited", but appears in an overall form. And the corresponding special management measures are specifically stated in the text, and the document lists only industries with restrictions on FDI enterprises. Among the revisions to the catalog for the guidance of foreign investment industries in recent years, the revisions such as substantially relaxing market access conditions, greatly expanding the opening of the service industry, basically liberalizing the manufacturing industry, and relaxing access to agriculture and energy resources are more obvious. Through these policy adjustments, it can be seen that China’s previous foreign investment focus is on the service industry and high-tech fields, but this negative list has fully combined the changes in the international investment pattern and China’s specific national conditions, and released many of the service industries and some high-end manufacturing fields. While encouraging the development of the service industry, it is also encouraging foreign investment to enter the high-end manufacturing industry. According to the analysis of Han Chao (2018), the effect of increasing the access requirements of FDI enterprises on the improvement of product quality is not the market access effect as traditionally believed, but still the attraction from preferential policies. Therefore, in order to ensure a better quality of development, issuing certain preferential tax policies is still an effective policy tool.

(2) The guiding direction of the regional structure of FDI. The situation of China's FDI varies greatly among different regions, mainly due to the synergy of various reasons such as the early development of the eastern region, many special economic zones, and superior geographical location. At present, the actual amount of FDI is unevenly distributed between the eastern and central and western regions. Although the number of enterprises and the amount of investment in the central and western regions are increasing steadily, compared with the accumulated advantages of the eastern region over the years, the central and western regions are not as favorable to these FDI enterprises as they are not attractive enough. In order to make the central and western regions of China have sufficient advantages to guide foreign-

invested enterprises to invest, China has formulated a series of more targeted policy measures for the central and western regions according to their specific conditions.

Since 2017, 5 of the 7 new pilot free trade zones in the country are located in the central and western regions, and the preferential corporate income tax policies for technologically advanced companies in service outsourcing demonstration cities have been further extended from pilot cities to the whole country. Various regions actively carried out activities to promote FDI, and implemented a number of measures to promote the transfer of FDI enterprises from the eastern coastal areas to the central and western regions and the old industrial bases in Northeast China. In 2017, China released the latest "Catalogue of Advantageous Industries for Foreign Investment in Central and Western Regions", which is an important regional industrial policy for China to attract foreign investment. According to the regulations, each region can, according to the special circumstances of the region, submit opinions to the National Development and Reform Commission to propose the category of advantageous industries in the region, which will be able to take advantage of the advantages of the central and western regions but do not belong to the encouraged category of the "Guidance Catalog of Foreign Investment Industries". Foreign investment projects are included in it, so as to enjoy preferential policies for encouraged foreign investment projects. Through specific analysis of environmental conditions, resource locations and other factors in each region, the advantageous industries in the region can be analyzed, which can maximize the benefits of policies. Since the eastern and central western regions of China are very unbalanced in terms of economic development and supporting infrastructure, there should be differences when formulating policies to promote FDI in different regions of China. For example, China’s eastern coastal areas have advantages in other factors such as infrastructure construction, which is more conducive to the development of service industries, high value-added industries and other industries. However, due to the lack of basic development, the central and western regions are more suitable for strengthening the development of the manufacturing industry. By enhancing the pertinence of foreign investment, it is more conducive to promoting industrial transformation and upgrading, and also conducive to the construction of supporting capabilities, which can help reduce enterprise costs and continuously improve the business environment. Through a series of policy measures, the regional distribution of foreign investment in China is expected to be further optimized in the future.

#### 4.6.2 China's current FDI tax policy

In order to actively implement the current guiding direction of China’s FDI enterprises, according to the policy orientation in the document "Notice on Several Measures for Expanding Opening Up and Actively Utilizing Foreign Capital". Since 2017, the Ministry of Finance, the State Administration of Taxation and other departments have issued a number of fiscal and taxation policies and management measures to promote tax and fee reductions, further improve the level of trade and investment facilitation, and promote a deeper and higher level of opening up. The State Administration of Taxation has issued a number of tax policies related to encouraging FDI enterprises, in order to increase the enthusiasm of FDI enterprises in China, and play a certain indirect role in regulating the investment behavior of foreign enterprises from the perspective of tax policies. To promote the transformation of China's economic structure and further open up to the outside world, some policies are summarized in the Table 11.

Table 11 Summary of Tax Policies Related to FDI

| offer type | file name | Specific preferential measures |
| --- | --- | --- |
| Related to expanding opening up and encouraging foreign investment | "Notice on Extending the Income Tax Policy for Technologically Advanced Service Enterprises to the Nation" | This document extends the preferential income tax policy for service outsourcing service enterprises with advanced technology to the whole country, in order to give full play to the influence of foreign enterprise capital on promoting the better development of China’s economic level, and guides foreign-funded companies to invest more in high-tech and value-added services industry, thereby stimulating the further growth of China’s overall technological level. |
| | "Notice on the Temporary Exemption of Withholding Income Tax Policy for Overseas | The notice stated that if the profits distributed by foreign-invested enterprises from Chinese enterprises are invested in specified projects, tax |

| | | |
|---|---|---|
| | Investors' Direct Investment with Distributed Profits" | payment can be deferred. This regulation is helpful to encourage the use of funds by foreign companies in China, and directly promotes foreign-invested enterprises to continue investing in China. |
| Related to tax cuts and fee cuts | "Notice on Improving the Tax Credit Policy for Enterprises' Overseas Income" | The document provides for the comprehensive credit method to be added to the currently implemented credit rules. Each enterprise can freely choose the method according to its own situation. Moreover, this document also increases the level of the ground to five levels, that is to say, compared with before, under the same circumstances, the amount that enterprises can deduct will only increase but not decrease, which will further enhance the investment of FDI enterprises. intention. |
| | Relevant documents of "Notice on Relevant Tax Policies for Venture Capital Enterprises and Individual Angel Investors" | The Caishui [ 2017] No. 38 document relaxes the preferential tax policies for qualified venture capital enterprises in the selected pilot areas. The Caishui [2018] No. 55 document extended the preferential tax policies for venture capital investment from pilot areas to the whole country, enhanced the degree of preferential treatment for venture capital investment, and further enhanced the attractiveness of investment. |

| | | |
|---|---|---|
| | "Notice on Improving the Pre-tax Plus Deduction Ratio of R&D Expenses for SMEs" | Increase the pre-tax deduction ratio of scientific and technological small and medium-sized enterprises' research and development expenses to 75%, and increase the pre-tax amortization ratio of intangible assets to 175%. The purpose of this regulation is mainly to encourage small and medium-sized technology-based SMEs to increase research and development efforts in order to improve the level of science and technology in China. |
| | "Notice on Implementing Inclusive Tax Reduction and Exemption Policies for Small and Micro Enterprises" | with monthly sales of less than 100,000 yuan are exempt from VAT. For small and low-profit enterprises whose annual taxable income does not exceed 1 million yuan, a 25% reduction is included in the taxable income; for the part whose annual taxable income exceeds 1 million yuan but not more than 3 million yuan, a 50% reduction % included in taxable income. |
| | "Notice on Adjusting Value-Added Tax Rates" | The circular lowered the tax rates of 17% and 11% to 16% and 10% respectively. |
| | "Notice on Unifying the Standards for Small-Scale Value-Added Tax Payers" | The document unifies the original annual sales standards for enterprises engaged in different businesses, and adjusts them to five million yuan. The notice is in line with China's current direction of reducing the tax burden of enterprises. By increasing |

| | | |
|---|---|---|
| | | the amount of the identification standard, more enterprises will be included in the category of small-scale VAT taxpayers and the tax burden of enterprises will be reduced. |
| | "Announcement on Relevant Policies for Deepening Value-Added Tax Reform" | Reduce the current tax rate for industries such as manufacturing from 16% to 13%, lower the current tax rate for industries such as transportation from 10% to 9%, and keep the 6% tax rate unchanged. Effective from April 1, 2019. |
| Related to Optimizing the Business Environment | "Announcement on Issuing the "Administrative Measures for Special Tax Investigation Adjustments and Mutual Agreement Procedures"" | The Announcement clarifies the circumstances under which the State Administration of Taxation may initiate the mutual agreement procedure based on the application of an enterprise or the tax authority of the other tax treaty contracting party, and the circumstances under which the State Administration of Taxation may refuse, suspend or terminate the mutual agreement procedure. It is clarified that after an enterprise submits a formal application for a bilateral or multilateral advance pricing arrangement, the mutual agreement procedure stipulated in the Announcement should also apply. And further streamline the relevant tax refund mechanism. |

| | | |
|---|---|---|
| | "Announcement on Issues Concerning the Withholding of Income Tax at Source for Non-Resident Enterprises" | The announcement cancels contract filing and tax settlement, simplifies the report materials that need to be submitted, simplifies calculation operations, facilitates withholding agents to perform their obligations, focuses on solving problems in collection and management, and reduces the compliance of taxpayers and withholding agents' responsibility. |

Through the analysis of the above regulations, it can be seen that the tax policy applicable to FDI enterprises in China is basically consistent with the tax policy of domestic enterprises in China, which is in line with the principle of fair competition promised by China when it joined the WTO, and has no foreign investment. Enterprises implement individual preferential treatment. Moreover, the current tax policy has a greater incentive for high-tech and high value-added industries, which can reflect the industry orientation of China's current tax policy.

4.6.3 China's guidance of FDI has achieved results

(1) The scale of FDI has expanded. By analyzing the data of the actual use of FDI in China, the growth trend of the actual use of foreign capital in China has not changed significantly in recent years, and the actual use of the amount has basically grown steadily. Combined with the reform of China's corporate income tax system in 2008, although the amount of investment declined in 2009, it was greatly affected by the global financial crisis that broke out at that time, resulting in a sharp decline in the total amount of global FDI. This led to a decline in the actual use of foreign capital in China that year. It indirectly shows that although China has canceled the super-national treatment of FDI, it has not had a negative impact on the actual use of FDI in China. Moreover, on the basis of it, the number of FDI companies in China has decreased. Through the comparison of these two data, it can be shown that the scale of FDI companies in China is larger than before.

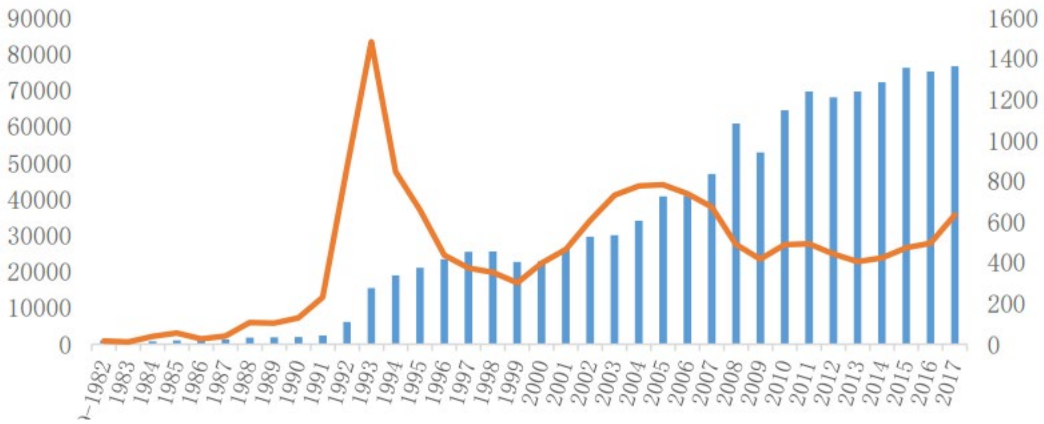

Figure 12 The actual use of foreign capital in China from 1979 to 2017

At present, China has attracted a large number of FDI enterprises to set up companies in China. Until 2017, China has accumulatively established 900,165 foreign-invested enterprises, and the cumulative actual use of foreign capital has exceeded 2 trillion US dollars, reaching 2010.93 billion US dollars. Judging from the specific situation of the year, China's actual utilization of foreign capital in 2017 reached US$131.04 billion, a year-on-year increase of 4%. Moreover, when the global FDI fell by 23.4% year-on-year, China’s use of foreign capital increased instead. This can prove that the attractiveness of China’s FDI enterprises has been continuously improving, and the number of newly established FDI enterprises in China It also increased by 27.8% year-on-year.

(2) Optimization of FDI industry structure. According to the Table 12, it can be seen that before 2008, most of the investment amount of FDI enterprises in China was invested in the secondary industry, and the primary industry accounted for very little, less than 2%. Although the tertiary industry also accounted for a certain proportion, the industry scale development is slow. In addition, there are also differences in the amount of foreign investment between industries and within industries, and the manufacturing industry is the main direction chosen by FDI enterprises. According to Figure 13, it can also be seen that before intervening in the industries invested by foreign companies in the early stage, FDI companies are more willing to invest in those processing trade industries that require a lower technical level, and seldom invest in those industries that require more investment. Service industry and high-tech enterprises with high technology level, large investment and uncertain profits.

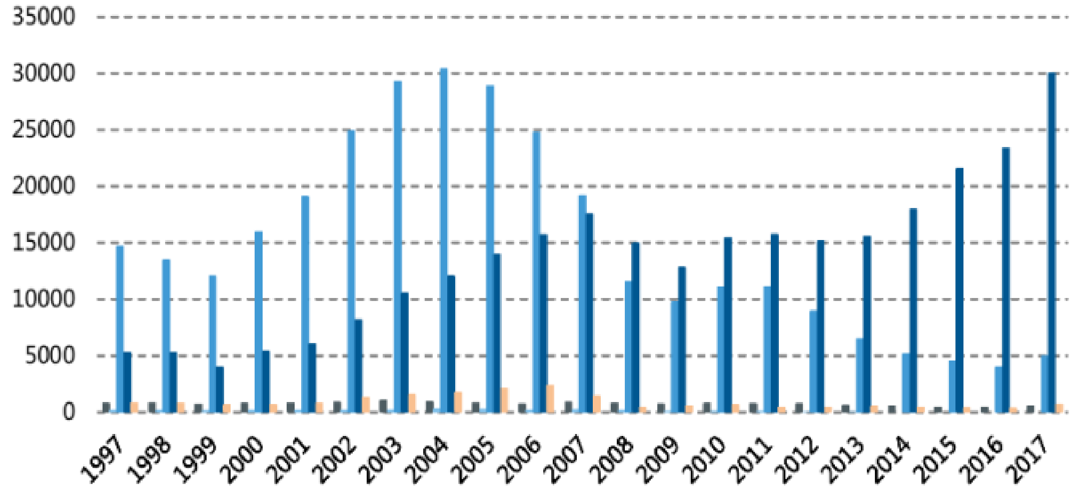


Figure 13 Distribution of new foreign-invested enterprises by industry from 1997 to 2017

This unreasonable investment structure between industries and industries has a greater correlation with China’s early preferential policies, but this investment situation does not play a significant role in helping China’s development. With the transformation and upgrading of China's economic structure in recent years, China's continuous updating of tax policies has played a more obvious role in guiding the industry structure of FDI enterprises, and the industry structure of foreign investment has undergone significant changes in recent years. change. In particular, the proportion of foreign investment in high-tech industries has doubled, and the introduction of technology and intelligence has become a new driving force. Regardless of whether it is classified according to the major categories of the three industries, or according to the national economic classification industry subdivision, the characteristics of the structural adjustment of foreign investment industries in 2017 are very significant. According to the division of the three industries, the changes in the industrial distribution structure of China's foreign investment are mainly reflected in the changes in the shares of the secondary industry and the tertiary industry. In terms of the proportion of the actual use of foreign capital, the tertiary industry increased from 41.7% in 2007 to 68.1% in 2017; while the proportion of foreign investment in the secondary industry gradually decreased, and the proportion of the actual use of foreign capital dropped from 57.3% in 2007 to 2017. 31.3% in 2017.

Table 12 Statistics on the proportion of foreign investment attracted by the three industries

| | primary industry | Secondary industry | Tertiary Industry |
|---|---|---|---|

| | Number of enterprises (%) | Actual investment (%) | Number of enterprises (%) | Actual investment (%) | Number of enterprises (%) | Actual investment (%) |
|---|---|---|---|---|---|---|
| 2 015 | 1.8 | 0.9 | 18.7 | 34.5 | 79.5 | 64.6 |
| 2 016 | 1.6 | 1.3 | 16.6 | 31.9 | 81.8 | 66.8 |
| 2 017 | 1.6 | 0.6 | 16.9 | 31.3 | 81.5 | 68.1 |

In 2017, agriculture, forestry, animal husbandry and fishery accounted for 0.6% of China's actual use of foreign capital, manufacturing accounted for 25.8%, and service industry accounted for 72.7%.

Table 13 Structure of FDI by industry in 2017

| | Number of newly established companies | | | Actual use of foreign capital | | |
|---|---|---|---|---|---|---|
| | Number | YoY % | Proportion % | Amount (100 million US dollars) | YoY % | Proportion % |
| total | 3 5652 | 2 7.8 | 1 00 | 1 310.4 | 4 | 1 00 |
| Agriculture, forestry, animal husbandry and fishery | 5 79 | 2 9 | 1 .6 | 7.9 _ | - 52.1 | 0.6 _ |
| mining industry | 2 6 | - | 0.1 | 1 3 | 1 251.4 | 1 |
| manufacturing | 4 986 | 2 4.3 | 1 4 | 3 35.1 | - 5.6 | 2 5.8 |
| service industry | 3 0061 | 2 8.4 | 8 4.3 | 9 54.4 | 7.5 | 7 2.7 |

In 2017, the industrial structure of China's FDI enterprises was further improved. Among all industry data, the scale of actual FDI in high value-added industries continued to increase, and the quality also improved. The amount of foreign capital utilized by high-tech industries increased by more than 60% year-on-year, accounting for about 30% of the total industry, an increase of 10.2% over last year. In 2017, the actual use of foreign capital in China's high-tech service industry was US$26.07 billion, a year-on-year increase of 106.4%. Foreign investment in high-tech manufacturing has also grown rapidly. China has further relaxed the entry threshold for foreign investment in the manufacturing industry.

Table 14 Statistics of foreign capital utilization in China's high-tech manufacturing industry in 2017

| | number of enterprises | | Actual use of foreign capital | |
|---|---|---|---|---|
| | quantity | proportion% | Amount (100 million US dollars) | proportion% |
| total | 35662 | 100 | 1363.2 | 100 |
| high-tech industry | 7022 | 19.7 | 359.6 | 26.4 |
| high-tech manufacturing | 1032 | 2.9 | 98.9 | 7.3 |
| High-tech service industry | 5990 | 16.8 | 260.7 | 19.1 |

(3) Optimization of the regional structure of FDI. Before the reform of corporate income tax in 2008, China mainly implemented regional preferential tax policies. In order to cooperate with the process of China’s reform and opening up and promote rapid economic growth, China’s preferential tax policies have gradually decreased from special economic zones to open coastal cities to general areas in the interior. It is precisely because of this tax system that the economic development of the western region of China is not as good as that of the eastern region due to the constraints of the natural environment and other factors. Moreover, most of the eastern regions are not only close to ports and have convenient transportation, but also have more preferential policies, so the attractiveness of FDI enterprises is much higher than that of the western regions. Coupled with China’s early preferential policies, foreign investment is almost all concentrated in the eastern region. However, after the promulgation and implementation of the "Catalogue of Advantageous Industries for Foreign Investment in the Central and Western Regions" in 2013, some special industries in the central and western regions were listed separately to encourage FDI enterprises to invest in the central and

western regions. The amount of investment in the Midwest has indeed continued to grow. In 2017, the actual investment in the western region was US$8.13 billion. The annual actual investment amount in the central region was US$8.31 billion, a year-on-year increase of 17.1%, which was a relatively large increase compared with the same period in 2016. However, the annual actual investment amount in the eastern region was US$114.59 billion, a year-on-year increase of 4.9%, accounting for 87.5% of the actual use of foreign investment in the country in 2017 (Source: Ministry of Commerce of the People's Republic of China). It can be seen that although the total investment in the central and western regions has increased, the eastern region is still a hot spot for FDI enterprises. At present, China pays more attention to the development of the central and western regions, emphasizing on the regional positioning of the central and western regions to undertake the industrial transfer of the eastern regions. The catalog of industrial advantages in the central and western regions has also been revised many times in recent years. According to the special circumstances and their own environmental conditions in the central and western regions, each region formulates its own catalog of advantageous industries, and passes these policies to foreign companies. Regional orientation is more conducive to the targeted selection of investment regions for foreign-invested enterprises.

4.6.4 Existing problems in China's FDI tax policy and related supporting systems

(1) The corporate income tax system needs to be further optimized. Through the theoretical explanation and data analysis above, it can be seen that the scale and quality of FDI in China have been steadily improving in recent years, and the industry layout has been tilted towards the tertiary industry, especially the proportion of high-tech industries is rapidly increasing. In the transition period of comparative advantage. However, China cannot only focus on the development of FDI in the tertiary industry, and abandon the market for labor-intensive FDI enterprises. It is also necessary to ensure the development of basic industries such as manufacturing, especially to encourage high-tech manufacturing and agriculture. As shown in Tables 15-17, it can be seen that FDI enterprises have provided a very obvious contribution to China’s current employment situation, and among them, basic industries are the main ones.

Table 15 Comparison of foreign-invested enterprises' ability to absorb employment and the average level of national enterprises from 2011 to 2016

| index | 2 016 | 2 015 | 2 014 | 2 013 | 2 012 | 2 011 |
|---|---|---|---|---|---|---|

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Foreign-invested enterprises | Total employed persons (10,000 people) | 2 666 | 2 790 | 2 955 | 2 963 | 2 215 | 2 149 |
| National Enterprise | Total employed persons (10,000 people) | 4 1428 | 4 0410 | 3 9310 | 3 8240 | 3 7102 | 3 5914 |
| Employment of foreign-invested enterprises is a multiple of the national average | | 4 .6 | 3.7 | 3 .4 | 3.1 | 2 | 1 .9 |

However, the tax reduction policy of the United States has triggered a new round of global tax reduction competition, forcing countries to compete to adopt tax incentives to maintain or enhance their competitiveness in cross-border investment. China's advantages in attracting low-cost labor-intensive foreign capital have been continuously weakened. More and more developing countries have adopted more active foreign investment policies, and some countries have attracted labor-intensive foreign capital. Competition in labor-intensive foreign capital continues to intensify.

In recent years, many labor-intensive enterprises have withdrawn from China and moved to other developing countries such as India for investment. Although China is currently focusing on guiding foreign companies to invest in high value-added industries, it does not completely give up on labor-intensive industries. At present, whether it is labor-intensive industries or high value-added industries in the eastern region of China, the development is better than that in the western region. We can properly guide some labor-intensive enterprises located in the eastern region to transfer to the western region instead of choosing to withdraw directly from China. China should formulate certain preferential policies for manufacturing industries, especially those investing in the western region, to encourage economic development in the central and western regions.

(2) The gap between applicable VAT rate levels is too large. The actual investment amount of FDI enterprises in China has a huge distribution gap among different industries, which is not only caused by the corporate income tax system, but also greatly affected by the value-added tax. In the early stage of China's business tax reform to value-added tax, the value-added tax rate for manufacturing and other industries is 17%, which is the highest level, which is four percentage points higher than the second level of 13%. Although value-added tax is only levied on the value-added amount rather than the full amount, the manufacturing value-added tax burden is also higher than other industries under the same circumstances. Although China has lowered the VAT rate for a period of time to reduce the VAT burden for enterprises, the VAT rate used by the manufacturing industry is still the highest. At present, the applicable value-added tax rate of China’s manufacturing and other industries is 16%, and it has been determined in the two sessions held in 2019 that the highest-level value-added tax rate will be reduced to 13%, and the Ministry of Finance and the State Administration of Taxation have recently issued "On Deepening Value-Added Tax" Announcement on the Reform of Relevant Policies”, announcing that the latest value-added tax rate will be implemented from April 1, 2019. However, the second tax rate has also dropped from 10% to 9%. Although the tax rate of the manufacturing industry has dropped compared to before, and the industry's costs have also been reduced accordingly, there are still certain problems in the current value-added tax system. As a neutral tax, value-added tax should not cause any interference in the business decision-making of enterprises, nor should enterprises pay more or less value-added tax due to the different industries they choose. Although China’s current applicable value-added tax rate has been continuously reduced, in order to achieve the purpose of reducing the tax burden for enterprises. However, this reduction is basically for all tax rate brackets, and the tax rate brackets are all reduced proportionally, which also makes them still be the industry with the heaviest value-added tax burden for manufacturing companies. In order to ensure the neutrality of value-added tax, China should gradually reduce the gap between the current highest tax rate and other lower-level tax rates, and gradually combine them into one level to make value-added tax a neutral tax in the true sense.

(3) The supporting system and environment related to foreign investment are not perfect. China formally voted and passed the "Foreign Investment Law" during the two sessions in 2019, announced its specific provisions, and announced that it will be implemented from 2010. Since China did not have a unified legal regulation on foreign investment before this, the regulations on foreign-invested enterprises are mainly based on three laws: "Sino-Foreign Joint Venture Enterprise Law", "FDI Enterprise Law" and "Sino-Foreign Joint Venture

Enterprise Law" Law, and other laws and regulations promulgated on its basis. Although China has passed the "Foreign Investment Law" to unify the relevant legal system, there are still a series of follow-up matters that need to be dealt with. Some of the provisions of the previously published documents need to be abolished, and some regulations need to be revised accordingly to correspond to the specific provisions of China’s "Foreign Investment Law". All of these require continuous attention in the future, and the relevant detailed rules have not been announced this time, and further research is required to refine and supplement the existing laws and speed up the formulation of supporting measures. At present, the industry catalogs applicable to FDI enterprises are relatively scattered. The current applicable foreign investment industry catalogs include: "Guiding Catalog of Foreign Investment Industries (Revised in 2017)", "Catalogue of Advantageous Industries for Foreign Investment in Central and Western Regions (Revised in 2017)", Three items of "Special Management Measures for Foreign Investment Access (Negative List) (2018 Edition)". These three catalogs have been revised frequently in recent years and not at the same time. For example, the two positive guidance catalogs were implemented from July 28, 2017 and March 20, 2017 respectively. Due to the stipulated release time, it is not the same as the start of implementation, and it is more cumbersome for enterprises and local governments that implement it. The 2018 version of the negative list is compiled from the special management measures for foreign investment access in the "Foreign Investment Industry Guidance Catalog (2017 Revision)”. It is relatively cumbersome to follow the updates of multiple directories. In recent years, China has released many preferential policy documents, which are updated quickly. However, most of these preferential policies in China are issued in the form of notices and announcements, and some policies lack detailed implementation rules. For enterprises, how to judge whether they are eligible for preferential policies, how to apply for preferential policies, and what documents need to be prepared are relatively unclear in the documents. This may cause some enterprises to lose the preferential treatment due to lack of thorough understanding of the documents, and may also cause some enterprises to take advantage of legal loopholes to gain profits. And due to the lack of detailed implementation documents, it is difficult for the local government to fully implement the preferential policies. Through the description of the implementation rules of the document, its operating procedures and implementation standards can be determined, which is not only convenient for enterprises to understand, but also facilitates the implementation of local governments, and is more conducive to the implementation of policies in place. At present, there are still some unreasonable charging items of the nature of enterprise-related services in China. Although the cleaning up of irrelevant charging items has long been listed as a government matter, due to different policies in different regions, and the charging items in different regions are not completely consistent, the degree and speed of their implementation all are different. It is a long-term task to clean up and standardize the charging items of local governments. While the government issues policy documents, it also needs to monitor the implementation in various regions. To promote China’s economic development and create a better investment and operating environment for enterprises, reducing unnecessary charging items is beneficial to the long-term development of enterprises. For specific enterprises, cleaning up relevant useless charging items can reduce the operating costs of enterprises and create a good business environment. For FDI enterprises, the important considerations in choosing the host country to invest in also include market factors, supporting environmental facilities and so on. While providing corresponding preferential policy assistance, China should also continue to adhere to the basic policy of opening to the outside world. At present, China is still in the process of expanding opening up to the outside world, and has not reached the optimal level. Moreover, China currently has certain restrictions on FDI enterprises, mainly in terms of industry access. China completely prohibits FDI enterprises from entering some industries, and some enterprises allow FDI enterprises to enter. There are certain requirements for the proportion of foreign capital shares, but in recent years, China has gradually relaxed the restrictions. Especially for areas that are in urgent need of development, such as the central and western regions, the access requirements can be appropriately relaxed to promote the willingness of FDI enterprises to develop in the regions. Moreover, there is a relatively large gap in the level of infrastructure construction between the eastern and central and western regions, which is extremely unfavorable for the western region to attract FDI enterprises to invest. In terms of policies, China’s current intention to guide enterprises to develop in the central and western regions is relatively obvious. However, for the construction of the central and western regions of China, we cannot rely solely on the inflow of foreign capital. The Chinese government should also proceed from the specific regions which need to take more proactive improvement measures.

#### 4.6.4 International experience of FDI tax policy for reference

(1) For high-tech industries, all countries have given certain tax incentives. And according to the specific conditions of different countries, the industries that each country chooses to apply preferential tax policies are not completely consistent. It mainly encourages the development of industries that are currently underdeveloped or need to be developed urgently, which can provide more for the country's industrial optimization and economic development. For most developed countries with better economic development, it is more important to develop high-

tech and high value-added industries, which can help upgrade and transform the industry structure. For developing countries with relatively slow economic development, tax incentives are generally adopted for various industries to promote their own economic development. Countries implement targeted tax policies for different industries according to their own conditions. Countries generally also give certain preferential tax policies to relatively backward areas within their territories to encourage all enterprises, including FDI enterprises, to invest and build in relevant areas, with a view to driving the economic level of the backward areas.

(2) The preferential tax policy is more flexible. The specific preferential tax policies adopted by different countries are still different, which are related to the objective situation and subjective wishes of the country. For countries with relatively backward development, direct tax incentives are mainly given. In order to enable foreign-invested enterprises to intuitively enjoy the preferential tax system. Through the direct reduction and exemption of the tax amount to be paid, FDI enterprises are attracted to invest in this country. Countries with relatively good economic development mainly rely on the indirect preferential system, and most of them are preferential policies for deductions. This is also due to the high economic level of these countries. For them, attracting the investment scale of foreign companies is no longer the top priority. They hope to improve the quality of foreign investment attracted by their own countries to optimize their economic structure. The indirect tax preference system has a relatively obvious effect on the development of the tertiary industry, especially high-tech and high value-added industries, and is of great help in promoting the upgrading of industrial structure.

## 4.7 Summary of this chapter

This chapter starts from the theory, and then analyzes the mechanism of the impact of tax incentive policies on FDI production by combing and analyzing the causes of international capital flow and the factors affecting the inflow of FDI. According to theoretical analysis, the impact of taxation on the inflow of FDI can be divided into two ways: one is that tax cuts can reduce the investment cost of overseas investors, thereby directly affecting the increase in investment; the other is that taxation can contribute to the construction of investment environment and raise funds, thereby indirectly affecting changes in investment.

## 5. An empirical analysis of the effectiveness of tax incentives in attracting FDI

### 5.1 Case 1

#### 5.1.1 Model establishment and variable selection

##### 5.1.1.1 Selection of Data

Considering the typicality of preferential tax policies, this paper mainly selects 34 cities as samples to analyze tax areas: Shenzhen, Zhuhai, Xiamen, Shantou, etc.; 16 coastal cities with open economy: Dalian, Qinhuangdao, Shanghai, Ningbo, Fuzhou, Guangzhou, etc.; 18 inland provincial capitals. According to the changes in tax policies and the availability of sample data, the relevant data of these 34 cities from 2011 to 2022 were selected for regression analysis. These sample data mainly come from the "Chinese cities from 2012 to 2022 Statistical Yearbook".

1. Selection of explained variables

Because this paper studies the impact of tax policies on China's attraction of FDI, the actual amount of foreign investment in 34 sample cities is selected as the explained variable, and the unit is US$100 million.

2. Selection of explanatory variables

According to the theoretical review of factors affecting international direct investment, it is found that different theories give different factors affecting international direct investment. One of the most influential is Dunning's international production eclectic theory. Dunning mentioned in the international production eclectic theory that an enterprise will only choose to invest abroad when it has ownership advantages, internalization advantages and regional advantages, and internalization advantages and ownership advantages belong to the company's own internal development and improvement advantages.

The location advantage is related to the host country's economic development level, labor costs, infrastructure conditions and other factors, all of which greatly affect the decision-making of FDI. But different types of foreign-invested enterprises have different preferences for labor costs. Some foreign-funded enterprises have higher requirements for labor force, and they tend to flow into high-wage areas to obtain higher labor force levels, thereby saving labor training costs; while some foreign-funded enterprises do not have high requirements for labor quality, so they prefer to low-wage areas. The impact of employee wages on FDI enterprises is uncertain, so this variable is discarded in the model. Based on the above distractions, in addition to selecting tax incentives as explanatory variables, the model in this paper also selects two main factors as explanatory variables according to Dunning's theory: the level of economic development and the status of infrastructure.

(1) Tax Preference (TP), because there is no fixed quantitative standard for tax preference, so different scholars have different systems for measuring tax preference policy. This article mainly refers to the quantification method. Chen Bin (2007) sets the tax preference index as a variable in his thesis to reflect the degree of preference of tax policies in different regions. The tax preference index is proportional to the degree of tax preference enjoyed by different regions. Because China's tax incentives are different in different periods, and tax incentive policies are different in different regions, Chen Bin divides different stages and levels by region and time in her thesis. This article will refer to her division method.

China adopts an open policy from the coast to the inland, according to the special economic zone-coastal open city-inland provincial capital city, the preferential tax policy is decreasing. Therefore, in 2001, the sleeping preference index for inland provincial capital cities was 1, the preferential index for open coastal cities was 2, and the after-tax preferential index for special economic zones was 3. In 2001, China implemented the western development strategy. In order to attract FDI enterprises to invest in the western region, from 2001 to 2010, the government gave the western region matching preferential tax policies. Considering the time-lag of the policy, starting from 2002, the year after the policy was promulgated, the tax preference index of inland provincial capital cities located in the western development area was adjusted to 2. In 2007, China began to promulgate a new corporate income tax law, to cancel the original regional tax incentives for foreign-funded enterprises. Therefore, from 2008, the preferential tax index for special economic zones, open coastal cities, and inland provincial capitals except the western region has been adjusted to 0.

(2) The reason why the per capita industrial output value is chosen is that the per capita GDP value with the same statistical caliber for the required year cannot be obtained. The more developed the economy of a region, the greater the industrial agglomeration effect, and the higher the level of product supply and service that foreign-funded enterprises receive in the region. Therefore, it can be predicted that the level of international direct investment attracted by a region is directly proportional to the per capita industrial output value of the region.

(3) Infrastructure level (INF). Infrastructure includes many aspects, and transportation pipelines and roads have important impacts on different types of foreign-funded enterprises.

This paper considers the paved area of urban roads as a proxy variable to measure the level of a city's infrastructure.  Foreign companies tend to flow into regions with well-developed infrastructure. Because the more complete the infrastructure, the lower the transaction costs, and the more efficient resource allocation can be. It can be predicted that this indicator is directly proportional to attracting international direct investment.

5.1.1.2 Establishment of multiple linear regression models

Based on the above variables, this paper uses the panel data of 34 cities to establish the following regression model

$$FDI_{it} = \alpha_i + \beta_1 TP_{it} + \beta_2 ECO_{it} + \beta_3 INF_{it} + \varepsilon_{it} \qquad (1)$$

Among them, i =1,2...34, representing the selected 34 cities. t=1,2, ..., 12, representing different years from 2011 to 2022. αi represents the effect of each region that does not change over time, and this effect includes some factors that may affect FDI that have not been considered. β1, β2 and β3 are the regression coefficients of each variable, which represent the degree of influence of each factor on FDI. Because this is a panel sequence model, for this type of model analysis, common methods include fixed effect method and random effect method.

5.1.2 Empirical analysis

5.1.2.1 Stationary inspection

Because the selected sample cities in this paper are 34, the relationship between preferential tax policies and FDI in the past 12 years has been studied. There are cases where the number of sections is greater than time, so the panel data belongs to the short panel. Before performing regression analysis on the model, this paper uses Levin, Lin & Chu t (LLC), PP-Fisher test to test the stationarity of the data to avoid false regression problems. The following is the situation of using EVIEWS 6.0 software, using LLC and PP-Fisher test.

Table 16 Stationarity test results

| variable | test | LLC | PPFisher | in conclusion |
|---|---|---|---|---|
| InFDI | I(0) | -4.48033(0.0000) | 111.237(0.0021) | smooth |
| InTP | I(0) | -6.73182(0.0000) | 95.8664(0.0004) | smooth |
| ECO | I(0) | -8.21188(0.0000) | 145.889(0.0000) | smooth |

| | | | | |
|---|---|---|---|---|
| INF | I(0) | -19.6424(0.0000) | 122.122(0.0002) | smooth |

5.1.2.2 Haussmann test

For the regression analysis of panel data, the fixed effect method or the random effect method are usually used. The fixed-effects approach assumes that the regression coefficients are the same across individuals, but the intercept term is different. The random effects method assumes that the distribution of the intercept term is independent of the individual distribution, and that the regression coefficients for different individuals are the same. In this paper, the likelihood ratio is used to test the fixed effect model, and the Hausman test is used to test the random effect model.

Table 17 Test results of fixed effects

| Effect Test | Statistics | P value |
|---|---|---|
| Cross-section F | 35.945884 | 0.0000 |
| Cross-section Chi-square | 619.490494 | 0.0000 |

The likelihood ratio test results show that the fixed effect model can pass the hypothesis test.

Table 18 Random effect test

| Effect Test | Statistics | P value |
|---|---|---|
| Cross-section random | 0.000000 | 1.0000 |

The test results show that the random effect model of the Hausman test cannot pass.

5.1.2.3 Regression results and analysis

When dealing with cross-sectional data models, heteroscedasticity usually occurs. In this paper, the weighted least squares method is used for regression to avoid the influence of heteroscedasticity.

Table 19 Data regression results

| | |
|---|---|
| $\alpha$ | 1.546846(2.482663)** |
| InTP | 0 .087491(2.28041)** |
| ECO | 0.792411(16.64474 )*** |
| INF | 0.111038(2.05705)* |

| | |
|---|---|
| $R^2$ | 0.944471 |
| Adjusted $R^2$ | 0.939088 |
| F value | 175.4577 |
| D-W value | 1.761734 |

From the model regression results, the adjusted $R^2$ is 0.944471, indicating that the model fits well. In addition to the low significant level of the coefficient of infrastructure construction (through the t-test with a significant level of 10%), the coefficients of the tax preference index, infrastructure construction, and economic development level all have high significant levels. It shows that the tax preference index and the level of economic development have a significant impact on FDI (5% significance level and below). And to be consistent with the expected situation, the coefficients of tax preference index, economic development level, and infrastructure construction are all positive. The above results show that these factors have a strong positive correlation with FDI. The coefficient of infrastructure development level is positive, indicating that the more complete the local infrastructure construction, the more it can attract FDI. The coefficient of the concurrent tax preference index has passed the 5% significance test, indicating that when the preferential tax policies of an industry or a region increase significantly, the FDI in this industry or region also increases significantly. regardless of whether the preferential tax policies are used in different industries or in different regions, they all have a good guiding effect on attracting FDI.

5.2 Case 2

5.2.1 Selection of data

China's first FDI law was promulgated in 1979, so the data year selected in this paper should start from 1979 and end in 2007. However, in view of the fact that the export product tax rebate policy was issued by the State Council in March 1985, and the corporate income tax and import tariffs did not change much between 1979 and 1985, this paper will select the time series data from 1985 to 2007. The data on corporate income tax and GDP in this paper mainly come from the "China Statistical Yearbook" (1986-2007), the import tariffs mainly come from the "China Foreign Economic and Trade Yearbook" (1990-2007), and the export tax rebates mainly come from the " China Financial Yearbook (1990-2007), some relevant data and policy adjustments are mainly sourced from relevant statistical yearbooks published on the website (http://www.Chinatax.gov.cn/n480462/index.html).

5.2.2 Selection of variables

5.2.2.1 Explained variable

This paper intends to examine the relevance and degree of tax policy to FDI scale, so I use FDI inflows from 1985 to 2007 as the explained variable to measure FDI scale.

5.2.2.2 Explanatory variables

According to the above, China's tax policy is reflected in income tax, export tax rebate, and import tariff. Since income tax is not a net value, it cannot correctly reflect the after-tax income that affects the return on investment of enterprises, and it cannot fully reflect the tax policy. Therefore, the first explanatory variable selected in this paper is the tax burden rate (income tax /GDP) used to measure the macro tax burden. China’s policy on export tax rebate rate and import tariff rate is different for each industry, region and even enterprise. Considering that this article mainly investigates the macro tax policy status of the whole country, and the export tax rebate amount and import tariff amount are both net values, so the other two explanatory variables selected in this paper are export tax rebates and import tariffs over the years.

5.2.3 Model establishment and testing

5.2.3.1 Model building and correlation analysis

According to the previous analysis, the time series regression equation we set is as follows:

$$Y_t = \alpha_1 + \beta_1 \cdot x_{1t} + \beta_2 \cdot x_{2t} + \beta_3 \cdot x_{3t} + \mu_t \tag{1}$$

Among them, t represents the time subscript, α represents that there is an effect that does not change with time every year, and μt is the random disturbance rate. Yt represents the inflow of FDI over the years, and x2t, x3t, and x4t respectively represent the tax burden rate, export tax rebate and import tariff over the years.

Table 20 Distribution over the years

| years | GDP (100 million yuan ) | Corporate income tax (100 million yuan) | tax burden rate | Export tax rebate (100 million yuan) | Import tariff amount (100 million yuan) | FDI inflows (100 million US dollars) |
|---|---|---|---|---|---|---|

| | | | | | | |
|---|---|---|---|---|---|---|
| 1985 | 8527 | 513.1 | 6.02% | 17.95 | 205.21 | 16.58 |
| 1986 | 9687 | 504.5 | 5.21% | 42.64 | 151.62 | 18.74 |
| 1987 | 11307 | 455.3 | 4.03% | 76.51 | 142.37 | 23.14 |
| 1988 | 14074 | 549.2 | 3.90% | 114.97 | 155.02 | 31.94 |
| 1989 | 15997 | 529.9 | 3.31% | 153.11 | 181.54 | 33.82 |
| 1990 | 17681 | 487.6 | 2.76% | 185.59 | 159.01 | 34.87 |
| 1991 | 20188 | 546.2 | 2.71% | 254.62 | 187.28 | 43.66 |
| 1992 | 24362 | 561.1 | 2.30% | 265.87 | 212.75 | 110.07 |
| 1993 | 35333 | 521.4 | 1.48% | 299.65 | 256.47 | 275.15 |
| 1994 | 48197 | 639.7 | 1.33% | 450.1 | 272.68 | 337.67 |
| 1995 | 60793 | 753.1 | 1.24% | 549.84 | 291.83 | 375.21 |
| 1996 | 71176 | 811.5 | 1.14% | 827.68 | 301.84 | 417.25 |
| 1997 | 78973 | 931.7 | 1.18% | 555 | 319.49 | 452.57 |
| 1998 | 84402 | 856.3 | 1.01% | 436.24 | 313.04 | 454.63 |
| 1999 | 89677 | 1009.4 | 1.13% | 627.1 | 562.23 | 403.19 |
| 2000 | 99214 | 1009.4 | 1.02% | 810 | 750.48 | 407.15 |
| 2001 | 109655 | 1444.6 | 1.32% | 1071.5 | 840.52 | 468.18 |
| 2002 | 120332 | 2121.9 | 1.76% | 1259.4 | 704.27 | 527.43 |
| 2003 | 135822 | 1972.6 | 1.45% | 2039 | 923.13 | 535.05 |
| 2004 | 159878 | 2342.2 | 1.46% | 2195.9 | 1043.77 | 606.3 |
| 2005 | 183084 | 3141.7 | 1.72% | 3371.57 | 1066.17 | 603.25 |
| 2006 | 209407 | 5545.9 | 2.65% | 4284.89 | 1280.46 | 694.68 |
| 2007 | 246619 | 7575.6 | 3.07% | 5273.29 | 1320.26 | 826.58 |

This article will use SPSS software for quantitative analysis of data. SPSS is the abbreviation of "Statistical Package for the Social Science", which is an integrated computer data processing application software. The functions of this software include all kinds of analysis tools needed for quantitative research in this paper, such as conventional correlation analysis, t test, etc.; multiple regression analysis, etc. Moreover, users only need to care about which statistical method should be used for a certain problem, and have a preliminary grasp of the interpretation of the calculation results, without knowing the specific operation process, they can quantitatively analyze the data with the help of the user manual, it is a relatively simple and easy-to-master analysis software.

First, this paper conducts a correlation analysis on the three explanatory variables according to Equation (1). From the results shown, it can be seen that the tax burden rate, import tariffs, and export tariffs are highly correlated with FDI inflows. However, there is a highly positive correlation between import tariffs and FDI inflows, which is inconsistent with our previous theoretical assumptions of Plc (the greater the amount of import tariffs, the smaller the scale of FDI utilized by the host country). Due to data limitations, this paper does not rule out that since the increase in import tariffs brought about by the annual increase of foreign-funded enterprises is not subtracted, FDI inflows are still increasing when analyzing the increase in import tariffs, resulting in calculation errors. Secondly, this paper believes that the following three aspects may also be the reasons for the conclusion contrary to the theoretical assumption:

① In the first stage, foreign-funded enterprises mainly took the form of offices in China, and mainly carried out preparatory work or sold primary products to surrounding areas or host countries. Therefore, even if import tariffs increased, they would have little impact. However, after 1996, China canceled the preferential import tariffs for productive FDI enterprises in some areas, which did not reduce the overall level of foreign investment in China. After 1996, foreign capital flowing into China still showed a significant growth trend. The explanation for this is that, according to the theory of international direct investment, whether foreign entrepreneurs invest in a region is the result of comparing the operating income of foreign-funded enterprises in different countries and regions. Although the cancellation of the import tariff policy has affected the after-tax income of some FDI enterprises, FDI enterprises still have preferential measures such as preferential corporate income tax rates, income tax reductions, profit repatriation exemptions, and reinvestment tax rebates. The after-tax income in China may still be higher than the after-tax income in other countries, so the cancellation of import tariffs did not reduce the investment enthusiasm of foreign-invested enterprises in China, and the amount of foreign capital flowing into China in 1996 still increased significantly;

②Although the cancellation of the preferential policy of import tariffs has made the tax revenue of some foreign-funded enterprises lower than that of other countries, but they face a better investment environment and less market risk in China, and foreign-funded enterprises will choose to continue to produce in China. Therefore, the import tariff policy Cancellation does not significantly reduce the total amount of foreign investment that China attracts;

③ In 1996, some foreign-funded enterprises' preferential import tariffs were cancelled. Although some enterprises' tax payment increased, the increase in the fairness of the import tariff policy made multinational companies more willing to invest directly in China.

Table 21 correlation analysis

| | | FDI inflows | tax burden | Export tax rebate | Import tariffs |
|---|---|---|---|---|---|
| F DI inflow | Correlation | 1 | | | |
| | P | | | | |
| | N | 2 3 | | | |
| tax burden | Correlation | - .571** | 1 | | |
| | P | .004 _ | | | |
| | N | 2 3 | 2 3 | | |
| Export tax rebate | Correlation | .820 ** | - .130 | 1 | |
| | P | .000 _ | .555 _ | | |
| | N | 2 3 | 2 3 | 2 3 | |
| Import tariffs | Correlation | .877 ** | - .285 | .918 ** | |
| | P | .000 _ | .188 _ | .000 _ | |
| | N | 2 3 | 2 3 | 2 3 | 2 3 |

At the same time, according to the results shown in the table, export tax rebates and import tariffs are highly correlated, and one of the variables needs to be extracted for regression analysis. In this paper, after one of the two variables was extracted, the regression conducted found that the results of the two regressions were similar, which did not affect the test of the conclusion. In view of the fact that import tariffs have shown a phenomenon opposite to the theoretical assumption in the correlation analysis, this paper changes the explanatory variables into tax burden rate and export tax rebate, and sets the following equation:

$$Y = \alpha_{21} + \beta_{21} \cdot x_1 + \beta_{22} \cdot x_2 + \mu_2 \qquad (2)$$

5.2.3.2 Test of theoretical hypothesis P1a and P1b

Next, this paper will adopt the multiple linear regression analysis method to regress the data in Table 22 according to the newly set time series regression Equation (2) to test P1a and P1b.

P1a: the higher the tax burden rate, the smaller the host country's use of FDI.

P1b: the greater the export tax rebate, the larger the host country's use of FDI.

Table 22 regression result

| Model | unstandardized coefficient | | standardized coefficient | T value | P value |
|---|---|---|---|---|---|
| | B | S standard deviation | B | | |
| (constant) | 3386.119 | 5 56.884 | | 59.661 | .000 |
| tax burden | - 86.253 | 1 13.581 | -.472 | - 6.351 | .000 |
| Export tax rebate | 7.133 | .013 | .758 | 2 10.291 | .000 |

According to the regression results in the table, the P values of tax burden and export tax rebate are both 0.000. It can be seen that there is a strong correlation between the tax burden rate, export tax rebate and FDI inflow. Tax rebates have a significant impact on FDI. And according to the Table 22, it shows that, in general, the regression results B1 and B2 from 1985 to 2007 are -0.472 and 0.758 respectively, that is to say, the tax burden rate is negatively correlated with FDI inflow, and the export tax rebate is positively correlated with FDI inflow. The previous theoretical assumptions P1a (the higher the tax burden rate, the smaller the host country's use of FDI) and P1b (the greater the export tax rebate, the larger the host country's use of FDI) are judged to be consistent.

5.2.3.3 Testing of theoretical assumptions P2a and P2b

P2a: the negative correlation between the tax burden rate and the scale of FDI will gradually weaken over time.

P2b: the positive correlation between export tax rebates and FDI scale will gradually weaken over time.

Table 23 Correlation Analysis (1985-1991)

| | | FDI inflows | tax burden | Export tax rebate |
|---|---|---|---|---|
| FDI inflow | Correlation | 1 | | |
| | P | | | |
| | N | 7 | | |
| tax burden | Correlation | -.942** | 1 | |
| | P | .003 | | |
| | N | 7 | 7 | |

| | | | | |
|---|---|---|---|---|
| Export tax rebate | Correlation | .982 ** | - .156 | 1 |
| | P | .000 | . 107 | |
| | N | 7 | 7 | 7 |

Table 24 Correlation Analysis (1991-2000)

| | | FDI inflows | tax burden | Export tax rebate |
|---|---|---|---|---|
| FDI inflow | Correlation | 1 | | |
| | P | | | |
| | N | 10 | | |
| tax burden | Correlation | -.913** | 1 | |
| | P | .000 | | |
| | N | 10 | 10 | |
| Export tax rebate | Correlation | .682 ** | -.199 | 1 |
| | P | .000 | .142 | |
| | N | 10 | 10 | 10 |

Table 25 Correlation Analysis (2001-2007)

| | | FDI inflows | tax burden | Export tax rebate |
|---|---|---|---|---|
| FDI inflow | Correlation | 1 | | |
| | P | | | |
| | N | 7 | | |
| tax burden | Correlation | -.923** | 1 | |
| | P | .003 | | |
| | N | 7 | 7 | |
| Export tax rebate | Correlation | .957 ** | -.156 | 1 |
| | P | .001 | .107 | |
| | N | 7 | 7 | 7 |

According to Table 26, it can be seen that the tax burden and FDI inflows showed a significant negative correlation of 1% in the three stages, while the export tax rebate and FDI inflows showed a negative correlation of 1% in the three stages. 1%, 5%, and 1% are significant positive correlation. Moreover, the tax burden and the export tax rebate show a relatively independent relationship. Therefore, the two can be used as explanatory variables to perform a regression on the data of each stage, that is, using the data of 1985-1991, 1991-2000, and 2001-2007:

Table 26 Regression results (1985-1991)

| Model | unstandardized coefficient | | standardized coefficient | T value | P value |
|---|---|---|---|---|---|
| | B | S standard deviation | B | | |
| (constant) | 25.238 | 7.042 | | 4.347 | .023 |
| tax burden | -1.841 | 1.252 | -.242 | -1.310 | .016 |
| Export tax rebate | -9.005E-02 | .039 | .767 | 1.854 | .010 |

Table 27 Regression Results (1992-2000)

| Model | unstandardized coefficient | | standardized coefficient | T value | P value |
|---|---|---|---|---|---|
| | B | S standard deviation | B | | |
| (constant) | 693.622 | 88.909 | | 7.801 | .000 |
| tax burden | -259.913 | 40.285 | -.948 | -6.641 | .001 |
| Export tax rebate | 1.349E-02 | .081 | .025 | .697 | .073 |

Table 28 Regression Results (2001-2007)

| Model | unstandardized coefficient | | standardized coefficient | T value | P value |
|---|---|---|---|---|---|
| | B | S standard deviation | B | | |
| (constant) | 299.009 | 49.645 | | 6.667 | .001 |
| tax burden | 67.442 | 52.596 | 1.282 | 1.282 | .256 |
| Export tax rebate | 5.152E-02 | .023 | 2.270 | 2.270 | .534 |

1. The test on the theoretical hypothesis P2a (the negative correlation between the tax burden rate and the scale of FDI will gradually weaken over time)

According to the regression results in the above Tables 26-28, comparing the P values of the tax burden in the three stages, in the first and second stages, the P values of the tax burden are 0.016 and 0.001 respectively, that is, in the first and second stages, the tax burden has a greater impact on FDI inflows. Looking at the standardized coefficient B of the first stage and the second stage, the first stage is -0.242, the second stage is -0.948, and the second stage standardized coefficient is less than in the first stage, the impact of tax burden on FDI inflows is weakened, and in the third stage, the P value of tax burden is 0.256. At this time, we can understand that the impact of tax burden on FDI inflows is not significant. At this time, the normalization coefficient β can be approximately understood as 0. The analysis results are consistent with the judgment in the theoretical hypothesis P2a that "the impact of the tax burden rate will become weaker and weaker over time".

It can be seen that when foreign capital first entered the host country, they lacked market knowledge of the host country and experience in overseas business operations, and price became their only competitive advantage. It has not had a big impact yet, so the tax burden rate in the first stage has a greater influence, and as the investment strategy of multinational companies gradually adjusts to a diversified strategy, it focuses on improving the ability of global expansion. Tax incentives are no longer the first factor they examine. Foreign-funded enterprises are more inclined to adopt other strategies to gain profits and occupy the global market. At this stage, there is an obvious weak correlation between the tax burden and the scale of FDI. The B value of the export tax rebate shows a trend of getting smaller and smaller, and even the P value in the third stage shows that the tax burden is not significantly related to the FDI inflow.

2. Test on the theoretical hypothesis P2b (the positive correlation between export tax rebates and FDI scale will gradually weaken over time)
According to the regression results in the above Tables 26-28, it can be seen that in the first stage and the second stage, the P values of export tax rebates are 0.016 and 0.001 respectively. In other words, in the first and second stages, this factor has a positive effect on FDI inflow. At the same time, the standardized coefficients B of the first stage and the second stage are 0.767 and 0.025, showing a gradual decrease, that is, the influence of this factor on FDI inflows is gradually weakening.

In the third stage, like the tax burden, the P value of the export tax rebate is 0.534, which is very large, and the standardized coefficient B can be approximately understood as 0 at this time. That is to say, in the third stage, the relationship between the export tax rebate and FDI inflow The relationship is weakly correlated. The analysis results are consistent with the judgment in the theoretical hypothesis P2b that "the impact of export tax rebates will become weaker as time goes by".

## 6. Conclusions and policy recommendations

### 6.1 Conclusion of this article

Especially in the early stage of reform and opening up, China’s economic development level is low, and domestic hardware facilities are not perfect, but domestic construction requires a lot of funds. Therefore, it is necessary to give foreign companies a certain degree of preferential policies to attract foreign investment. As a policy measure closely related to foreign investment income, the preferential income tax policy is extremely necessary. However, with the continuous deepening of China's reform and opening up, the continuous improvement of the level of economic development, and the gradual improvement of various facilities, China's attractiveness to foreign capital has increased significantly. In this case, the effect of preferential income tax policies in attracting FDI tends to weaken, and the benefits of the original preferential income tax policies for foreign entrepreneurs are gradually diminishing, and the disadvantages are gradually becoming prominent. For example, the original preferential income tax policies for foreign business status and special economic zones are generally applicable to all foreign investment regardless of investment region or industry, which leads to low quality of investment. And for a long time, FDI enterprises have been placed above domestic-funded enterprises, resulting in uneven tax burdens for domestic and FDI enterprises and distorting the development of domestic-funded enterprises. Therefore, the original preferential income tax policy for FDI enterprises is no longer applicable to the development of China. Although the preferential income tax policy is not the most important factor to attract FDI investment, judging from the current situation in China, it is still necessary to set up after-tax preferential policies in the income tax. China is still a developing country at present, and we still need the support of foreign capital in the process of vigorously developing the economy. In particular, there are still many problems, such as: regional development is not balanced, the construction of the middle and eastern parts of China still needs a lot of financial support; the development of high-tech industries is weak. Giving these regions and industries reasonable income tax preferential policies will not only help bring financial support to the development of these regions and industries, but also help introduce advanced technologies. Second, the new corporate income tax preferential policies have little impact on the scale of foreign investment in China. According to the chart and data analysis results in Chapter 4, since the reform and opening up, the amount of FDI utilized in China has generally maintained a rapid growth trend, from less than one billion US dollars at the beginning to more than 120 billion US dollars in 2013. Although in 2009 the amount of China’s use of FDI has declined, but from the previous analysis we can see that the global financial crisis occurred in 2008, the global economic situation is sluggish, and the amount of global use of FDI in 2009 also showed a downward trend. Therefore, this downward trend cannot be attributed to the impact of the new preferential income tax policy in 2008. Judging from the overall trend of China's use of FDI since the reform and opening up, the quality of FDI in China has improved. Judging from the situation shown in the previous data, although the overall amount of FDI in China has continued to increase, the number of FDI enterprises in China has shown an obvious reverse trend, showing a decline after 2007 trend. It is not difficult to deduce from this situation that the FDI investment amount of each foreign-funded enterprise in China is on the rise. That is to say, since the merger of the two taxes, the investment amount of each foreign- funded enterprise investing in China has shown a growth trend. It can be seen from this that the strength and scale of the investing enterprises have increased. In addition, the data given above also shows that the investment amount of "processing export" foreign-funded enterprises and the investment amount from major tax havens in the world have declined to a certain extent. And some arbitrage investment behaviors from tax havens based on the original foreign tax preferential policies have a decreasing trend. In summary, China’s foreign investment structure has become more optimized. Despite the eastern region still attracting the majority of foreign investment and a relatively high proportion going to the secondary industry, new preferential tax policies following corporate income tax reform are starting to have a positive impact. While the foreign investment structure hasn't undergone significant changes in a short period, both the industrial and regional structures are moving in a favorable direction. The proportion of foreign investment in the tertiary industry has been steadily increasing, surpassing that in the secondary industry. Additionally, the central and western regions are attracting a rising share of foreign investment. These trends indicate that the new preferential tax policies are contributing to the improvement and upgrade of China’s investment structure.

## 6.2 Policy Recommendations

With the deepening of country's reform and opening up, the focus of China’s introduction of foreign capital is not the increase in quantity, but to continuously improve the quality of investment through relevant policies, and actively guide foreign entrepreneurs in high-tech industries, infrastructure industries, and underdeveloped industries in the central and western regions.

Investment in developed regions will promote the upgrading of China’s industries and promote the coordinated development of China’s regions. However, the original preferential tax policies can no longer meet China’s requirements for attracting foreign investment in specific industries and regions. Therefore, in order to adapt to the changes in China's economic development, the government reformed the corporate income tax in due course.

However, in the phase of the new situation of China's development, the guidance of the new preferential tax policy needs to be further improved, and it needs to be more detailed and targeted. This part of the article will put forward some suggestions on further effectively attracting foreign capital, improving the quality of foreign capital investment and adjusting the structure of foreign capital investment in combination with the development status of China and the new preferential tax policy.

### 6.2.1 Strive to create a favorable investment environment

Judging from the above analysis results, the preferential income tax policy is no longer the most important factor for China to attract FDI. At this stage, in order to attract FDI more reasonably, we need to improve the overall investment environment in China, which includes the building of a soft environment for investment and the building of a hard environment for investment. First of all, we must further strengthen the improvement of the soft environment to truly achieve "national treatment" for foreign-invested enterprises. After the reform of corporate income tax, China canceled the "super-national treatment" for foreign-invested enterprises, but foreign-invested enterprises still face "weak national treatment". Some foreign-funded enterprises are faced with high barriers to entry and complicated administrative examination and approval. Therefore, the government should improve administrative efficiency and simplifies administrative procedures in order to accelerate the transformation of government functions to provide better services and guarantees for foreign entrepreneurs. In addition, labor, as an important factor of the soft environment, has an important impact on attracting foreign investment. Therefore, attention should be paid to improving the quality of labor force. Due to the limited level of education, the quality of labor in China is low. In addition, there are some problems in the setup of China's education system, which makes social education and school education out of touch for a long time. Therefore, it is necessary for China to further strengthen educational reform and increase government investment in education. In addition, the way of student education in colleges and universities should be in line with the actual work, improve the overall quality, and enhance China's human capital.

Second, we must further strengthen the construction of a hard investment environment. The hard environment for investment includes infrastructure construction, as well as the living and working environment of foreign investors. First of all, building a suitable living and working environment, which is conducive to attracting foreign investors. When foreign entrepreneurs invest in a certain place, they not only look at the business opportunities but also their own living conditions. A safe, complete and comfortable living and working environment, and the quality of their children's learning and teaching are all their concerns. The government should create a comfortable community or living circle for foreign investors that suits their living habits, as well as some supporting facilities: restaurants, schools, residences, shopping, etc., and it needs to incorporate distinctive culture and entertainment to create a better living atmosphere. In addition, the cost of living of foreigners should be taken into consideration, especially the housing problem of foreigners. A good living and working environment can promote foreign direct investment. Strengthening of infrastructure such as transportation, communication, resources and transport. The central and western regions are less attractive to foreign investment than the eastern regions, not only because of the differences in tax policy and investment soft environment, but also because of the far inferior infrastructure construction. Therefore, strengthening the construction of its infrastructure can bring new impetus and direction to foreign investment.

### 6.2.2 Improve preferential tax policies

From the previous analysis, we can see that the existence of preferential income tax policies is still necessary. However, the role of preferential income tax policies in attracting FDI should not be blindly exaggerated. China’s original income tax preferential policies are mainly aimed at foreign-invested enterprises in the ownership structure, and are mainly concentrated in the eastern coastal areas in terms of regions. In addition, due to the vast geographical conditions of China, the basic quality varies greatly between regions. For a long time, there has been a serious uncoordinated development between the eastern region and the central and western regions of China. The preferential income tax policy tilted toward the eastern region and China’s special geographical conditions make both domestic and foreign-invested enterprises reluctant to invest in the central and western regions. Therefore, at the current stage, canceling the preferential income tax policy for foreign-invested enterprises is the correct direction of reform. In addition, it is also necessary to reduce the income tax preferential policies for the eastern regions and provide appropriate preferential policies to the central and western regions. Secondly, the improvement of preferential tax policies needs to be coordinated with the adjustment of industrial structure and the transformation of economic growth mode. Although after the corporate income tax reform, China’s new corporate income tax preferential policies have played a certain role in guiding foreign capital to flow into basic industries, high-tech industries, and environmental protection energy industries, there are still many places that have not been covered, and we need to further improve certain industries. preferential policies, and also to further refine preferential tax policies, formulate preferential policies for special industries, and strengthen the industry-oriented nature of preferential tax policies. At this stage, China is in the critical stage of reform, and accelerating the transformation of economic growth mode is an important link. Therefore, the reform of China's preferential income tax policies requires the transformation of service and economic growth patterns, increasing tax preferential policies for modern service industries, and encouraging the development of modern service industries; Also giving innovative enterprises certain tax incentives and encouraging enterprises to develop technology and product innovation activities.

### 6.2.3 Optimize the management of China's preferential tax policies

Since the reform and opening up, China has given some tax incentives to enterprises for different economic development purposes. These preferential tax policies have a certain effect on promoting China to attract foreign investment and accelerate industrial agglomeration. In addition, some preferential tax policies will distort the tax burdens of different economic entities and cause international trade frictions. Therefore, it is necessary to strengthen the management of preferential tax policies, eliminate unnecessary and unreasonable tax preferential policies, and give tax preferential policies strictly in accordance with the regulations of the policies.

The first step to strengthen the management of preferential tax policies is to standardize the system of preferential tax policies in China. There must be clear regulations on the subject of formulating preferential tax policies, so as to prevent governments at all levels and regions from formulating preferential tax policies privately for the sake of tax competition. It is also necessary to sort out the existing preferential tax policies and eliminate the preferential tax policies promulgated by local governments at all levels that are contrary to national policies and laws. Secondly, in the process of implementing preferential tax policies, strict supervision should be achieved. It is necessary to strictly control the subject of the preferential tax policy to prevent fraudulent tax incentives from appearing. To establish a long-term supervision mechanism, it is necessary to timely evaluate the subject of preferential tax policies, and when the target of policy application changes, it is necessary to promptly eliminate the subject that no longer meets the conditions, which can be achieved by establishing a whistle-blowing mechanism to encourage all sectors of society to monitor and report abuse of preferential tax policies. In addition, for the country's existing preferential tax policies, policies at all levels should improve supporting policies so that tax incentives can be implemented in a timely manner for the benefit of enterprises. With the help of various means, public opinion guidance has been strengthened, and beneficiary enterprises have been made aware of the State's preferential tax policies in a timely manner through publicity on television and in newspapers.

#### 6.2.4 Treat the Attractive Effect of Tax Benefits Correctly

China's preferential tax policies have greatly promoted the attraction of FDI, especially in the early stage of reform and opening up, this region-oriented preferential tax policy has achieved the policy goal of attracting foreign capital to the southeast coastal areas. The region's economic development provides sufficient financial guarantees. However, the attractiveness of preferential tax policies to foreign capital has gradually weakened, making it difficult for the country to introduce foreign capital to relatively backward regions such as the central and western regions through tax preferential policies again. At present, the policy-oriented objectives can be said to be largely unfulfilled. Correspondingly, the impact of labor factors and freight volume representing infrastructure on FDI is becoming more and more obvious. It can be seen that the motivation of foreign entrepreneurs investing in China is still mainly to occupy the market and reduce costs, mainly to reduce labor costs, but the requirements for labor quality are gradually increasing. Combined with the quantitative analysis results of this paper, this paper believes that the government should try to guide a fair and transparent investment environment in it. The tax benefits will be appropriately reduced, but as long as China's economy develops steadily, the "merger of the two taxes" will not have a major negative impact on FDI. In view of the fact that the role of China’s tax incentives is decreasing year by year, to promote the efficiency of China’s foreign investment policy, it is necessary to rely on other preferential policies including regions and industries to guide. Specifically, after the “merger of the two taxes”, although the central and western regions have obtained equal conditions for attracting FDI on the surface, the preferential tax policies have no advantages compared with the southeast coastal regions. In view of the fact that the central and western regions are still at a disadvantage in attracting FDI, it is possible to consider combining the advantageous resource conditions and local needs of the central and western regions to formulate special tax incentives for the central and western regions to reduce their competition with the southeast coastal regions gap. Optimizing the industrial structure of foreign investment and directing FDI to specific fields and industries has become an urgent problem to be solved in China’s current economic development.

### 6.2.5 Stabilize the basic tax rate of corporate income tax

#### 6.2.5.1 The government should play a role of supervision and guidance, and actively promote the implementation of the corporate income tax system of "merger the two laws "

On January 1, 2008, China officially implemented the enterprise income tax system of "merger the two laws". The increase will seriously affect the enthusiasm of foreign entrepreneurs to invest in China, or cause a large outflow of foreign capital in China. However, combined with the results of quantitative analysis, this paper believes that these situations will not occur. because:

1. China's new corporate income tax rate of 25% is still at the lower middle level in today's world. Among the current corporate income tax rates of 197 countries and regions announced, the tax rates of 77 countries and regions are below 25 %, and the corporate income tax rates of several developed countries are all around 10%.

2. Not all foreign-funded enterprises will increase the applicable tax rate of income tax and reduce the treatment of income tax reduction or exemption, thus increasing the burden of income tax. On the contrary, the applicable tax rate of income tax for many foreign-funded enterprises will be reduced and reduced. Income tax treatment will be increased to reduce the income tax burden.

3. China's intention to reform the corporate income tax system and many contents of the new tax law have already been disclosed. Foreign-funded enterprises have already been relatively fully prepared, and neither panic nor convincing objections have been raised. On the contrary, many foreign-funded enterprises expressed their support for this reform.

4. According to the results of quantitative analysis, the effect of corporate income tax incentives on attracting foreign investment is very limited, and in the third stage, the unfair tax system will have a negative effect on the scale of FDI. The first thing foreign investors look for is not the amount of corporate income tax incentives, but the market and investment environment, whether they can make a profit and how much they can make a profit, followed by whether the corporate income tax system is fair and discriminates against foreign investors. It also depends on whether the country or region where the investor is located has regulations on the exemption and credit of the income tax benefits given by China, and whether investors can benefit from the income tax benefits given by China. Obviously, China's vast market and good investment environment are extremely attractive to foreign capital, and the unified corporate income tax system is fair to both domestic and foreign capital enterprises.

6.2.5.2 Maintain the basic tax rate of enterprise income tax in the short term and realize the integration with international standards

The country's financial and business affordability is high, making it a favorable time for reform. According to the estimates of the Ministry of Finance, after the implementation of the new corporate income tax system in 2008, compared with the current corporate income tax system, the fiscal revenue will be reduced by about 93 billion yuan (accounting for about 13.1% of corporate income tax revenue and 2.7% of all tax revenue). Among them, the income tax of domestic-funded enterprises will be reduced by about 134 billion yuan, and the income tax of foreign-funded enterprises will be increased by about 41 billion yuan. Considering the transitional measures for the old enterprises which used to enjoy the statutory tax incentives, the reduction in revenue in the year of implementation of the new tax law will be large, but within the acceptable range of the treasury. This paper argues that if we look at it from the perspective of long-term dynamics, taking into account factors such as economic growth, expansion of tax sources, and strengthening of collection and management, not only will the revenue from corporate income tax in 2008 not decrease compared with that in 2007, but it will increase. If we consider that most of the directly reduced corporate income tax will be directly transformed into investment, consumption, and personal income (such as purchasing production equipment, improving employee benefits, and distributing dividends to individual shareholders, etc.), it will also lead to a reduction in income tax, including corporate income tax. Direct or indirect increases in various taxes. Therefore, the new basic tax rate introduced by China is reasonable. In addition, according to the results of quantitative analysis in this paper, the relationship between the overall tax burden and the scale of FDI has weakened in recent years. Therefore, there is no need to adjust the basic tax rate. Of course, in order to guide foreign capital to flow to industries and regions encouraged by the country, it can adopt corresponding incentive policies.

6.2.6 Lower the export tax rebate rate and implement non-neutral export tax rebate policy

6.2.6.1 Gradually reduce the FDI export tax rebate rate of multinational companies in China to reduce the financial burden of the country

The ideal export tax rebate refers to "how much is collected, how much is refunded, no tax is not refunded or a complete tax refund", to avoid the double taxation of domestic and foreign goods in international circulation, so that they can enter international trade without tax. It is essentially a neutral policy to eliminate export discrimination. This is the principle followed by most countries in the world, and it is also the goal pursued by China's "zero tax rate" for export goods in 1999. However, there is usually a significant difference between the ideal tax system and the actual tax system, as the application of the principles of the ideal tax system in practice is affected and constrained by various factors. All along, China's export tax rebate rate has been relatively high, the scale of exports is expanding rapidly, and the gap between fiscal disposable funds and the actual demand for export tax rebates is getting bigger and bigger, leading to a substantial increase in the arrears of export tax rebates.

Adjustment of the export tax rebate policy and implementation of the reform of the central and local governments to share the burden of tax rebates can reduce the pressure on bank loans, ease the pressure on the central government's finances, and fundamentally solve the problem of arrears in export tax rebates.

6.2.6.2 Make full use of the flexibility of the "non-neutral principle" to guide the flow of foreign capital and implement diversified export tax rebate policies

Because of the positive correlation between the export tax rebate policy and FDI, the government can flexibly use its "non-neutral" principle to formulate different export tax rebate rates for foreign-funded enterprises' export commodities, which can adjust the product structure of exports, for example the tax rebate rate for products that the country encourages to be exported may be appropriately raised, and the tax rebate rate for general export products may be appropriately lowered. The tax rebate may be appropriately reduced or canceled for products that the country restricts exports, some resource products and export products with strong competitiveness and few competitors., etc.

According to this policy, it will also lead to the restructuring of the regional economy, because the regional economic structure is inherently unbalanced, as the share of exports in total exports varies from region to region, and the impact of the export tax rebate will not be the same in each region. On the other hand, the industrial structures invested by foreign-funded enterprises in various regions are different. Some regions focus on high value-added and high-tech exports, while others focus on low-value-added and low-tech exports. The product export tax rebate rate will inevitably affect the regional economic structure, and is also conducive to regional economic adjustment. Therefore, we can use the leverage effect of the export tax rebate policy on the regional economic structure to solve the serious imbalance in the regional economic development of China to a certain extent.

6.2.7 Realize the international integration of import tariff policies by means of tariff concessions

6.2.7.1 Gradually cancel tariff relief policy

The principle of national treatment is a principle that countries in the world generally abide by in economic and trade activities. It should neither have discriminatory "low national treatment" nor special preferential "super national treatment". China's "Super National Treatment" does not conform to international economic and trade practices. It also violates the rules of the World Trade Organization. From a domestic point of view, more tariff reductions and exemptions do not conform to the principle of fair competition: enterprises actually benefiting from tariff reductions are concentrated in various special zones and coastal cities. Although these enterprises have played a positive role in promoting local economic development, their growth has largely benefited from the government's preferential policies. These preferences are necessary for their existence under certain conditions, but they cannot remain unchanged for a long time. The gradual cancellation of preferential policies will create a fairer and just market environment, so that preferential policies can promote the prosperity of China's trade in a relatively stable environment.

In view of the analysis of the import tariff policy in this paper, in 1996 China canceled the preferential import tariffs for productive foreign-invested enterprises in some areas, but it did not reduce the overall level of foreign investment in China. Therefore, this article believes that China should take the opportunity of tariff reduction commitments to gradually cancel many tariff reduction and exemption policies that do not conform to the "principle of national treatment".

6.2.7.2 Reduce import tariff levels in stages

Tariff concessions are based on the principle of mutual benefit and are aimed at reducing the overall level of tariffs on imports and exports of member countries, in particular high tariffs that hinder the import of goods. Since tariff protection is essentially a distortion of domestic price signals, it will inevitably lead to distortion of resource allocation and loss of social welfare. Therefore, we need to take the opportunity of tariff reduction commitments to reduce China’s import tariff levels. However, China is still in the primary stage of socialism, and rashly reducing import tariffs to the level of developed countries will only expose our national enterprises to the world market with a large number of powerful competitors, which is not conducive to the development of China’s economy. Therefore, it is necessary to select the order of decreasing tariffs of each sector in the optimization of effective protection structure as much as possible, and reduce the tariff level in stages. At the same time, tariff concessions should also serve to maintain the stability of the domestic market, formulate reasonable tariff and non-tariff barrier measures and effective industrial organization policies as soon as possible within the scope of permission, strengthen industry and industry planning, and follow the path of economies of scale.

6.2.8 Continue to optimize the corporate income tax system

(1) Formulate preferential tax policies for special industries. China should use preferential tax policies to play its guiding role. At present, China mainly encourages the development of high value-added industries and services, and will continue to expand the areas of foreign investment in the future. Restrictions on foreign investment in areas such as finance, transportation, commerce and logistics, and professional services will be relaxed. It will increase the degree of openness in areas such as telecommunications, culture and tourism, and reduce restrictions on foreign investment in agriculture, mining, manufacturing and the manufacturing of automobiles, ships and aircraft. However, China's current corporate income tax preferential policies cannot form a consistent force with the current negative list and industry guidance catalog issued in China, and some industries with negative constraints or incentives cannot get the same tax benefits in the same direction.

Some developing countries regard attracting China's labor-intensive foreign capital industries as the focus of expanding the use of foreign capital, and China may change from an importer of labor-intensive processing and manufacturing investment to a transfer country. However, as a super-large country with a population of 1.4 billion, China needs a certain number of labor-intensive industries to ensure the employment of grassroots talents. Although China's demand for basic manufacturing is close to saturation, we still need to pay attention to some high-tech manufacturing and other industries that need to be developed urgently. From the current stage, the development of China's tertiary industry has been very prominent. The current proportion of the secondary industry is relatively low compared with the tertiary industry, and the policy support for the tertiary industry is relatively complete. In order to cope with the current global tax reduction trend and maintain or improve the competitiveness of cross-border investment, certain revisions should be made to the tax policy of the secondary industry. We can subdivide the current industries in China, and adopt more favorable tax policies for some industries that still need policy support for their development. Especially for some industries newly released after each revision of the Catalog for the Guidance of Foreign Investment Industries, the industry should be analyzed. If the industry needs certain support policies to assist rapid development, the income tax rate can be appropriately reduced.

(2) Pay attention to the adjustment of preferential tax policies in the region. In an earlier period of time in China, for the purpose of attracting more FDI enterprises to invest in China, China promulgated more regional preferential tax policies, which have greatly attracted FDI enterprises force. Initially, due to its geographical advantages and more preferential policies than the central and western regions, the eastern region of China concentrated about 80% of the FDI enterprises. However, the number of foreign-invested enterprises in the central and western regions is relatively small, and the scale is also small.

For now, China's regional policies are more inclined to encourage the development of the central and western regions, but the results are not obvious. Due to the relatively good early development and obvious location advantages in the eastern region, foreign companies still tend to invest in the eastern region for greater development. Since FDI enterprises have different responses to tax policies in different regions, the government should conduct effective investigation and research in different regions, and fully understand the situation and development direction of different regions through the foreign investment guidance catalog in the central and western regions. Develop more targeted regional tax policies for the specific advantages of projects.

Some planned preferential policies can be piloted in the central and western regions for a period of time, and then extended to the whole country, which can also indirectly promote the economic growth of the central and western regions. For example, in 2017, China implemented the provision that foreign companies will temporarily not levy income tax on direct investment of profits, which means that enterprises that meet the conditions of encouraged projects and the catalog of advantages in the central and western regions will first enjoy the preferential treatment, and this preferential treatment will not be extended until 2018. During this period of time, FDI enterprises in the central and western regions enjoy this policy first.

(3) Flexible adjustment of tax incentives. China has always adjusted preferential tax policies according to the actual economic situation. To promote the upgrading of China's economic structure, reduce the frequency of use of direct tax preferential policies such as tax reduction and exemption, and implement different indirect tax preferential policies according to actual conditions. In the past two years, China has introduced a number of tax incentives in this regard, mainly an indirect incentive system, including the extension of loss years, but this policy is only for enterprises, reflecting the advantages of the indirect incentive system. But

we can't just pursue the role of indirect tax incentives. Indirect tax incentives are indeed more effective for FDI enterprises that want to encourage technological advancement and better management.

Although indirect tax incentives have a greater impact on industry structure, direct tax incentives are more effective from the perspective of balancing regional economic development. Compared with industrial enterprises and the central and western regions, direct tax incentives have a more obvious impact on them. We should consider the use of preferential tax policies that are more in line with actual needs according to specific circumstances.

6.2.9 Further optimize the VAT rate structure

The empirical research proves that FDI is more sensitive to changes in value-added tax rates by ranking the most sensitive to taxes in order. And because the final tax burden is borne by consumers, if the value-added tax ratio is too large, it will reduce the investment intention of FDI enterprises.

In May 2016, China carried out a comprehensive reform of the business tax, and the business tax stepped down from the stage of the tax system and was fully replaced by the value-added tax. At the beginning of 2019, China imposed a tax rate of 16% on the manufacturing industry, and the VAT rate on the service industry was 6% or 10%. Generally speaking, the working capital of the service industry is significantly lower than that of the manufacturing industry, and the average profit rate is higher than that of the manufacturing industry. The 16% value-added tax clearly violates the principle of fairness, increases the tax burden of enterprises, and weakens the competitiveness of enterprises.

Although the two sessions held in China in 2019 have officially proposed to reduce the value-added tax of manufacturing and other industries to 13%, and reduce the 10% tax rate to 9%, and the administration of taxation have also officially issued the "About Deepening Announcement on Policies Related to Value-Added Tax Reform" announced that the latest VAT rate will be officially implemented from April 1, 2019, and the tax rate has also been officially implemented. However, the reduction of the value-added tax rate cannot fundamentally solve this problem. After the tax rate change, the manufacturing industry engaged in the highest tax rate still bears more tax burden than other industries. Before the value-added tax rate of all industries tends to be unified, the value-added tax cannot fully reflect the role of the neutral tax. At present, the value-added tax should be reduced to two or even one tax rate to ensure the neutrality of the value-added tax. The value-added tax reform will effectively reduce the tax burden of enterprises, especially manufacturing enterprises, and alleviate the distortion effect of FDI caused by unreasonable tax system design.

6.2.10 Strengthen the construction of supporting institutional environment related to investment

(1) In the two sessions held in March 2019, the "Foreign Investment Law" was officially voted and passed, and it was announced that it will be implemented from 2020. The three laws previously used in China: "Sino-Foreign Joint Venture Law", "Foreign Enterprise Law" and "Sino-Foreign Joint Venture Law" have also been abolished with the official implementation of the Foreign Investment Law. However, there are still other foreign investment laws implemented on the basis of the previous three laws that need to be paid attention to, and the laws and regulations that need to be abolished or revised should be sorted out and announced. Moreover, the specific implementation rules of China's new foreign investment law have not yet been announced. Relevant rules should be formulated as soon as possible and improved before the official implementation of the foreign investment law next year to ensure that the implementation process of China's "foreign investment law" next year can be smoothly advanced.

(2) Integrate the catalog of FDI industries. Since the FDI guidance catalog applicable to FDI enterprises in China does not only apply to the same document, but to the "Foreign Investment Industry Guidance Catalog (Revised in 2017)", "Catalogue of Advantageous Industries for Foreign Investment in the Central and Western Regions (2017)" Revised in 2018), "Special Management Measures for Foreign Investment Access (Negative List) (2018 Edition)" shall prevail. Moreover, the industry guidance catalog is updated more frequently and the revision time is not completely consistent, which will limit the enterprises' grasp of the current policies and cause certain obstacles to the use of the industry guidance catalog by enterprises.

At present, China has managed the restrictive negative list as a separate document, and can also issue documents for all encouraged industries separately, and enter the national and encouraged industries that only use the central and western regions into the same document. When there are revisions to encouraged industries, both nationwide and the central and western regions can be reflected in the same document, which can reduce the related labor costs of enterprises. Or if the industry guidance catalogs of the two scopes are not integrated, they can also be revised in the future to achieve unification, and the revision time and implementation time of the documents should be consistent, so that the enterprises can clearly update the current regulations.

(3) Formulate implementation rules to ensure the accurate implementation of preferential policies. At present, many laws and regulations in China are applicable to FDI enterprises, but there are no detailed documents on the implementation rules for many policies. This has a certain impact on the understanding and application of policies by enterprises and local units. The government should provide explanations of preferential policy documents as much as possible, and explain the contents and regulations of the documents in detail and accurately.

Through the specific explanation of relevant policies, it can ensure that FDI enterprises can accurately understand and use the preferential policies they can enjoy, and prevent enterprises from being unable to fully enjoy the tax incentives formulated by China or using policy loopholes for personal gain due to insufficient understanding. It can also help local governments understand policies, thereby assisting FDI enterprises to enjoy preferential policies more effectively.

(4) Reduce the operating cost of the enterprise. In order to promote FDI enterprises to invest in China, the Chinese government needs to continue to improve the business environment to enhance the attractiveness of China's investment environment. Local governments at all levels need to sort out the existing charging items, summarize unreasonable charging items, and gradually reduce or completely cancel the unnecessary charging items collected by local governments. Although the charging items are not completely consistent due to different specific policies in different places, the degree and speed of their implementation are different.

It is a long-term task to clean up and standardize the charging items of local governments. While implementing the policy documents, the Chinese government also needs to supervise the implementation in various regions. China should change the current charging form and reduce the unreasonable cost of enterprises to promote the investment intention of FDI enterprises. This is also to form a business environment that is more conducive to the development of enterprises.

Strengthen the construction of open platforms, provide corresponding preferential policies in terms of financial taxation and land management, enhance the attractiveness of foreign investors, and build it into an open highland of the whole region. Although China completely prohibits the entry of FDI enterprises in some industries, there are also some enterprises that allow FDI enterprises to enter, but there are requirements for the proportion of domestic and foreign capital shares. For areas that are in urgent need of development, such as the central and western regions, the access requirements can be appropriately relaxed to promote the willingness of FDI enterprises to develop in the central and western regions.

## 6.3 Conclusion

For FDI enterprises, China’s current economic strength, policy system, infrastructure, etc. are constantly improving, and China has become the main destination of FDI enterprises. In recent years, China's foreign investment has also been developing steadily. In order to provide continuous impetus for China's economic development, we should always pay attention to the layout and development of China's economic structure, and maintain a high level of taxation policy and guidance direction applicable to FDI enterprises. Pay attention to and guide the investment activities of FDI enterprises through these policies.

This paper examines the mechanism of tax policy on continuous FDI from three aspects: tax burden, export tax rebate, and import tariff, and verifies that the degree of preferential tax policy is positively related to the scale of FDI, and this correlation is weakening day by day. Assuming that, and using the method of multiple linear regression, we study the different impact processes of macro tax burden and export tax rebates on the scale of FDI, namely:

① The reduction of the tax burden rate is conducive to the inflow of FDI, but its influence tends to weaken;

② There is a positive correlation between export tax rebates and FDI, but the positive effect of export tax rebates is gradually weakening;

③ FDI is more inclined to a fair and equitable tariff policy, and blindly preferential import tariffs are not conducive to the inflow of FDI. Finally, based on the results of quantitative analysis, this paper puts forward policy recommendations on China's corporate income tax, export tax rebates, and import tariffs.

In view of the small amount of data used in this paper, which is only 22 years of data from 1985 to 2007, and only about 6 years of data were regressed in each stage, the regression results may be affected by this and cause errors. In future research, it is necessary to further collect more detailed data, such as introducing the data of each month of each year into quantitative analysis to increase the accuracy of quantitative analysis. China has achieved a new breakthrough in the formulation of corporate income tax policies in 2008, instead, our study needs to go deeper into two other important aspects of tax policy in China's current environment of rational and specific tax quotas and how to gradually align with international requirements to ensure the effective utilization of foreign investment.

Through normative analysis and empirical analysis, this paper studies the impact of China's preferential tax policies on attracting foreign investment, which has important theoretical and practical significance for optimizing China's foreign investment structure and improving the quality of foreign investment.

But this paper also has the following limitations: first, this paper mainly studies the preferential tax policies of tax types that have a greater impact on FDI, such as the preferential tax policies in corporate income tax, while other tax incentives have not been studied in sufficient depth and may not be sufficient in the time span of the data. Due to the completeness of the available data, this article only selects 34 representative cities, which may not represent the situation of individual cities well. In addition, in terms of time selection, this paper analyzes the impact of preferential tax policies on attracting foreign investment in the early stage of reform and opening up, but only data analysis, no empirical analysis, which may affect the analysis results to a certain extent. Of course, this is also the direction of further research.

**Bibliographical References**

1) Chen Bin. (2007). An Empirical Analysis of the Effectiveness of Tax Incentives in Attracting FDI. *Reform and Strategy*, (1), 72-74.

2) Zhu Shujin, & Fu Xiaoyan. (2008). The dynamic effects and regional differences of policy preferences and economic environment affecting FDI--also on the merger of income tax for foreign-funded enterprises in China. *Quantitative Economics and Technical Economics Research*, *25* (1), 15-27.

3) Zhang Daoqing. (1998). A correct understanding of the role of foreign-related preferential tax policies in attracting foreign capital. *Taxation and Economics*, (5), 16-18.

4) Huang Xiaoxia, & Wang Huan. (2003). Analysis of the impact of China's preferential tax policies on attracting foreign investment. *International Trade Issues*, (5), 41-45.

5) Tang Hong. (2001). Preferential Tax Policies for Attracting Foreign Investment——Experience of Developing Countries and Practice in China. *Journal of Guangxi University for Nationalities: Philosophy and Social Science Edition*, *23* (2), 85-91.

6) Cao Huimin, & Qian Wei. (2006). A review of research on the impact of tax incentives on foreign investment. *Taxation and Economics*, (6), 80-86.

7) Liu, Y., & Mao, J. (2019). How do tax incentives affect investment and productivity? Firm-level evidence from China. *American Economic Journal: Economic Policy*, *11* (3), 261-91.

8) Tung, S., & Cho, S. (2000). The impact of tax incentives on FDI in China. *Journal of International Accounting, Auditing and Taxation*, *9*(2), 105-135.

9) Tung, S., & Cho, S. (2001). Determinants of regional investment decisions in China: an econometric model of tax incentive policy. *Review of Quantitative Finance and Accounting*, *17*, 167-185.

10) Wei, F., & Pokrovskaia , N. (2016). Regulatory mechanisms and Tax incentives for the transfer of Knowledge: China experience. In *Contemporary management: problems and*

*prospects* (pp. 244-249).

11) Tian, B., Yu, B., Chen, S., & Ye, J. (2020). Tax incentive, R&D investment and firm innovation: evidence from China. *Journal of Asian Economics*, *71*, 101245.

12) Sun, C., Zhan, Y., & Du, G. (2020). Can value-added tax incentives of new energy industry increase firm's profitability? Evidence from financial data of China's listed companies. *Energy economics*, *86*, 104654.

13) Fang, H., Su, Y., & Lu, W. (2022). Tax incentive and corporate financial performance: Evidence from income tax revenue sharing reform in China. *Journal of Asian Economics*, *81*, 101505.

14) Zhou, Q., Li, T., & Gong, L. (2022). The effect of tax incentives on energy intensity: Evidence from China's VAT reform. *Energy Economics*, *108*, 105887.

15) Tian, B., Lin, C., Zhang, W., & Feng, C. (2022). Tax Incentives, On-the-job Training, and Human Capital Accumulation: Evidence from China. *China Economic Review*, *75*, 101850.

16) Qi, Y., Zhang, J., & Chen, J. (2023). Tax incentives, environmental regulation and firms' emission reduction strategies: Evidence from China. *Journal of Environmental Economics and Management*, *117*, 102750.

17) Wan-Ying, L., & Jui-Chih, W. (2014). Do the changes in tax incentives encourage direct investment in China by Taiwanese enterprises?. *Journal of Accounting and Taxation*, *6*(2), 38-53.

18) Li, X., & Shen, G. (2023). Do tax incentives decelerate corporate financialization? Evidence from the VAT reform in China. *Economic Modelling*, *125*, 106357.

19) Pingfang, Z. H. U., Weimin, X. U., & Lundin, N. (2006). The impact of government's fundings and tax incentives on industrial R&D investments—Empirical evidences from industrial sectors in Shanghai. *China Economic Review*, *17*(1), 51-69.

20) Cui, W., Hicks, J., & Xing, J. (2022). Cash on the table? Imperfect take-up of tax incentives

and firm investment behavior. *Journal of Public Economics*, *208*, 104632.

21) Menezes, F. M., & Zheng, X. (2018). Regulatory incentives for a low-carbon electricity sector in China. *Journal of Cleaner Production*, *195*, 919-931.

22) Han, L., & Kung, J. K. S. (2015). Fiscal incentives and policy choices of local governments: Evidence from China. *Journal of Development Economics*, *116*, 89-104.

23) Mayburov, I., & Sinenko, O. (2017). Comparative analysis of tax incentives in special economic zones in the countries of the Asia-Pacific region. *Proceedings of the 11th International Days of Statistics and Economics, Prague, Czech Republic*, 14-16.

24) Xing, J., Cui, W., & Qu, X. (2018). Local tax incentives and behavior of foreign enterprises: evidence from a large developing country. *Singapore Management University School of Accountancy Research Paper*, (2018-S), 71.

25) Zhao, L., & Fang, H. (2022). Investment incentives and the relative demand for skilled labor: Evidence from accelerated depreciation policies in China. *China Economic Review*, *73*, 101786.

26) Li, J. (2006). The rise and fall of chinese tax incentives and implications for international tax debates. *Fla. Tax Rev.*, *8*, 669.

27) Williams, C. (2023). Incentives to operate in the formal economy. In *A Modern Guide to the Informal Economy* (pp. 207-239). Edward Elgar Publishing.

28) Bell, A., Chetty, R., Jaravel, X., Petkova, N., & Van Reenen, J. (2019). Joseph Schumpeter Lecture, EEA Annual Congress 2017: Do tax cuts produce more Einsteins? The impacts of financial incentives versus exposure to innovation on the supply of inventors. *Journal of the European Economic Association*, *17*(3), 651-677.

29) Yigitcanlar, T., Sabatini-Marques, J., da-Costa, E. M., Kamruzzaman, M., & Ioppolo, G. (2019). Stimulating technological innovation through incentives: Perceptions of Australian and Brazilian firms. *Technological Forecasting and Social Change*, *146*, 403-412.

30) Shah, S. M. S., & Toye, J. F. (2023). Fiscal incentives for firms in some developing countries: Survey and critique. In *Taxation and Economic Development* (pp. 269-296). Routledge.

31) Bradshaw, M., Liao, G., & Ma, M. S. (2019). Agency costs and tax planning when the government is a major shareholder. *Journal of Accounting and Economics*, *67*(2-3), 255-277.

32) Steinmüller, E., Thunecke, G. U., & Wamser, G. (2019). Corporate income taxes around the world: a survey on forward-looking tax measures and two applications. *International Tax and Public Finance*, *26*, 418-456.

33) Choi, J. P., Furusawa, T., & Ishikawa, J. (2020). Transfer pricing regulation and tax competition. *Journal of International Economics*, *127*, 103367.

34) Johannesen, N., Tørsløv, T., & Wier, L. (2020). Are less developed countries more exposed to multinational tax avoidance? Method and evidence from micro-data. *The World Bank Economic Review*, *34*(3), 790-809.

35) Antinyan, A., & Asatryan, Z. (2019). Nudging for tax compliance: A meta-analysis. *ZEW-Centre for European Economic Research Discussion Paper*, (19-055).

36) Putri, Y. A., & Riski, S. (2021). Dissemination of Minister of Finance Regulation No. 44 of 2020 concerning Tax Incentives Related to the Covid-19 Pandemic: Sosialisasi Peraturan Menteri Keuangan No 44 Tahun 2020 Tentang Insentif Pajak Terkait Pandemi Covid-19. *Jurnal Laporan Abdimas Rumah Ilmiah*, *2*(2), 49-54.

37) Shen, X., & Lin, B. (2020). Policy incentives, R&D investment, and the energy intensity of China's manufacturing sector. *Journal of Cleaner Production*, *255*, 120208.

38) Lester, R. (2019). Made in the USA? A study of firm responses to domestic production incentives. *Journal of Accounting Research*, *57*(4), 1059-1114.

39) Liu, X., Sun, X., Zheng, H., & Huang, D. (2021). Do policy incentives drive electric vehicle adoption? Evidence from China. *Transportation Research Part A: Policy and*

*Practice*, *150*, 49-62.

40) Chen, L., & Yang, W. (2019). R&D tax credits and firm innovation: Evidence from China. *Technological Forecasting and Social Change*, *146*, 233-241.

41) Varas, A., Varadarajan, R., Goodrich, J., & Yinug, F. (2020). Government incentives and US competitiveness in semiconductor manufacturing. *Boston Consulting Group*.

42) Kovermann, J., & Wendt, M. (2019). Tax avoidance in family firms: Evidence from large private firms. *Journal of Contemporary Accounting & Economics*, *15*(2), 145-157.

43) Mohanadas, N. D., Abdullah Salim, A. S., & Pheng, L. K. (2020). CSR and tax aggressiveness of Malaysian listed companies: evidence from an emerging economy. *Social Responsibility Journal*, *16*(5), 597-612.

44) Wang, Y., & Yu, L. (2021). Can the current environmental tax rate promote green technology innovation?-Evidence from China's resource-based industries. *Journal of Cleaner Production*, *278*, 123443.

45) Jenn, A., Lee, J. H., Hardman, S., & Tal, G. (2020). An in-depth examination of electric vehicle incentives: Consumer heterogeneity and changing response over time. *Transportation Research Part A: Policy and Practice*, *132*, 97-109.

46) Wang, S., Liu, L., & Chen, X. (2021). Tax-based pure punishment and reward in the public goods game. *Physics Letters A*, *386*, 126965.

47) Okunogbe, O., & Santoro, F. (2023). The Promise and Limitations of Information Technology for Tax Mobilization. *The World Bank Research Observer*, *38*(2), 295-324.

48) Ji, L., & Zhang, W. (2019). Fiscal incentives and sustainable urbanization: Evidence from China. *Sustainability*, *12*(1), 103.

49) Khaoula, F., & Moez, D. (2019). The moderating effect of the board of directors on firm value and tax planning: Evidence from European listed firms. *Borsa Istanbul Review*, *19*(4), 331-343.

50) Wang, J., Qin, Y., & Zhou, J. (2021). Incentive policies for prefabrication implementation of real estate enterprises: An evolutionary game theory-based analysis. *Energy Policy*, *156*, 112434.

51) Münzel, C., Plötz, P., Sprei, F., & Gnann, T. (2019). How large is the effect of financial incentives on electric vehicle sales?–A global review and European analysis. *Energy Economics*, *84*, 104493.

52) Cheng, Y., Sinha, A., Ghosh, V., Sengupta, T., & Luo, H. (2021). Carbon tax and energy innovation at crossroads of carbon neutrality: Designing a sustainable decarbonization policy. *Journal of Environmental Management*, *294*, 112957.

53) Yang, X., He, L., Xia, Y., & Chen, Y. (2019). Effect of government subsidies on renewable energy investments: The threshold effect. *Energy Policy*, *132*, 156-166.

54) Lederman, L. (2019, January). The fraud triangle and tax evasion. In *Proceedings. Annual Conference on Taxation and Minutes of the Annual Meeting of the National Tax Association* (Vol. 112, pp. 1-54). National Tax Association.

55) Górecki, M. A., & Letki, N. (2021). Social norms moderate the effect of tax system on tax evasion: Evidence from a large-scale survey experiment. *Journal of Business Ethics*, *172*, 727-746.

56) Liberalesso, T., Cruz, C. O., Silva, C. M., & Manso, M. (2020). Green infrastructure and public policies: An international review of green roofs and green walls incentives. *Land use policy*, *96*, 104693.

57) Bottero, M., D'Alpaos, C., & Dell'Anna, F. (2019). Boosting investments in buildings energy retrofit: The role of incentives. In *New Metropolitan Perspectives: Local Knowledge and Innovation Dynamics Towards Territory Attractiveness Through the Implementation of Horizon/E2020/Agenda2030–Volume 2* (pp. 593-600). Springer International Publishing.

58) Wang, N., Tang, L., & Pan, H. (2019). A global comparison and assessment of incentive policy on electric vehicle promotion. *Sustainable Cities and Society*, *44*, 597-603.

59) Bornemann, T., Laplante, S. K., & Osswald, B. (2020). The effect of intellectual property boxes on innovative activity & effective tax rates. *WU International Taxation Research Paper Series*, (2018-03).

60) Audretsch, D., Colombelli, A., Grilli, L., Minola, T., & Rasmussen, E. (2020). Innovative start-ups and policy initiatives. *Research Policy*, *49*(10), 104027.

61) Barlow, E. R. & Wender, 1. T. (1955). Foreign Investment and Taxtion. *EnglewoodCliffs: NJ, Prentice-Hall*.

62) Robinson, H. J. (1961). The Motivation and Flow of Private Foreign Investment. *MenloPark: International Development Center, Stanford Research Institute*.

63) Aharoni, Y. (2015). The foreign investment decision process. In *International Business Strategy* (pp. 10-20). Routledge.

64) Root, F. R., & Ahmed, A. A. (1978). The influence of policy instruments on manufacturing direct foreign investment in developing countries. *Journal of International Business Studies*, 9, 81-94.

65) Mintzs, J. M., & Tsiopoulos, T. (1992). Corporate income taxation and FDI in Central and Eastern Europe. *Foreign Investment Advisory Service Occasional Paper No.4, World Bank*, 1992.

66) Figlio, D. N., & Blonigen, B. A. (1999). The effects of direct foreign investment on local communities (No. w7274). *National Bureau of Economic Research*.

67) Hartman, D. G. (1984). Tax policy and FDI in the United States. *National tax journal*, 37(4), 475-487.

68) Devereux, M. P., & Griffith, R. (1998). Taxes and the Location of Production: Evidence of International Corporate Tax Competition? *Journal of Public Economics*, 68, 335-367.

69) Blomström, M., Kokko, A., & Mucchielli, J. L. (2003). The economics of FDI incentives.

In *FDI in the real and financial sector of industrial countries* (pp. 37-60). Berlin, Heidelberg: Springer Berlin Heidelberg.

70) Moden, K. M. (1995). The Impact of Tax Reform on FDI. *Tax Reform Evaluation Report Uppsala University, Sweden*, (17), 16-18.

71) Wei, S. J. (2000). How taxing is corruption on international investors? *Review of economics and statistics*, 82(1), 1-11.

72) Chen, J. H. (1998). The effects of international competition of fiscal incentives on FDI. *Economia Internazionale/International Economics*, 51(4), 497-516.

73) Xu, K. N., & Wang, J. (2002). Analysis of the determinants of U.S. direct investment in China (1983-2000). *Social Sciences in China*, (5), 66-77.

74) Li, Z. H., & Lu, M. H. (2004). Analysis of the effectiveness of preferential tax policies for foreign-invested enterprises in China. *World Economy*, 27(10), 15-21.

75) Le, W., & S, P. Y. (2002). An empirical analysis of the effectiveness of preferential tax policies in China. *Shanghai Economic Research*, (6), 47-51.

76) Zhong, W. (2006). Spatial-temporal Analysis of Tax Incentives and FDI: An Empirical Study Based on Tax Preferential Signal Theory. *Journal of Finance and Economics*, 32(8), 124-134.

77) Li, Y. Y., & Shen, K. R. (2008). Inter-jurisdictional competition, regional characteristics of strategic fiscal policy and FDI growth performance. *Economic Research Journal*, 5, 58-69.

78) Sun, C., Zhan, Y., & Du, G. (2020). Can value-added tax incentives of new energy industry increase firm's profitability? Evidence from financial data of China's listed companies. *Energy economics*, *86*, 104654.

79) An Tifu. (2016). Research on China's New Normal Economy and Fiscal Reform Issues (Part One). *Tianjin Economy* (10), 8.

LIST OF FIGURES

LIST OF TABLES