Replacing WTO disputed subsidies with Smart Subsidies

Final Report Prepared for AEPC

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Executive Summary

Recently the US raised concerns at the World Trade Organisation on issues relating to a number of export subsidies provided by India to its industries, which the U.S. argued were prohibited under the Agreement on Subsidies and Countervailing Measures (ASCM). The US in March 2018, challenged five Indian export-related subsidies: (1) the Export Oriented Units Scheme and sector specific schemes, including Electronics Hardware Technology Parks Scheme, (2) the Merchandise Exports from India Scheme, (3) the Export Promotion Capital Goods Scheme, (4) Special Economic Zones, and, (5) Duty-Free Imports for Exporters program. A decision by the US to establish the Dispute Settlement Panel at the WTO has now led to the next step that is the composition of the Panel. This Panel, established on 23rd July 2018 by the WTO Director General, will address the issue of India's export subsidies in general (i.e. for all industrial sectors). However, for textiles and apparel, the situation is different from other export subsidies.

An analysis by the WTO Secretariat in 2010 showed that India had reached export competitiveness as defined in Articles 27.5 and 27.6 of the ASCM, viz. a share of at least 3.25% in world trade of a product for two consecutive years (see Annex 5 for the text of these Articles). Under these provisions, when a developing country has reached export competitiveness in one or more products, export subsidies on such products have to be removed over a period of eight years. The minutes of the Committee on Subsidies and Countervailing Measures record India's agreement to phase out export subsidies on textiles and apparel by end-2018 (see Annex 6). While it may be possible to extend these subsidies for some time, especially as India's national elections are due around the beginning of 2019, these subsidies will have to be phased out in the not too distant future. The export subsidies that will be phased out will have to be replaced by new or improved schemes that are consistent with WTO.

This is a crucial time for the Indian apparel sector as it has experienced a significant decline in exports, and several factors relating to its major competitor countries make India less competitive. For example, as an LDC, Bangladesh has duty free access to a number of international markets, including the EU, until about 2023. Similarly, Vietnam's Free Trade Agreement with the EU will begin phasing-in duty free access of Vietnam's exports to that market. In addition, each competing country provides significant subsidies to their exporters of apparel. Taking account of the various factors which result in erosion of competitiveness for India's exporters, this report has calculated that if tariff preferences, subsidies and other operational factors of competing countries are aggregated, India's disadvantage may be as much as 17-19%.

On the other hand, India has a big opportunity as China's global market share has decreased, creating space for India. However, India's competitor countries have been able to take greater advantage of this gap by increasing their market shares. Last fiscal year (2017-2018), India's exports of garments fell by 4% in US$ terms, while those of Bangladesh went up by about 10%, and of Vietnam by about 8%. While introduction of GST and a shrinking UAE market may be significant reasons for India's immediate export decline, there are a number of structural issues that need to be addressed to provide a positive momentum to India's apparel exports.

This paper has simulated two scenarios; one, the impact of removing the prohibited export subsidies presently provided to Indian exporters and the second, where support that the Report suggests, is put into effect. The estimated effects of removal of export subsidies that have been challenged in the WTO, are as follows:

- **Exports from the Indian apparel sector fall by 5.9%; they range between 5.6% and 6.3% for different destination countries.**
- **Output from the Apparel sector in India falls by 2.63%**
- **Employment in the Apparel sector falls by 2.71% in unskilled labour and 2.58% in skilled labour.**
- **Cost of production of apparel that gets exported, rises by 1%**
- **Prices of apparel increase by 0.08% (while we may expect a fall in prices, it increases because of the cost pressures shown above).**
- **GDP falls by 0.03%.**
- **National employment of unskilled labour falls by 0.06% and skilled labour falls by 0.04%.**

Thus, in this difficult phase, a removal of export subsidies will further exacerbate the Indian industry's delicate situation for apparel. These subsidies need to be replaced by new, WTO-consistent subsidies. In addition, the new subsidy schemes and facilitation policies have to be made more efficient and effective. At the same time support has to be commensurate in impact, compared to that given by other countries, even if the exact nature and amount are not the same.

The recently introduced GST scheme has led to a reduction of financial support and incentives that were provided earlier. This and the delay in GST refunds have added to the cost of the garment exporter. Credit crunch from late refunds of GST and rebate of state levies (ROSL) is a major burden, especially for many small producers, who constitute a very large part of the industry. Back of the envelope calculations show that overall costs may have increased by around 2-4% if we assume a three-month delay in GST disbursement to garment exporters. However, garment exporters have reported that between 7-9% of their FOB value is stuck because of late GST refunds. Lower rates of refunds under the duty drawback and ROSL schemes, as compared to the pre-GST period, mean that manufacturers and exporters are now more vulnerable to market fluctuations, as they are working on very thin profit margins.

In addition, there are long and complex procedures in place that require considerable time, cost and effort to avail subsidies in India. A common concern of firms is that even though the system has been digitised and thus simplified in principle, firms have to approach consultants to help them manage the complex processes and transactions. This leads to further inefficiency in the performance of the industry. Many firms complained of increased administrative costs and a lack of efficient interconnected or consistent system operated by the main Government agencies involved in trade policy and processes, including databases operated by different institutions. Small firms were of the view that the effort to claim subsidies cost them up to 3% of the total subsidies due to them.

Other major issues faced by exporters include relatively high labour and infrastructure costs. In this context, it is significant that the productivity of Indian labour is low and thus productivity adjusted wages are higher in India than in Vietnam or Bangladesh. As compared to its competitors like Bangladesh, the Indian industry is at a disadvantage even in terms of absolute wage levels. Companies have mentioned labour laws as barriers for export, especially to establish a large scale of production that enables better links with export markets. At present, some States have introduced a number of financial and institutional support policies. It would be useful to learn from the implementation of such policies and examine ways of making them simple and more effective. Policy lessons and insight can also be developed from the practices of India's main competitor countries, such as Bangladesh, China and Vietnam. This Report has focused on both these aspects.

It is imperative that skills and technologies be improved in the sector for both larger employment and greater competitiveness. This requires subsidies for training workers, to reduce costs, enhance labour skills and productivity, and expand to new markets emerging due to changes in demand patterns and new types of fabrics and garments. Financial support could be provided also to reduce the incidence of costs on account of important inputs such as labour, electricity and costs and delays due to inefficient logistics. Customs and clearance procedures in India are more time consuming than in countries like China. For example, the movement of apparel, made-ups and textiles from China's Xinjiang province to Shanghai for shipment outwards takes 4-5 days from end to end (from mill to ship leaving the port), compared to 10+ days in the Indian context.

Another barrier to the apparel sector in India arises due to fragmented production chains amongst clusters. There is little or no clarity for the buyers when it comes to identifying the clusters in terms of specific products that they want. Competing countries like Bangladesh and China offer clear understanding of the products they can deliver. Furthermore, whereas 80% of Indian exports are from firms with a turnover of less than 250 crores, 80% of China's exports, and most of Vietnam and Bangladesh's exports are from firms with a turnover of over 250 Cr. The turnaround time required to meet an export order is roughly double or sometimes triple that of Vietnam and China, and roughly one fourth more than Bangladesh. This not only adds to the cost but also makes India uncompetitive in the export market.

Bangladesh, China and Vietnam support their apparel industries through a variety of financial support programmes. In general, these subsidies aim to achieve the national objectives that are emphasised as part of the development policy of the country. Unlike India, its main competitors like Bangladesh, China and Vietnam emphasise exempting or sharply reducing income tax. This is normally done for new investment, with emphasis on investment which meets certain important national objectives. In addition, these countries facilitate the remission or exemption of indirect taxes, including import tax and VAT.

Most of the subsidy regime in Bangladesh is oriented towards enterprises under the "Free Trade Zone Regime", which is the mainstay of Bangladesh's export and investment promotion strategy. This regime provides specific incentives to those who are eligible to participate in the zones. China has emphasised the apparel sector for employment, domestic value chain and export growth for about three decades. Support to apparel is provided both by the central government as well as the provincial government, sometimes with an overlap. In the case of China, such support is provided by policies specific to the sector, or by policies that are aimed at broader objectives, at times not directly focused on the sector. For instance, subsidies provided for employment of migrants from rural areas may not be directly connected with textiles and apparel, but these sectors are the obvious choice for support under the objective of employment generation due to its low training requirement and relatively higher employment per unit investment. Likewise, subsidies provided to high technology industries, energy-saving or environmental protection projects, and the infrastructure sector also benefit inter alia the apparel sector. Thus, the apparel sector is a significant recipient of subsidies which aim at employment, regional development and building domestic value chains. Certain categories of apparel are part of the encouraged industries under the national Catalogue of Industries for Guiding Foreign Investment. Apparel has much more comprehensive emphasis under certain regional initiatives, for instance under the Catalogue of Priority Industries for Foreign Investments in the Central and Western Region.

Vietnam's major incentives are focused on investment promotion in specified sectors, economically weak geographical regions, large scale of operation, provision of high levels of employment, or to encourage important high technology areas. Examples of their key investment incentives include inter alia:

a) Exemption or reduction of corporate income tax for considerable periods of time

b) Exemption or reduction of import tax on goods imported to create fixed assets, raw materials, supplies and parts used to implement the project;

c) Exemption or reduction of land rents, land levy and lower power costs.

In the case of both China and Vietnam, the Provinces play a significant role in determining and providing financial and other support to the industry. The final decisions reached on subsidy provided depend on specific negotiations and may be company- specific and not entirely transparent.

Costa Rica is among those countries which have actually phased out its export subsidy regime and introduced WTO-consistent subsidies some years ago. The subsidies in Costa Rica are provided to encourage a number of national objectives, like employment, regional development, exports and encouraging certain important sectors. The steps taken to introduce WTO-consistent subsidies include:

1. Changing the eligibility criteria for companies admitted to a new concept of "Free Trade Zone Regime" (RZF). The benefits were decoupled from export performance. The decoupling was achieved by introducing a new category of processing companies which may belong to the Free Trade Zone, irrespective of whether or not they export.
2. The coverage of RZF includes groups of companies that are not limited to a geographical region. These companies are eligible for the specific incentives and benefits granted by the Costa Rican government if they make new investments in the country and meet certain specified criteria relating to investment level, employment and improving the possibility of investment in preferred areas that are the focus of dispersion of economic activity.
3. The minimum amount of investment required for getting the incentives depends on the company's location, either within or outside an industrial park, or outside or within the established Expanded Greater Metropolitan Area.
4. Differentiated tax incentives encourage businesses to invest in less developed areas and to make large-scale investments.
5. Tax credits for staff training.
6. In addition, policy support is provided to reinforce production chains and develop local suppliers.

Based on the experience of these countries, the Report suggests that India focus on some key objectives, such as promoting:

1. Jobs, with an emphasis on Female Employment
2. Large Scale of operation
3. Meeting relevant compliance requirements that enable better possibility of linking up with international value chains

In this background, this Report suggests establishing the eligibility criteria to get financial support as follows:

1. Firms meeting compliance criteria, in particular the conditions specified in domestic law for operating within India.
2. Emphasise employment objective by starting by focusing on industries with above average employment per unit investment for the manufacturing sector, with industries defined at NIC 2-digit categories from NIC 10 to NIC 33.
3. Within this set of Industries (excluding tobacco products), begin by focusing on the industry with the highest share of female employment in total employment. This is the apparel industry.
4. Create another category of support in terms of firms with a large scale of operation. The minimum number of employees to qualify for scale would be 250 for each firm in non-urban area and 300 in the urban area.

Two alternative financial support schemes are suggested. One will replace the percentage subsidy on f.o.b. exports to a subsidy provided as a percentage of an "eligible turnover" of the firm. The eligible turnover would be calculated in terms of the average turnover per employee for the industry multiplied by the number of EPF registered employees of the firm. The other option for financial support would aim to partially reduce the cost burden for wages, training, housing and transport of labour, R&D and product development, compliance with standards, cost incurred due to logistics and delays, interest and capital cost for equipment and working capital, and technology upgradation.

Based on the suggested policies for financial support, the Report has carried out a second set of simulations to examine the impact of these suggested support policies mentioned above. The results are as follows:

- **Exports from the Indian apparel sector increase by 6.8%; they range between 6.5% and 7.3% for different destination countries.**
- **Output from the Apparel sector in India rises by 2.98%**
- **Employment in the Apparel sector rises by 3.15%for unskilled labour and 3.08% for skilled labour.**
- **Cost of production of apparel that gets exported, falls by 1.03%**
- **Prices of apparel decrease by 0.15% (while we may expect a demand-pushed rise in prices, they decrease instead because of the lower cost pressures shown above).**
- **GDP rises by 0.03%.**
- **National employment of unskilled labour rises by 0.07% and skilled labour rises by 0.05%.**

Thus, replacing WTO-inconsistent subsidies with those suggested in the Report would enhance exports, reduce costs and promote employment. In that sense they would be 'smart subsidies' and close to 'revenue neutral' too.

Implementation of the subsidy scheme would be by the agency designated by the Ministry of Textiles. The subsidy could be distributed for instance in the form of scrips or certificates distributed by the Textiles Commissioner or the DGFT. These scrips or certificates could be used for paying direct and indirect taxes by the firm concerned.

A simple and timely implementation mechanism cannot be over-emphasised. For this, the industry associations in close collaboration with the Government, should monitor the difficulties that arise in practice. This would help evolve robust processes to address implementation issues as they arise.

INDIAN APPAREL INDUSTRY NEEDS IMMEDIATE ATTENTION

Introduction

In October 2017, exports of apparel from India fell drastically to half the level of January 2015 when the New Foreign Trade Policy was introduced to promote exports. In the fiscal year 2017-2018, overall apparel exports fell year on year (y.o.y) by 8% in rupee terms and 4% in dollar terms, amounting to a little over 16 billion USD. In comparison, by India's main competitors (See Chart 2), Vietnam's exports of garments increased by 8% y.o.y to 31 billion USD, and Bangladesh's exports rose by 10% y.o.y to 34 billion USD in 2017.[1]

By end 2018, India had agreed at the WTO to remove export subsidies in compliance with its WTO obligations.[2] These developments come at a time when major competitors are either improving their preferential market access conditions or their subsidies. Bangladesh and Cambodia will continue to enjoy duty free access to EU markets under the Everything But Arms (EBA) scheme for LDCs up to 2023. Vietnam's FTA with EU has been concluded and is expected to be signed in 2018. This FTA will provide Vietnam with duty free exports to EU for some apparel items immediately, and other after 3, 5 or 7 years. Furthermore, the Comprehensive and Progressive Trans Pacific Partnership (CPTPP) agreement will offer Vietnam duty free market access in 10 large markets, excluding the U.S.A. In addition, both Bangladesh and Vietnam also provide considerable financial support to their exporters of apparel. Likewise, China has started a large subsidy program in selected provinces for additional investment in industrial products, including apparel. In this situation, India needs to replace its current export subsidies with WTO compatible ones. The subsidies that replace India's export subsidies need to be effective, by reducing costs and providing support that can compensate for some of the cost and competitiveness disadvantages faced by the Indian apparel industry today.

Chapter 1 outlines the current situation in the apparel industry by way of background information. Chapter 2 examines the main cost components and competitiveness concerns in the industry based on primary data disaggregated by scale of operation. It also incorporates a rationale for support to this sector. Chapter 3 examines subsidies, which have been brought into dispute at the WTO and the potential impact of their removal on costs. It also reports the problems in accessing these and other subsidies. Chapter 4 analyses the different forms of support provided by other comparator countries. Chapter 5 examines the WTO provisions relevant to the apparel sector and the exceptions that could be used. Finally, Chapter 6 comes up with two alternative options for financial support schemes, and the potential impact of the alternative schemes on the competitiveness of the industry.

[1] http://www.vietnam-briefing.com/news/vietnams-textile-garment-exports-continue-grow.html/ . For Vietnam , the export situation in 2018 has also been positive. See for example, https://apparelresources.com/business-news/data/vietnam-achieved-22-4-2018-garment-textile-export-target-already/ ; https://www.textiletoday.com.bd/apparel-exports-grew-9-37-percent-first-10-months/ . For Bangladesh, see also the information from Bangladesh Bank which shows that for April to December, 2018 apparel exports grew by about 11.6%. Performance in the first two months of 2018 was also buoyant. See https://www.bb.org.bd/econdata/export/exp_rcpt_comodity.php and https://www.dhakatribune.com/business/2018/04/03/export-earnings-rise/

[2] Garment, Clothing and Apparel have been used interchangeably throughout the report.

1. State of Play of the Apparel Sector

1.1 Sharp Decline in Indian Apparel exports every month since October 2017

In the last financial year 2017-2018, apparel exports in INR terms fell by 8% (down by 4% in US $ terms). Especially alarming was the sharp decline every month in exports since October 2017 (Chart 1). Apparel exports in October 2017 were about half the level compared to January 2015, the year when India's Foreign Trade Policy 2015-20 was launched to promote exports.

Source: Department of Commerce and AEPC.
Note: The growth/decline is calculated in comparison to the same month in the previous fiscal year.

1.2 Conditions of Indian Apparel will get worse after 2018

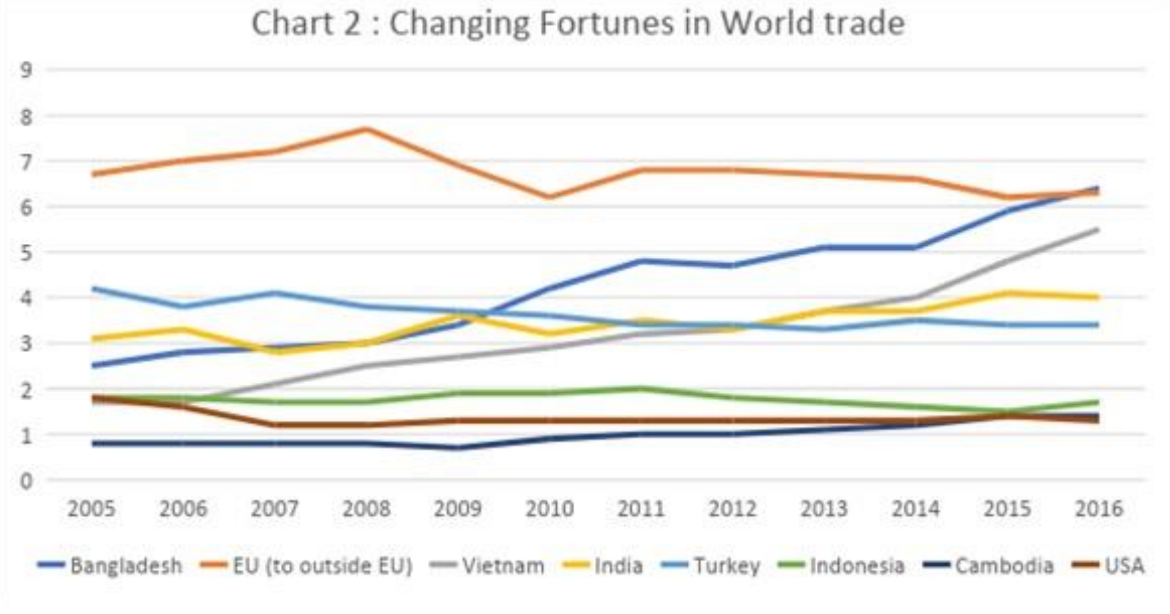
India has agreed in the WTO to remove its export subsidies to textiles and clothing by the end of 2018. However, India's major competitors, Bangladesh and Vietnam, will face much better conditions in global markets. Bangladesh as a least developed country (LDC) will continue to export its apparel duty-free to the EU (by far the largest importer of apparel in the world) as well as several other markets that provide preferential tariffs to LDC exports. Furthermore, Vietnam's exports will increasingly go duty-free into the EU market after the EU-Vietnam Free Trade Agreement is ratified this year. Its exports to a number of other countries will also be duty-free under the Comprehensive and Progressive Trans Pacific Partnership (CPTPP) Agreement, to be ratified/implemented in 2019. Additionally, both Bangladesh and Vietnam treat textiles and apparel as a priority sector and provide several subsidies to promote it. Most of the production in these countries is for exports, and therefore even their domestic subsidies to apparel are in effect significantly a subsidy to exports.

1.3 Indian Apparel at a cross road today

India faces two contrasting situations in global apparel markets. Firstly, strong exporters such as Bangladesh and Vietnam, and emerging competitors like Cambodia are creating intense competitive pressure (Chart 2). Secondly, world market shares of major exporters are falling, as is global demand. In addition to the situation shown in Chart 2, the share of the EU as a whole (including intra-EU trade) has fallen from 31% in 2005 to 26.4% in 2016 and China's export share fell from 39.3% in 2015 to 36.4% in 2016.[3] These dips create market space and opportunities for the Indian apparel industry.

[3] WTO, Various Years, "World Trade Statistical Review" and "International Trade Statistics"

At a time when declining trade from the EU and China are creating a space for the Indian industry, there is a fall in profits for garments exporters: while Unit Value realisation of Indian apparel exports to the US and EU have fallen marginally by about 1.2%, costs in the post Goods and Services Tax (GST) period have gone up.[4] Credit crunch from late refunds of GST and rebate of state levies (ROSL) is a major burden for many small producers, who constitute a very large part of the industry. Because of lower rates of refunds under the duty drawback and ROSL schemes as compared to the pre-GST period, manufacturers and exporters are working on very thin profit margins, thereby increasing their vulnerability to market fluctuations.



Source: WTO, Various Years, "World Trade Statistical Review" and "International Trade Statistics"

1.4 The GST issue: Issues Highlighted by Industry

It is important to examine what has changed in the garment sector after October 2018, since it has witnessed a continuous decline. The only factor that is immediately apparent is GST. All other competitive disadvantages remain the same. This section therefore examines the effect of GST and the recommendations made in Chapter 6 will also refer to solutions on this issue. After GST came into force in July 2017, the Government of India re-calculated the duty drawback rates and reduced it to around 2.2% from an average of over 9%, while the ROSL rates were reduced to between 1.3% and 1.7% from 3.3%.[5] Subsequently, the government increased the incentives under the Merchandise Export from India Scheme (MEIS) to 4%, from 2% earlier. The net loss in reimbursements for exporters remains at 5 to 6.5% of export value, as per industry calculations.[6] Others claimed that these reductions and refunds through GST led to a decrease of 6.5% of their profits.

Small and medium firms find it difficult to file their GST returns. Due to some bureaucratic and administrative issues, even MEIS is not availed of by all firms as shown in Section 4. Only 300 odd cases were reportedly filed for GST refund till 10th April 2018 by MSMEs.[7] There are about 8,000 MSME units in the knitwear cluster, of which about 1,000 units are engaged in the export of garments.[8] Therefore, only about 30% of firms have filed for GST refunds. While tax authorities have

[4] Information provided to the authors during interviews with roughly 50 firms.

[5] www.srtepc.org/gallery/view/35510

[6] Primary data collected by the team.

[7] www.srtepc.org/gallery/view/35510

[8] Ibid.

advised units to engage a senior person or auditor to help file GST returns, small players contend that they cannot afford to engage such a person.

The government rationalises post-GST duty drawback cuts by stating that exporters' taxes are completely reimbursed now through duty drawback and GST. However, exporters contend that the input taxes they paid were low earlier in comparison to GST in a number of instances. Further, according to the industry, duty drawback rate was earlier used as a mechanism to compensate garment exporters for disadvantages they suffered vis-à-vis competing countries such as Bangladesh, Cambodia and Sri Lanka, who have privileged access to EU markets. An average duty of 9.8% on India's apparel in the EU makes it straightaway uncompetitive, a big blow to the sector as the EU is one of the biggest markets for Indian garments and textiles. Therefore, losing up to 5% subsidy when the profit margins in export markets are only about 4-5%, can act as a death knell for the industry, unless addressed appropriately.

The recently introduced GST scheme, which has reduced other financial support and incentives, has added to the cost of the garment exporter. Back of the envelope calculations show that costs would have increased by around 2-4% if we assume a three-month delay in GST disbursement to garment exporters. Garment exporters reported that up to 7-9% of their FOB value was stuck because of late GST refunds.

1.5 Calculations and assumptions on impact of GST

1. Based on interviews with exporters, fabric made up roughly 50% of the total cost, while wage costs amounted to around 30%. Thus around 40% of the total cost was spent on labour, power, water, washing etc.
2. Based on the interviews, roughly 60% of the garments exported are cotton and the rest are manmade.
3. GST on fabric is 5%. The GST on garment is 12%
4. Given that about half the cost is fabric, the impact of GST on fabric would be half the average rate for cotton and man-made parts.

Let us consider an export of INR 100. Under the above assumptions, GST paid and refundable for an apparel exporter will be up to 12 minus (half of 60, i.e. 30 multiplied by 0.05 plus 20 (i.e. half of 40) multiplied by 0. 05) which is INR 10.00. Thus INR 10.00 worth of working-capital gets blocked up to three months with a GST delay. Roughly 1% interest is being paid per month on the un-refunded GST amount. So, the total additional working capital that needs to be borrowed is INR10.03. In view of a continuous production cycle, INR10.03 will be blocked throughout the year. With three months' delay, in this example with four production cycles within a year, the cost increase of INR 10.03 will be spread over INR 400. This implies that the cost would increase by 2.5% if there is a blockage of 3 months in the disbursement of the GST. If the return of GST takes 6 or 9 months, the percentage of cost increase will be higher, as interest paid on working capital would mount. Since SEZs and EOUs do not pay GST, to that extent it is a saving for them.

Exporters also reported a rise in production costs because of GST applied to air freight and outsourced work, which were earlier not taxed at all. Air freight is taxed at 5%. The GST rate on outsourced services like embroidery and knitting which initially was 18% has now been reduced to 5%. There were several other inputs as well on which exporters were not required to pay any tax. With declining exports, MEIS was increased to 4% in November 2017 to compensate for competitive disadvantages vis a vis major exporting countries. Despite this rise, the industry complained that it was still worse off by around 4-5% compared to the pre-GST era if the impact of change in tax rates on input credits and export incentives were taken into account. Refunds for GST paid on inputs still faces some delays. Exporters have urged the government to expedite refunds as it has blocked their working capital. Exporters claimed that banks are also unwilling to lend money. Consequently, they argue that borrowing more is likely to further hurt profitability.[9]

2. Costs and Competitiveness Issues in this Sector and rationale for providing support

2.1 Structural issues resulting in higher costs Vis a Vis comparator countries

There are some structural issues that need to be resolved to enable the garments sector to become competitive. The sector is labour intensive, and crucial to poverty alleviation. Therefore, wages in this sector cannot be further lowered. Both Vietnam and China are more competitive despite higher wages, pointing to other factors which may be important. The first factor to consider is productivity of labour. In China, productivity is higher by a factor of 5, and by a factor of 3 in Vietnam. The second point to consider is delays and costs of logistics, which are much higher in India than in competing countries. The third factor is high tariffs on man-made fibres. Further, for cotton garments, input taxes from raw materials to garment are at 5%. In the synthetic sector, the GST on polyester yarn is still at 12%, whereas on fabric it is at 5%. The disparity in these GST rates points to a regressive inverted duty structure. The fourth important factor is that the scale of operation in India is much lower than that in competitor countries, making per unit costs higher, as economies of scale and specialisation do not accrue to India.

Table 1: Cost Comparisons with Major Competitors

Category of costs	Bangladesh	China	India	Vietnam
Monthly min. wages in USD [10]	65	150-338	116-209	116-166
Labour productivity as measured by Human Capital Index[11]	57.84	67.81	57.73	68.39
Quality of Overall garment related Infrastructure Index [12]	2.8	4.5	4.5	3.6
Power costs in US cents per KWH[13]	9-12	13	10-12	8
Lending rate in Local Currency[14]	13%	5-6%	12-13%	5-6%
Percentage of raw material in total cost[15]	Over 50%	51	62	52

Source: See Footnotes 8 to 13.

The main cost items for India are: raw materials (about 50%) and labour costs (about 30%). Logistics and power account for about 5% of costs. While raw material costs could be reduced by improving productivity and reduction of the applicable indirect tax, addressing labour costs would need a more direct subsidy scheme. However, the cost differs marginally according to the scale of operation. The small scale sector has some tax exemptions, which the large scale sector does not enjoy.

9 https://www.bloombergquint.com/gst/2017/11/29/apparel-exporters-say-six-million-people-may-lose-jobs

10:https://www.intouch-quality.com/blog/side-by-side-top-4-asian-countries-for-manufacturing-garments. Note that the wages are the latest available figure for each country.

11 Source: Ibid. This is the World Economic Forum's human capital index which measures the "knowledge and skills embodied in individuals that enable them to create economic value" through education metrics.

12 Source: Ibid. Ranked on a scale of 1-7, where 7 refers to best quality infrastructure.

13 Global Shifts in Textile Industry & India's Position, TAG 2016 September 2, 2016, Mumbai, India, Wazir Advisers.

14 Ibid

15 Source: World Bank Enterprise survey

To understand clearly the cost structure of different scales of operation, a number of exporting firms (about 50) were interviewed.

The reported costs by different scales of operation are shown in Table 2.

Table 2: Average Cost Structure in India

Raw Material	Labour Cost	Power Cost	Transport Costs	Overhead Costs	Accessories	Sampling		Embedded Taxes
SMALL SCALE (< 25 crore) turnover								
55%	32%	1%	5%	-	5%	2%		-
MEDIUM SCALE (25-50) turnover								
50%	25%	2.5%	2%	10%	5%	4%		1-1.5%
LARGE SCALE (250 cr or more) turnover								
51%	31%	1%	2%	5%	Included in raw material	5%		5%

Note: - This table had been compiled using Primary Data via Interviews. Embedded taxes are shown as well because they were reported as costs by industry. However they are different from other cost.

2.2 Labour costs and productivity with comparator countries

While it is claimed that India's wage rates and labour costs are one of the cheapest in the world, providing it with a natural cost advantage in a labour-intensive sector such as garments, a deeper look indicates otherwise.

Fo r one, the nominal wages of competitors like Bangladesh and Cambodia are significantly lower. Secondly, when adjusted for productivity, India's wage rate is higher than both Vietnam and Bangladesh, (major competitors) and somewhat lower than China.

Table 3: Productivity adjusted wage rates

Country	Average Hourly Minimum Wage ($)*	Time taken to produce 1 trouser (minutes) **	Labour Cost of 1 trouser ($)
Bangladesh	0.5	60	0.5
China	1.8	40	1.2
India	1	60	1.0
Vietnam	1.20	46	0.92

Notes and Sources: * Derived from the data given on Average Monthly Minimum Wages in https://www.calculators.org/savings/wage-conversion.php - used the following website to calculate the hourly minimum wage.
The considered working hours per week for China, India and Vietnam is 6 days x 8 hrs = 48 hrs/week
The considered working hours per week for Bangladesh is 6 days x 10 hrs = 60 hrs/week
Cost calculations include an average of 20 working hours overtime per week for each country, and have been factored in overtime rates too.
** Weaving the Way - Boston Consulting Group - Exhibit 24, Pg 35

Since the apparel industry in India is labour intensive, it is crucial to have well-trained workers to increase overall productivity to keep up with competing countries with higher levels of labour productivity.

While wages and productivity adjusted wages are amongst the highest in India, industry claimed that labour laws further magnify these problems. Minimum wages are very high for exporters in comparison to their competition in global markets. Further, a majority of the demand received by the Indian apparel sector is for the Spring/Summer collections. This means that the total working period is less than a full year, leaving labour idle for the lean period. This lowers their annual productivity rates. For the busy season, firms hire also on a contractual basis, and their batch of workers often changes every year. This leads to waste of resources and time as each new batch of workers needs to be trained. According to the industry, a number of social and cultural aspects also influence the productivity of labour. For example, festival times are marked with labour absenteeism and women workers cannot stay beyond certain hours. According to them, workers work on average for about half the month. An important experience in this regard has been that training and employment of women has led to greater productivity, lower absenteeism and cost-effectiveness. Most firms reported that wage subsidies would be of great benefit to them. Hence these themes as well as employment incentives for women have been picked up in Chapter 6.

2.3 Scale of operation and trade logistics cost

There are several other factors which differentially hamper India's competitiveness. Firstly, whereas 80% of Indian exports are from firms with a turnover of less than 250 crores, 80% of China's exports, and most of Vietnam and Bangladesh's exports are from firms with a turnover of over 250 Cr.[16] Therefore, India is unable to realise economies of scale, as commercial orders require shorter delivery times and production runs are longer because of the lower scale of operation. Secondly, MMF which is a significant part of the global market, is about 10% more expensive in India compared to India's major competitors.[17] Thirdly, the turnaround time for an order is roughly double that of Vietnam and China, and roughly one fourth more than Bangladesh.[18] This not only adds to the cost but also makes India uncompetitive in the export market. Fourthly, the time taken for Indian shipments to reach the ports is longer, roughly 3 times or more compared to Bangladesh, China and Vietnam.[19] Poor transportation and port facilities, and other logistics means that Indian exports' cost is much higher than its competitors. This is why logistics support and improving the scale of operation has been deemed as an area of support in Chapter 6.

Table 4: Scale and Logistics cost

Country	Bangladesh	China	India	Vietnam
Scale of Operations	80% large enterprises	80% or more large	80% small enterprises	80% or more large
Turn Around Time	50 days	31 days	63 days	46 days
Time Taken to reach port	1 day	0.2 days	7-10 days	0.3 days

Source: Interviews with exporters and CII-BCG Report

2.4 Tariff comparisons

Tariffs are constantly evolving, especially where most of India's competitors are entering into FTAs with the major players. While Bangladesh will continue to get duty free

[16] Calculated by projecting the share of large industry form CII BCG report, pg. 31.
[17] Tariff and GST are both higher for manmade fabrics in India.
[18] CII-BCG Report
[19] Ibid. This was also stated by importers in Vietnam when they were interviewed in the context of this project.

access to EU markets and a number of other developed country markets till 2023, it also has non-reciprocal duty-free access to SAFTA markets.

Table 5: Tariffs for India and Competitor countries

Country	HS 61	HS 62
European Union		
Bangladesh	0%	0%
China	11.79%	11.52%
India	9.43%	9.22%
Vietnam	9.43%	9.22%
World (excluding intra –EU trade)	3.4%	3.3%
United States Of America		
Bangladesh	13.98%	10.44%
China	13.98%	10.44%
India	13.96%	10.37%
Vietnam	13.98%	10.44%
World	11.1%	8.4%
United Arab Emirates		
Bangladesh	5%	5%
China	5%	5%
India	5%	5%
Vietnam	5%	5%
World	5%	5%

Source: Comtrade, UNCTAD database

This situation is likely to change for Vietnam after the ratification of its two major Free Trade Agreements, the Vietnam EU FTA and the Comprehensive and Progressive Trans Pacific Partnership (CPTPP). The Vietnam EU FTA is expected to be ratified by the end of the year, which will phase in a reduced tariff scheme for Vietnam leading ultimately to zero tariff (like Bangladesh). The Comprehensive and Progressive Trans Pacific Partnership (CPTPP) will be implemented likely by 2019.

3. Subsidies challenged under WTO

The first part of this chapter will identify and quantify Schemes which have been challenged at the WTO as being WTO inconsistent subsidies. It will then through a modelling exercise estimate the impact on employment, output and costs in the scenario that these subsidies were to be removed. The third part of this chapter outlines other subsidies which are WTO consistent. The last part identifies problems in accessing these subsidies and measures to make them more easily accessible to a large number of industries.

Table 6: Subsidies Challenged by US

3.1 Subsidies challenged under WTO Dispute Settlement[20]

It is difficult to obtain exact amounts of subsidies provided specifically to the apparel sector under the different subsidy schemes. Bearing in mind this difficulty to estimate the exact extent of subsidies disbursed in the financial year 2017-2018, preliminary estimates from firms and official sources suggest the following:

[20] Actual; and estimates. See notes to the Table

Table 6. Export Promotion schemes available for the Apparel Sector Firms in India and their Subsidy Implications

No.	Scheme	Particulars	Financial Incentives received (2016-17)	WTO compatible? Yes/No	Notes
1	Merchandise Exports from India (MEIS) Scheme	The MEIS provides duty reward to eligible textile and apparel categories to an extent of 2-5% of FOB value. MEIS, introduced through the Foreign Trade Policy (FTP) 2015-20 on April 1, 2015 is a merger of all previous schemes to promote export of notified goods manufactured / produced in India. It has been expanded to cover 7,914 product lines, all with global coverage.	**Total duty credit for apparel: Rs. 1,872 crore.**[21] **Based on the past three years exports, the allocation to the garments sector would be Rs.4,400 crores.**	No	
2	Export Promotion Capital Goods (EPCG) Scheme	EPCG scheme allows import of capital goods including spares for pre-production, production and post production at zero duty subject to an export obligation of 6 times of duty saved on capital goods imported under EPCG scheme, to be fulfilled in 6 years reckoned from Authorisation issue date.	• **Apparel EPCG very small, in the range of INR 250 to 300 cr .**[22]	No	
3	Duty Free Imports for Exporters Program[23]	Under this scheme exporters are awarded Export Performance Certificates of 5%. Against this certificate exporters of apparel can import trims and embellishments duty free up to	**Of which, Apparel: Rs. 1,100 crore.**[25]	Yes (a strong argument of WTO-consistency could be made)	India would be able to strongly argue to defend this

[21] This figure is for 2017-2018 as given by FIEO.
[22] Negligible as it's a one-time payment and most useful to the textile sector but not so much to the apparel sector. The total duty saved for textile and clothing in 2016-2017 was INR 3,230 crores according to Texprocil. Of this less than 10 per cent went to Garments, according to garment exporters as the life time of their machines are long.
[23] The US has referred to Indian Notification No. 50/2017-Customs (Ministry of Finance, Department of Revenue, June 30, 2017), including Conditions 10, 21, 28, 32, 33, 36, 60, 61, 101.
[25] FOB value under DFIA: Rs. 1,941 crore; which is 0.11% of total exports from India in 2016-17: Rs. 18,41,314 crore. FOB value of Apparel exports under DFIA: Rs. 125.6 crore. Duty credit under DFIA: Rs. 452 crore overall or 23.3% of FOB value under DFIA. Duty credit for apparel under DFIA: Rs. 29 crore, calculated as 23.3% of FOB value of Apparel exports under DFIA. Apart from this ECG scheme of AEPC has been notified under the DFIA>

		a limit of 5% of their f.o.b. value of exports. However, for lining and inner lining material the limit is only 2% of the f.o.b. value of exports. For apparel, the relevant scheme is in condition 28 and relates to items 288 and 311 of the Table in notification No.06/2018 – Customs dated 02.02.2018 of Govt. of Indi, Ministry of Finance (Department of Revenue).[24] The scheme operated by AEPC is "Export Performance Certificate" (EPC).			scheme at WTO as this is in effect like an Advance Licensing or duty drawback scheme
4	Special Economic Zones (SEZs)	The incentives and facilities offered to the units in SEZs for attracting investments into the SEZs, including foreign investment include: • Duty free import/domestic procurement of goods for development, operation and maintenance of SEZ units • 100% Income Tax exemption on export income for SEZ units under Section 10AA of the Income Tax Act for first 5 years, 50% for next 5 years thereafter and 50% of the ploughed back export profit for next 5 years. (Sunset Clause for Units will become effective from 01.04.2020) • Exemption from Minimum Alternate Tax (MAT) under section 115JB of the Income Tax Act. (withdrawn w.e.f. 1.4.2012)	**About INR 400 crores**	Some of the incentive measures may be prohibited under WTO, e.g. duty waiver of import waiver of capital goods used for exports, and income tax exemptions for exports.	

[24] See Apparel Export promotion Council, Circular no: HO;S&M:EPC:2018:01

		• Exemption from Central Sales Tax, Exemption from Service Tax and Exemption from State sales tax. These have now subsumed into GST and supplies to SEZs are zero rated under IGST Act, 2017. • Other levies as imposed by the respective State Governments. • Single window clearance for Central and State level approvals.			
5	EOU/EHT/STP	Under the EOU scheme, the units are allowed to import or procure locally without payment of duty of all types of goods including capital goods, raw materials, components, packing materials, consumables, spares and various other specified categories of equipment including material handling equipment, required for export production or in connection therewith under certain export performance conditions.	Total revenue impact of EOU/EHT/STP: Rs. 9,073 crore.[26] • **Total Revenue impact of Apparel EOUs and SEZs: Rs. 87 crores.**[27]	Some measures may be prohibited under WTO e.g. duty waiver of import waiver of capital goods used for exports, and income tax exemptions for exports.	
	Total Export Subsidies schemes	This includes, MEIS, EPCG, DFIA, SEZs and EOUs	**Total subsidies entitlements about: Rs. 5,100 crore (excluding EPC, which should not be treated as a subsidy-explanation in**	WTO inconsistent, in general.	

[26] According to the Annual Report of the Ministry of Commerce and Industries, there are 1,886 units in operation under the EOU Scheme.
[27] Total garment exports from SEZs and EOUs in 2017-2018 was about 5% of total exports:
Using 1,15,000 cr. as exports in 2017-2018, exports from SEZs and EOUs amount to about 5750cr.
The subsidy is the income tax exemption
Using a 5% profit benchmark as reported by the industry and 30% income tax saved
Subsidy for EOUs was about 87 cr.
Source: Annual Report, Ministry of Commerce and Industries, 2016-17; for SEZs, Government of India estimates

			main text).		

Sources: Union Budget 2018-19: Statement of Revenue Impact of Tax Incentives under the Central Tax System: Financial Years 2016-17 and 2017-18, Annex-7; DGFT: MEIS Report on Export Promotion Schemes, 2017; CBEC Notifications of various years; and, Secondary sources including articles, websites, and blogs.

Of the subsidies mentioned above, one of them includes the EPC scheme implemented by AEPC. This scheme is for trimmings and embellishments, and provides financial support in the form of certificates to pay the import duty on these products.

The main points for the defence of the EPC scheme at the WTO Panel process could be:

1, Initially, an assessment in the past was made to determine the share in f.o.b. exports of trimmings and embellishments, which include lining and inter-lining. That showed that the share of trimmings and embellishments is 5% of f.o.b. value of garment exports, of which the share of linings and inter-lining is 2% of f.o.b. exports of garments.

2. With these two percentage shares as the reference values, certificates are provided for exporters based on their previous year's exports to use the certificates as payment of import duty for trimmings and embellishments imported in the current year.

3. The level of previous year's exports is determined based on verified audited values of those exports.

4. Another essential basis for getting the certificates is that the beneficiaries have to provide an affidavit stating that the imported items would be used only as inputs for exported garments.

5. In addition, the following stipulation is put on the certificates by the Regional Offices providing the certificates: "That the imported goods shall not be put to any other use or sold in the market except in manufacture of textile garments for export by that manufacturer directly or through merchant exporter registered with the AEPC."[28]

6. To get specific authorisation for being able to pay the duty through the certificates, the exporter provides an invoice of proposed imports of trimmings and embellishments that he/she has to make. Certificates are provided to the exporter based on this invoice as long as the value does not exceed respectively the 2% and 5% limits mentioned above.

7. These certificates are then used to release the imports without paying import duty.

8. The certificates expire after the end of the year for which they are supposed to be used in lieu of border duties on trimmings and embellishments.

9. The Government has a scheme to verify whether or not the certificates have been used for importing inputs of trimmings and embellishments that are actually used in exports.

10. If this verification finds that the inputs have not been used as part of exported garments, then the user of the certificate has to pay the duties on inputs that are otherwise imported duty free but have not been used in exports.

11. This process shows that the certificates are for inputs meant to be used for exports, that there is a verification process to assess whether this is actually done by the exporter, and when it is found that the imported inputs are not used as inputs into exports then import duty is collected on that.

[28] See page 4 of http://www.aepcindia.com/sites/default/files/pdfs/EPC%20CIRCULAR%202018-2019_new_0.pdf

These EPC certificates are not transferrable, i.e. they are based on actual user condition; the import duties on the items concerned are not included in the calculation of regular duty drawback scheme, which shows there is no double-counting; the levels of exports that are a basis for authorisation of the certificates are verified; the certificates are to be used for inputs that must go only into exports; there is a verification process to assess that the imported items under the certificate are actually used as inputs into exports; those found not to have used the inputs into exports have to pay the requisite duty; and, these certificates lapse after the year is over. In this situation, this scheme is equivalent to an Advance Licensing or duty drawback scheme for trimmings and embellishments. Therefore, this scheme could be defended at WTO as not being an export subsidy.

If the US has submitted some specific points that need addressing, those points are part of the confidential draft in the Panel process. Details on that cannot be addressed at present.

Further, the decision of the Panel cannot be anticipated. To the extent any flaw is found by the Panel, that could be easily fixed given that the EPC scheme is along the lines of schemes which are consistent with the conditions under Annex 1 of the WTO Agreement on Subsidies and Countervailing Measures.

When the existing export subsidies are removed from the apparel sector their impact will be felt in several aspects of the sector as well as the entire economy. To estimate their impact a Cumulative General Equilibrium (CGE) model was used. The specific model used here is the Global Trade Analysis Program (GTAP) and its database which is used particularly to estimate the impact of export subsidies and tariffs. For example, President Trump is reported to have used it to estimate the effects of tariffs on Steel on the US economy.[29] (see Annex 1 of this paper for full details of our estimation exercise).

CGE models are a class of economic models that can assess supply-chain effects, macro-economic aspects, economy-wide equilibrium constraints, linkages between different sectors and countries, as well as emission and land use effects of different commodities due to changes in policy, technology or other external factors.

The intuition of CGE models is based on an input output structure where one single shock works its way through all inputs and prices to the outputs, employment, wages, prices etc. Hence it is a system of simultaneous equations based on factor and product markets. A shock is like a pendulum which swings through all markets till it reaches its stationary position again. The swing normally takes 3-5 years to correct itself. Of course, several assumptions like static technology and imported products being perfect substitutes for domestic products are introduced and the results can only be considered as indicative at best. Nevertheless, they are a useful tool to guide policymakers.

29 https://www.commerce.gov/sites/commerce.gov/files/the_effect_of_imports_of_steel_on_the_national_security_-_with_redactions_-_20180111.pdf

When simulating a scenario of removing the WTO inconsistent subsidies mentioned above, the GTAP model yielded the following changes:

1. **Exports in US Dollar terms from the Indian apparel sector will fall by 5.9%; the decline in exports would range between 5.6% and 6.3% for different destination countries.**
2. **Output from the Apparel sector in India falls by 2.63%**
3. **Employment in the Apparel sector falls by 2.71% in unskilled labour and 2.58% in skilled labour.**
4. **Cost of production of apparel that gets exported rises by 1%**
5. **Prices of apparel increase by 0.08% (while we may expect a fall in prices, it increases because of the cost pressures shown in 4).**
6. **GDP falls by 0.03%.**
7. **National employment of unskilled labour falls by 0.06% and skilled labour falls by 0.04%.**

These factors would have a marginally adverse effect on the GDP of India as well as employment. As labour shifts out of the sector to other areas, wages would rise making the apparel industry even more uncompetitive. Considering the fact that women workers comprise a large part of the work force in the apparel sector, the loss of employment would hit women disproportionally higher. This situation is further aggravated by the fact that the playing field for India in international markets is not level on account of several factors mentioned above.

3.2 Other Main Support Schemes provided to the apparel sector by the Central Government and States

3.2.A Examples of the main support schemes for the apparel sector provided by the Central Government

Amended Technology Upgradation Fund Scheme (A-TUFS)

To boost employment generation in the textile sector the government provides an additional 10% 'Capital Investment Subsidy' for garments and 15% for made-ups. This subsidy is based on production and employment after a period of three years. Since its implementation, the scheme has generated 66,033 jobs, which amounted to INR 305.06 Cr in subsidy.

Pradhan Mantri Paridhan Rozgar Protsahan Yojna (PMPRPY)

Under PMPRPY the government has disbursed INR 10,38,60,414 till 02.01.2018. 661 units or establishments, and 1,57,389 workers have benefited from this scheme.

Rebate on State Levies (RoSL)

Of the INR 1555 Cr sanctioned to the Department of Revenue for disbursement under this scheme, INR 1540.92 Cr was spent till 30.12.2017. This is however not a subsidy as it is simply a refund of indirect taxes which is in any case allowed under the WTO.

Enhanced Duty Drawback coverage

Drawback at 'All Industries Rate' is given for domestic duty paid on inputs, even if fabrics are imported under the 'Advance Authorization Scheme'. Since the approval of the special package, apparel exports from India for the period July'16 to June'17 have increased by 7.3%. Similarly exports for made-ups increased 7% for the period of January-September 2017, (from INR 23198 to INR 24817). This is also not a subsidy.

Interest Rate Subvention

This scheme was implemented in 2015 for 3 years, and provided financial assistance to exporters, namely by subsidising interest rates on loans from banks for the purchase of raw material, processing goods and packaging. The scheme is available to all exports of MSMEs for 416 tariff lines (for 4 HS codes) including 94 textile and apparel lines.

As can be observed above, the major revenue outlay is for the WTO prohibited schemes such as the MEIS. While the total support schemes to this sector do not exceed around 6-7% of the total exports, more than 4 % of this total has been challenged under the WTO for being linked to exports. As shown by Annexes 5 and 6 of this paper, these subsidies would need to be replaced in the near future, particularly for the apparel sector. The challenge is to do it in a revenue neutral way (to the extent possible) and to improve the competitiveness of this sector at the same time.

3.2.b Subsidies to the Apparel sector provided by States

Several States provide comparable subsidies to the Apparel sector. We shows as illustration, the schemes provided by the Governments of Andhra Pradesh and Jharkhand in Annexes 2 and 3. Table 7 makes a comparative analysis of the different subsidies provided. Our recommendations in Chapter 6 inter alia take account of these schemes in a consideration of alternative subsidy schemes for providing support to the apparel sector as a whole.

Table 7: State Level Incentives to the Apparel Sector

	Andhra	Gujarat	Haryana	Jharkhand	Karnataka	Telangana
Interest rate subsidy	Yes	Yes	Yes	Yes	Yes	Yes
Capital subsidy	Yes		Yes	Yes	Yes	Yes
Electricity duty exemption/rebate	Yes	Yes	Yes	Yes	Yes	Yes
Payroll assistance		Yes (for expansion and new units)				
Remission/rebate on VAT	Yes			Yes		Yes
Refund/Exempt Stamp Duty / registration fee on purchase/leasing land	Yes		Yes	Yes	Yes	Yes
Enhanced availability of land parcels			Yes			
Development of special clusters			Yes	Yes	Yes	Yes
Marketing/branding support (clusters in particular)				Yes	Yes	Yes
Support for Textile/Garment Parks and Cluster	Yes	Yes	Yes	Yes		Yes
Emphasis on specific categories (women/SC/ST/handicapped persons)	Yes		Yes	Yes		Yes
Support for skill development	Yes	Yes	Yes	Yes	Yes	Yes
Support for Textile Training Centres /training	Yes	Yes	Yes	Yes	Yes	Yes
Reimburse/partially reimburse cost of product development in specified categories			Yes (technical textiles)	Yes (support for design centres)		

Subsidise retainer fee for designers	Yes		Yes (for khadi)		Yes	
Support for patent registration				Yes		
Support for working capital			Yes (for khadi)			Yes
Support for new/expansion/diversification of enterprise	Yes	Yes	Yes	Yes	Yes	Yes
Support for brownfield enterprise/cluster development			Yes - some support schemes	Yes	Yes	
Assistance for Technology Acquisition or Upgradation	Yes		Yes	Yes	Yes	Yes
Freight Assistance			Yes - for export units			Yes - for export units
Support for Integrated Textile Parks (SITP)	Yes	Yes	Yes	Yes	Yes	Yes
Support for industry workers' hostel / dormitories	Yes	Yes		Yes		Yes
Tapping public and private sector funds				Yes		
Support for energy and water saving processes	Yes		Yes	Yes	Yes	Yes
Support for meeting international quality and eco- standards			Yes	Yes	Yes	
Establishment of international quality testing centres			Yes	Yes		
Support for R&D / quality certification / testing and evaluation of textiles / technical service and consultancy			Yes	Yes	Yes	Yes
Fiscal support for recycling units			Yes			Yes
Support for common effluent units	Yes		Yes			Yes
Special Purpose Vehicles (State Governments / UTs / Industry Associations or Groups of Entrepreneurs			Yes	Yes	Yes	
Periodic Review of schemes				Yes	Yes	
Mandi Fees Exemption	Yes			Yes		
Export Subsidy				Yes		
Employment generation subsidy			Yes	Yes		Yes
EDC (External Development Charges) exemption			Yes			

Source: Schemes Announced by Various States in India

3.3a Problems in availing the subsidies

This section is based on meetings with apparel exporters in different parts of the country. A number of exporters are not aware of all the subsidy regimes that could benefit them. In some cases, they find it difficult to correctly fill the required information in the relevant form or inadvertently make an error when seeking access to financial support under a scheme. Some also said that the documents are too many and the processes are not easy. A number of exporters said that multiple windows had to be tapped for a single scheme. They prefer a single window for all the schemes, with an easier form and simpler information requirement.

Where refunds are involved such as the duty drawback or GST refund, the procedure can be long, tedious and expensive. Not only does this increase the costs for firms but also delays shipments or production. When it comes to GST, especially state GST, it takes time to verify the Export General Manifest (EGM) details and requires continuous follow up. There are delays in getting new licenses as the process involved in closure of EPCG/Advanced licensing after submitting the Export Obligation Discharge Certificate (EODC) is slow. Another problem faced is the administrative costs, which gets augmented by the inability of the producer/exporter being able to manage the process digitally. Furthermore, even when documents are submitted digitally, authorities often insist on physical verification of the submitted documents.

In addition, if an error is made while filling in the form, it is not easy to correct the error. This process gets complicated also because of a lack of consistent database with the various authorities involved in the process of rebate, refund, or other specific forms of financial support available to exporters.

Due to a lack of an efficient and coherent procedure, firms hire agents to assist them in a process which policy has aimed to simplify for the exporters. This adds to their costs and several in the industry mentioned that these additional costs constitute about 2-3% of the value of the subsidy/refund. For example, a small-scale firm reported that there is an in-built cost of 3% of the benefit to get GST refund. This leads to a blockage in capital.

Several exporters felt that regional meetings should be held every six months to resolve problems and issues related to EXIM procedures, refunds, interpretation of rules and laws, as well as delays in refunds and licences.

3.3b Other areas of concern highlighted by exporters

The inefficiency of the logistical process also delays effective access to some refund or subsidy schemes. Along with administrative difficulties, the inefficiency of the transportation systems results in logistical concerns. For example, restrictive policies like 'no-entry' for trucks during certain times of the day cause delays in port deliveries. Tedious paperwork and third-party officials at ports increase the cost burden for the firms. At airports, there are delays in transporting shipments due to higher priority given to passenger planes. Railway transportation is the cheapest option, but has similar problems to airplane transportation, as priority is given to passenger trains, instead of trains with cargo. Relevant documents for transportation take a long time to clear and there are extremely long queues of trucks at ports, sometimes as long as 10km at ports.

The firms emphasised that sample development, i.e. product development, is an essential and significant part of their costs. [30]

[30] A recent Report to the Indian Ministry of Textiles by the Indian Institute of Foreign Trade has emphasised the importance of product development for India's textiles and apparel exports. It also mentions the significance of another linked aspect, namely, absence of versatility in Indian fabrics. See page 87 of IIFT, 2018, ""Challenges and Strategies to Promote India as a Sourcing Destination. A Report Submitted to Ministry of Textiles, Government of India".
Web-link at:

This process is necessary for building their market presence and reputation to sustain quality-linked export demand. Repeated product development is required with considerable technical and design inputs to develop interest amongst the buyers in the export markets. Product development thus has aspects of R&D, though with a smaller technical content than conventional scientific research. As shown in the following chapters of this Report, some countries such as China recognised the significance of this activity and specifically established financial support schemes for assisting with design and product development for the apparel sector. A similar approach could also be taken for India to build the potential for achieving sustained market growth leading to enhanced exports.

To mitigate the impact of logistics costs and procedural delays, as well as the significance of product development, this Report has suggested some support mechanisms in Chapter 6, which can be used for addressing these areas of concern.

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http://texmin.nic.in/sites/default/files/IIFT%27s%20-%20Textile%20Project%20Report%2020th%20March%20%281%29.pdf

4. Subsidies provided by Bangladesh, China and Vietnam

Bangladesh, China and Vietnam support their apparel industries through a variety of financial support programmes. In general, these subsidies aim to achieve the national objectives that are emphasised as part of the development policy of the country. These objectives include, for example, increasing employment opportunities, encouraging large scale of operations/investment, dispersion of the industry to disadvantaged regions or regions which need higher employment opportunities, incentivising large-scale investment and modernization, improving cost advantage for domestic producers/exporters, and incentivising domestic supply chain development.

4.1 Brief comparison of forms of subsidies with India

Before examining the details of subsidies provided by other countries it would be instructive to look briefly at the subsidies provided by its main competitors in comparison to those provided by India.

Table 8. Examples of Incentives Provided To Apparel By Bangladesh, China and Vietnam

Exemption / Reduced Rate of Corporate Income Tax	Land Price reduced for investors	Duty free equipment, capital and construction material
Cheap infrastructure (factory, waste treatment)	Cheap Power supply	Duty free raw materials
Income Tax reduced for expatriates/technical experts	Incentives for Building Global Brands	Incentives for R&D
Land duty and stamp duty exempted/reduced	Incentives for upgrading technology	Fund for promoting trade
Lower rate of interest on loans	Support for training, housing of workers	Simplified VAT regime and large extent of VAT refund

Table 9: Comparative Subsidy Policy of India in Comparison to Competing economies

	India	Bangladesh	Vietnam	China
Incentives are specified by the Central Government	Yes	Yes	Yes	Yes
Additional incentives <u>negotiated</u> with Provinces	No (Support by Provinces are transparently available)	No	**Yes**	**Yes**
ACTUAL SUBSIDIES ARE HIGHER THAN REPORTED IN STUDIES	No	Not likely	**Yes, possibly**	**Yes, possibly**

<u>Source:</u> Field Missions of IKDHVAJ

<u>Note:</u> In the WTO, the United States has mentioned in its comments on China's subsidies that state-owned banks' lending is also a source of subsidies for firms supported in China. These subsidies are often non-transparent.

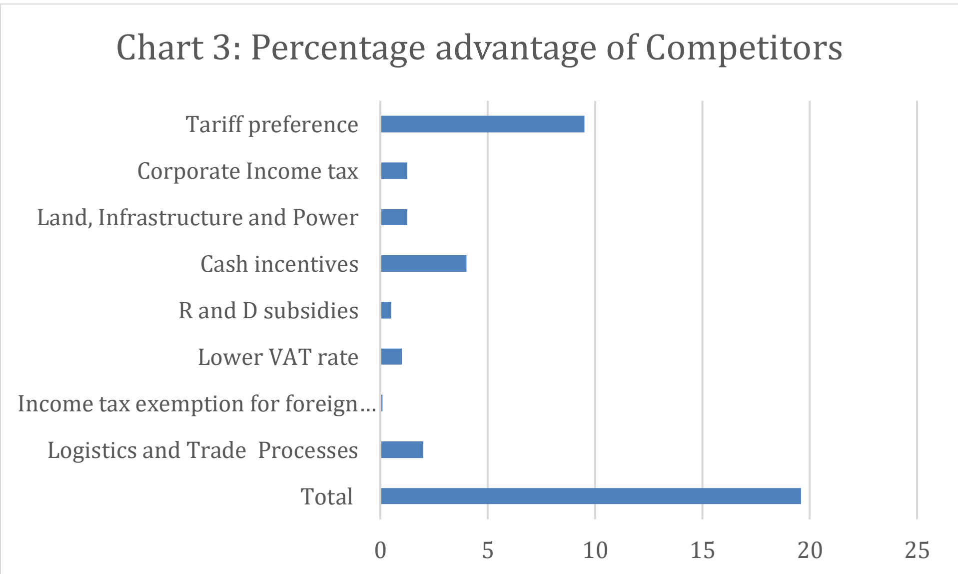
Compared to India, the subsidies provided by Bangladesh, China and Vietnam include a substantial reduction or even exemption of the statutory income tax for specific sectors or location. This is normally available to new investment, or investment that is made subject to some specified conditions. In addition, these three countries facilitate the remission or exemption of indirect taxes, including import tax and VAT, and have schemes that reduce costs and help with training and technological upgradation. In the case of both China and Vietnam, their Provinces play a significant role in determining and providing financial and other support to the industry. The final decisions reached in the case of Provincial or local subsidies may be company specific and not entirely transparent. Nonetheless, there is considerable information available to show the types of subsidies provided to the apparel sector by these countries.

Table 10 : Comparison of India and Competing Economies: Provision of WTO Prohibited Subsidies

	India	Bangladesh	Vietnam	China
Export Subsidies Are Provided	Not from 2019 (In general, after WTO case is decided)	**Yes**	**Possibly** (Difficult to know result of negotiations with Government)	**Possibly** (Difficult to know result of negotiations with Government)
"Local content" oriented subsidies are provided	**No**	**Yes**	**Possibly** (Difficult to know result of negotiations with Government)	**Possibly** (Difficult to know result of negotiations with Government)

Source : Field Missions of IKDHVAJ

To provide a composite picture of the approximate disadvantage to India because of the subsidies provided by comparator countries and preferential tariffs faced by their exports, Chart 3 shows that India has a relative competitive disadvantage of up to 17 to 19%.



Note: These calculations are based on the gap between the maximum subsidy provided by a key competitor country or largest tariff advantage of the comparator countries and India.

Keeping in mind this overall picture, it would be useful to look at the subsidy policies followed by other countries before designing India's policies.

4.2 Bangladesh

The national objectives emphasised by Bangladesh include exports, jobs, domestic value chain enhancement, and technological upgradation for productivity enhancement. In addition, support is provided for meeting relevant standards required by major markets and building strategic activities important for the development of the nation.

The garments export sector contributes between 82-84% of the country's foreign exchange and is thus treated as a priority sector. The garment exporters' lobbies—BGMEA and the BKMEA—are extremely influential with the government and have generally been able to shape the policies of the government to their advantage. The main problem faced by the industry today is the infrastructural bottleneck at Chittagong port and the poor quality of roads in general.

After the fire disaster in Rana Plaza in 2013, Bangladesh embarked on a rigorous inspection of all garment factories. The inspections are carried out mainly by the inspectors of the Accord on Fire and Building Safety in Bangladesh (henceforth "ACCORD", which has more than 200 buyers from Europe, North America, Asia and Australia as its members) or the Alliance for Bangladesh Worker Safety (henceforth "ALLIANCE", which has 17 major US buyers as its members). While this has entailed considerable expenditure contributed to mainly by the buyers collectively, the remediation compliance rate is respectively 83% and 88% for ACCORD and ALLIANCE, clearly indicating that it remains a focus for policy makers and producers. The Bangladesh government supported by the ILO has taken a third initiative to inspect all the remaining factories not covered by either ACCORD or ALLIANCE inspections, called the National Initiative.

The government has focused on attracting foreign investment in the garments sector, with incentives that favour large scale of production, movement to dis-advantaged regions, and development of local value-added and value chains. It has provided incentives for producers in its EPZs (export processing zones) and SEZs (special economic zones). For example, a Korean company called Youngone has been given permission to set up a composite EPZ in Chittagong spread over 2492 acres, which will house textiles, garments, leather, pharma, IT and a few other industries. However, only 880 acres of this complex is available for manufacturing. Because the mutation of land to the EPZ is pending, only the promoters Youngone have been able to invest in the KEPZ so far and have set up a few factories dedicated to making sportswear, winter outerwear and shoes. Investments from Bangladesh and foreign investors in the KEPZ are on hold till the mutation issue is sorted out. In contrast, a Chinese developer has been allotted land near Chittagong for setting up an SEZ and apparently land has already been sub-allotted to about 200 Chinese factories in the SEZ.

More than 90% of knit fabrics used in the hosiery, casual and sportswear segments, as well as 95% of the accessories used in garments are made in Bangladesh. About 35-40% of the woven fabrics are also sourced from Bangladesh. Thus, the import dependence of Bangladesh garment exporters on foreign fabric manufacturers is going down with each passing year. The Corporate Income Tax rates for the garments sector is proposed to be 15% in this year's budget (subject to the exception provided to the benefits enjoyed by EPZ and SEZ exporters). For green apparel, this rate would be 14%. Bangladesh also intends to have a flat rate of around 9% for all capital and working capital loans for all export-oriented sectors.[31]

[31] It is noteworthy that under Articles 27.5 and 27.6 of ASCM, export subsidies to Bangladesh apparel should also be removed eight years after the threshold level of 3.25% for two consecutive years has been crossed. However, as yet there is no focus within WTO on Bangladesh in this regard.

Most of the subsidy regime to achieve these objectives is oriented towards enterprises under the Free Trade Zone Regime, which is the mainstay of Bangladesh's export and investment promotion strategy. This regime provides specified incentives to those who are eligible to participate in the zones. Companies may apply for the Free Trade Zone (FTZ) Regime if they are manufacturers/exporters, export services company (50% of services must be exported), strategic sectors or companies; outside the Greater Metropolitan Area, significant domestic suppliers which have at least 40% of their sales to FTZ companies, and scientific research firms (either companies or organizations). Thus, it is noteworthy that the FTZ Regime is not limited to a specific geographical region as such but also includes activities and producers that are in strategic sectors or are major suppliers to the enterprises under the FTZs. Significantly, this aspect of the incentive system is similar to that established by Costa Rica when it initiated the process of replacing its export subsidies in 2006 (see the discussion below).

The general export-oriented incentives available to the garments industry include[32]:

(a) 3% fob value of exports to new markets (any market except the EU, US and Canada)
(b) 3% fob value of exports of new products (reportedly slightly difficult to access)
(c 4% fob value of deemed exports of domestically produced fabrics to garment exporters (in lieu of inputs subject to customs tariff and excise duty)

Table 11 shows the main incentives provided by Bangladesh to its investors or users of Economic Zones, and some to the Developers of these Zones.[33] These support schemes include exemption/reduction of corporate income tax (it is noteworthy that the statutory corporate income tax is low at 15%), exemption of custom duty and exemption/reduction of VAT, rebate on stamp duty and registration on land, rebate on income tax of expatriates for 5 years, tax rebate for exporters sourcing fabric locally[34], and tax exemption on capital gains. In addition to these policies, Bangladesh focuses on facilitating investment and operations of the investors.

[32] Though Bangladesh provides export subsidies despite its share in global trade for apparel exceeding the WTO threshold of 3.25% for two consecutive years, this has not been a focus of attention in WTO.

[33]Different incentives are in place for "Developers" and "Investors/EZ Users". See for example, http://www.beza.gov.bd/wp-content/uploads/2017/11/Incentives-and-Benefits-for-Developers-Investors-and-EZ-users-V3.pdf

[34] This appears to be inconsistent with Article 3.1(b) of ASCM, which prohibit local content subsidy.

Table 11 Bangladesh Support Schemes.

TAX HOLIDAY	For all Economic Zones Income Tax Holiday (ITH)- 1st and 2nd year 100%, 3rd year 80%, 4th yr 70%, 5th yr 60%,6th yr 50%, 7th yr 40%, 8th yr 30%, 9th yr 20% and 10th yr year 10%.
TAX HOLIDAY	Income tax exemption on income derived from the business development of EZ in a block of 10 years in 15 years. After expiry of 10th year the tax exemption will be 70% in 11th year and 30% in 12th year. But the tax exemption will not be applicable from 13th year.
CORPORATE TAX RATE	Budget 2017-18 has established: • Corporate tax of 15% for the sector. • Corporate tax of 14% for green garment factories (those contributing in saving energy, water and environment).
INCOME TAX - OTHER EXEMPTIONS	• Exemption from dividend tax (After tax holiday is over). • Accelerated depreciation on machinery or plant allowed • Exemption of income tax on service charges • 50% Rebate of income tax on salary income of expatriates for 5 years. • Tax exemption on capital gain.
REPATRIATION	Full repatriation of capital and dividend.
CASH SUBSIDY	15% cash subsidy of fabric cost to exporters sourcing fabrics locally.
CUSTOM DUTY	• Duty free import of raw materials, construction materials, capital machineries, spare parts, finished goods. • Duty free export
VAT ON ELECTRICITY	Exemption of VAT on electricity or taxes on sale, of self-generated or purchased electric power for use of processing area of EZ (for 10 years).
VAT	80% exemption of VAT on all utility services consumed inside the zone.
VAT ON LOCAL PURCHASE	All purchase excluding petroleum product from Domestic Tariff Area (DTA) shall be exempted from VAT, sales tax etc.
STAMP DUTY	50% exemption of stamp duty and registration fees for registration of leasehold land/ factory space. • Exemption of stamp duty and registration fees for registration of EZ land but limited to first transaction only (for Developers). • Exemption of stamp duty for registration of

	loan/credit document (for Developers).
BACKWARD LINKAGE	100% backward linkage raw-materials and accessories to sell for export-oriented industries (EOI) in Domestic Tariff Area (DTA).
LOCAL SALE	20% sale of finished product to DTA (From Export Processing Area – EPA).
SUB- CONTRACTING	Sub-contracting with DTA allowed.

Source: http://bida.gov.bd/incentives

4.3 China[35]

The Chinese apparel industry has evolved in a major way over time, with a rise in private sector shares and a decline in the share of public sector enterprises in investment, production or exports. An interesting feature of China's Five-Year Plans is that they provide a major thrust and direction for this sector in such a way that even without major public-sector participation, support programmes for the sector continue (see for example Annex 4 of this paper, which shows the national objectives for the sector).

China has emphasised the apparel sector for employment, domestic value chain and export growth for over three decades. Support to apparel is provided both by the central government as well as the provincial or local government, sometimes with an overlap.

Such support is provided by policies specific to the sector, or by policies that are aimed at broader objectives, at times not directly connected to the sector. For instance, subsidies provided for employment of migrants from rural areas may not be directly connected with textiles and apparel, but these sectors are an obvious choice because of their low training requirement and relatively high employment per unit investment. Likewise, subsidies provided to high technology industries, energy-saving or environmental protection projects and subsidies to the infrastructure sector also benefit, inter alia, the apparel sector.

Thus, the apparel sector is a significant recipient of subsidies that aim at employment, regional development and building domestic value chains. Certain categories of apparel are part of the encouraged industries under the national Catalogue of Industries for Guiding Foreign Investment.[36] They are also emphasised in a much more comprehensive way for regional focus, for instance under the Catalogue of Priority Industries for Foreign Investments in the Central and Western Region.[37] Furthermore, China's 13th Five Year Plan mentions textiles as one of sectors to promote, as a global industry in particular, using the Belt and Road initiative. Foreign

investment projects enjoy several incentives, including duty exemption for import of equipment, preferential corporate income tax, and priority land supply at cheaper prices.[38] Therefore, while at present major national emphasis has shifted away from the apparel sector, in effect there is still considerable importance given to it under support programmes by various levels of Government schemes.

[35] For the work on China, this study has benefitted greatly from discussions with and inputs provided by Roy Malmrose, Director, Industrial Subsidy Policy, USTR. These inputs include translations of Chinese policy documents and detailed identification/assessments of Chines subsidies.

[36] http://www.fdi.gov.cn/1800000121_39_4851_0_7.html

[37] https://www.ey.com/Publication/vwLUAssets/EY-ctin-2017002-en/$FILE/EY-ctin-2017002-en.pdf

[38] See for example, Table A3.3 of https://www.wto.org/english/tratop_e/tpr_e/s375_e.pdf; https://www.lehmanbrown.com/insights-newsletter/direct-foreign-investment-china-current-regulations-incentives-according-2017-catalogue/ ; and http://en.silkroad.news.cn/app/system/download/pdf?contentid=81117

The content and extent of subsidies provided to the apparel sector in China has evolved over time as the focus of national objectives has changed. For instance, support now is more focused on upgrading technology and meeting environmental objectives, in comparison to the earlier policies which were directed more towards growth and exports of apparel.[39] China is now focusing on the use of high technology and industrial fabrics, and much of its support policies are discussed within the context of its 'Make in China 2025' Plan, which is oriented towards introducing high technological capabilities and production.[40] Many such policies are not at present relevant for India. In contrast, the policies used by China earlier when it was focusing on the growth of its domestic production and exports of apparel would be more relevant, to learn the types of support which may be more pertinent to the present Indian situation.

The transition and transformation of the apparel sector in China began around 1980. The sector continued to expand significantly since the 1990s. From 2000 to 2015, the focus was on value addition and brand promotion as a strategy to increase both domestic production and exports. The recent shift in focus is towards using and improving new technologies that are a priority thrust under the 'Make in China 2025' policy initiative. The current support to apparel, as well as the previous policies are discussed below, because both these sets of policies can provide insights for support systems relevant for India.

Key Tasks emphasised in China's Development Plan for the Textile Industry 2016-2020 (which covers apparel as well): China has produced a detailed plan for the textile industry under its 13th Five Year Plan (2016-2020), which provides an understanding of the planned direction of growth for the sector, and the nature of support policies that would underpin that growth. The key tasks emphasised in this plan are:

1. ***Enhance industry innovation capacity by:***
   - Accelerating development of scientific and technological innovation system
   - Strengthening critical technology breakthroughs in the industry
   - Spurring model innovation in the textile industry
2. ***Optimizing the product supply structure by:***
   - Improving capacity to safeguard quality
   - Improving textile industry standards system
   - Intensively advancing brand building
3. ***Advance Smart Manufacturing by:***
   - Developing automated, digital, and smart textile equipment
   - Advancing construction of smart factories and workshops
   - Cultivating and developing large-scale, personalized made-to-order systems
4. ***Accelerate progress in green product development by:***
   - Strengthening fundamental management of green textile manufacturing
   - Developing and popularizing advanced green manufacturing technologies
   - Accelerating the construction of green manufacturing systems
5. ***Promote regional, coordinated development by:***
   - Utilizing the eastern region's role as industry leader

[39] For example, the Central Government's "Circular on Relevant Policies to Promote Chines Textiles Industry to Shift to New Ways of Growth in Foreign Trade and Support Chinese Textile Enterprises to Go Global". See also pages 5-11, and 29-34 of Trade Lawyers Advisory Group, 2007, "China's Support Programmes for Selected Industries: Textiles and Clothing".

[40] For instance, the key fields that are a focus of China's Development Plan for the Textile Industry (20016-2020) are to strengthen innovative development capacity of chemical fiber industry, expand application of industrial-use textiles, increase level of natural-fiber development and utilization, promote model innovation in apparel and household textiles industries, and increase quality of high-end mechanical textile manufacturing.

- Supporting textile industry development in the central and western regions
- Enhancing internationally oriented development of textiles
- Propelling optimization and upgrading of industry clusters

6. ***Increase the overall strength of enterprises by:***
    - Accelerating enterprise technological renovation
    - Promoting coordinated development of large, medium-sized, and small enterprises
    - Developing service-oriented manufacturing
    - Strengthening enterprise management innovations

The use of certain terms in the plan, such as "support", "promote", and "strengthen" suggest that active support (including financial support) is provided by the government for many of these activities. Annex 4 reproduces the section on "Policy Measures" in China's Development Plan for Textile Industry.

The plan shows that China focuses on:

- Improving the efficiency of policies and processes
- Reducing fees and charges
- Reducing the costs imposed by government policy
- Providing fiscal and financial support (for more details, see for example point number (2) in section A of Annex 4 to this paper
- Brand development
- Cluster development
- Moving investment to western and central regions
- Upgrading technological capabilities
- Improving links to foreign markets and value chains
- Strengthening the system which provides financial support
- Synergising different activities in the production chain
- Upgrading institutions that enrich knowledge and provide information as well as other support to the industry
- Improving skills and training facilities, and importantly use key stakeholders such as central, regional and local authorities as well as industry associations to take the process forward in a coherent manner.

China provides (or has provided in the recent past) various subsidies to the apparel sector through central government, regional, provincial, or local level government policies.[41] These subsidies include:

- Export Buyers' credit, i.e. credit is provided to importers of Chinese products
- Government provision of inputs at low cost including certain raw materials and electricity
- Tax benefits subject to specified criteria (e.g. if domestic equipment is purchased, or for import of key spare parts)
- Export assistance grants under policies to establish famous or global brands
- Direct trading and government concessions
- Concessions on import tariff or VAT encouragement to favoured industries, of which apparel is one in certain parts of China; earlier, China apparel was emphasised over a wider geographical region in China
- Export credit assistance
- Investment subsidies
- Interest rate discount
- R&D subsidies
- Income tax exemption or rebate
- Tax deductions for raw material, for advertising and for technological development,
- Financial support to develop famous or global level brands, particularly in technological upgrading and restructuring of enterprise
- Preferential rents

[41] A cross regional perspective of support to apparel is found for example in China's 13th Five Year Plan which mentions textiles as one of sectors to promote going global in particular using the Belt and Road initiative.

- A waiver of land leasing fee for large investment projects (in some cases, constructed factories are provided at preferential prices)
- Cheaper electricity rates
- Demonstration bases which provide common service platform
- Financial support for investment
- Financial support for trade promotion, overseas investment and operations.[42]

China has industrial zones or parks which provide specified incentives to investors. For textiles and apparel, such incentives have become much less prominent, though a number of provinces or districts still provide specific subsidies to support this sector.[43] Significantly, at the WTO, the United States has contended that while the Chinese government has removed centrally operated export subsidy schemes, the US has received information that a number of provinces are continuing to provide similar subsidies.

The standard Corporate Income Tax (CIT) rate in China is 25%. Lower rates apply for certain categories of activities such as small and medium scale enterprises (10 to 15% linked to specified conditions), 15% for encouraged industries (which include apparel as discussed above)[44], 15% for new or high technology enterprises plus 50% super deduction for qualifying R&D expenditure[45], and certain advanced technology enterprises performing outsourcing services.[46]

CIT on only 90% of income is applied for enterprises that use State specified major raw materials as resources for the production of non-restricted and non-prohibited items. Likewise, firms which invest in plants and machinery for State specific environmental protection, energy and water conservation and production safety purposes can offset taxable income equivalent to 10 percent of equipment investment.[47]

Like most other developing exporting countries that encourage investment and exports, China has long relied substantially on providing CIT exemption/remission (see for example Table 12 below for the policy during the previous decade).

[42] For examples of support for overseas investment and operations, see page 8 of Trade Lawyers Advisory Group, 2007, "China's Support Programmes for Selected Industries: Textiles and Clothing". https://www.uscc.gov/sites/default/files/Research/TLAG%20Report%20-%20China%27s%20Support%20Program%20for%20Textiles%20and%20Apparel.pdf

[43] For example, support schemes in Xinjiang province and Hebei province benefit the textiles and apparel sector. For other illustrations of province level policies, see also, paragraph 116, 157 and 158 of the Minutes of the 24th October 2017 meeting of the WTO Committee on Subsidies and Countervailing Measures, WTO Document G/SCM/M/103, dated 23 January 2018. https://docs.wto.org/dol2fe/Pages/FE_Search/FE_S_S009-DP.aspx?language=E&CatalogueIdList=247380,247381,241717,241617,238057,238041,233838,233839,230431,230450&CurrentCatalogueIdIndex=2&FullTextHash=&HasEnglishRecord=True&HasFrenchRecord=False&HasSpanishRecord=False

[44] For instance, as part of encouraged enterprises, apparel has a preferential CIT rate of 15% from 2011 to 2020 in the Western Regions.

[45] See for example, some recent policies which expand upon the previous super deduction benefits: https://www.pwchk.com/en/china-tax-news/2018q2/chinatax-news-may2018-12.pdf . Parts of China's Development Plan for Textiles Industry 2016-2020 suggest that certain segments of this industry too could benefit from such R&D super deduction incentives.

[46] See https://www2.deloitte.com/content/dam/Deloitte/global/Documents/Tax/dttl-tax-chinahighlights-2018.pdf?nc=1

[47] https://www.lehmanbrown.com/insights-newsletter/direct-foreign-investment-china-current-regulations-incentives-according-2017-catalogue/

Table 12: Income Tax Exemption/Rebate Programmes Notified By China[48]

Income Tax Policy	Period and Rate of Tax Rebate
Exemption of Income Tax	For 2 years from the first profit making year
Reduced Rate of Income Tax	50% for next three years
Additional Tax Incentives – 1	Refund of 40% of income tax paid on reinvestment of registering capital increase or for new enterprise, operating for at least five years.
Additional Tax Incentives – 2	Full refund of income tax paid on the re-investment in China for organisation and expansion of export-oriented enterprises or advanced technology enterprises
Additional Tax Incentives – 3	Reduced income tax rate of 10% for the royalty received for the supply of technical know-how in scientific research and the development of important technologies.

Source: GATT Document G/SCM/N/123/CHN, 13 April, 2006. For more detail, see pages 23-34 in Trade Lawyers Advisory Group, 2007, "China's Support Programmes for Selected Industries: Textiles and Clothing".

[48] Applicable to Foreign-Invested Enterprises in the Textiles and Apparel Industry, scheduled to operate for ten years from the first year of profit-making.
https://www.uscc.gov/sites/default/files/Research/TLAG%20Report%20-%20China%27s%20Support%20Program%20for%20Textiles%20and%20Apparel.pdf

The lower rates for Corporate Income Tax exemption/rebate policies have evolved over time. They differ for sectors and regions and thus the benefits of exemption or reduction of CIT for apparel depends on the specific schemes in operation. In recent times, preferential CIT rates for foreign investment in apparel are applied in certain regions. For example, for underprivileged areas of Xinjiang the encouraged enterprises are exempted CIT for two years from their first income generating year and then provided a 50% tax reduction for 3 years. Likewise, CIT benefits for environmental projects of foreign investment enterprises comprise an exemption of CIT for 3 years from the first income generating year and 50% rebate for 3 years after that.[49]

To provide financial support in the many ways enumerated above, China has used a whole range of Funds specifically established for subsidy schemes at present or earlier. These include, for example:

- Funds for promoting light industry and textiles
- An incentive Fund to export textile products with self-owned brands[50]
- An incentive Fund to measure and test systems of enterprises
- An incentive Fund for key enterprises to enhance the overall competitiveness,
- A Special Fund for the development of circular economy
- A Special Fund for the training of migration and employment of rural labour force
- A Support Fund for corporate financing
- Subsidies for intermediary services for enterprise mergers and acquisitions (M&As),
- A Fund for the development of outward-oriented private enterprises
- Incentives for enterprise innovation and R&D
- Fund to encourage enterprises to participate in setting standards
- Support Funds for equity pledge loans (to encourage the innovation of enterprises)
- Special Fund for technical development (to encourage enterprises in technology research and development)
- Fund for technological centers of enterprises
- A Special Fund for renewable energy resources
- A Special Fund for energy conservation
- A Supporting Fund for enterprises (to accelerate the transformation and upgrading of companies)
- An Incentive Fund for products with trademark or patent
- A Development Fund for SMEs
- An Incentive Fund for the establishment of trading companies overseas[51],
- Government subsidies for enterprises participating in trade exhibitions
- Special Funds for the development of foreign trade and economic cooperation
- Support Funds for the development of foreign trade
- A Fund to subsidize interest loans for the "Five Points and One Line" Coastal Economic Belt Park (to speed up construction of the parks at "five points and one line" coastal economic belt)[52]
- The Northeast Old Industrial Base Foreign Trade Development Fund in Liaoning

[49]https://www.lehmanbrown.com/insights-newsletter/direct-foreign-investment-china-current-regulations-incentives-according-2017-catalogue/

[50] Support fund not higher than 50% of actual investment for individual projects; support fund not higher than RMB 1 million for industrial public technology platform projects.

[51] Support 50% of the actual start-up costs (including attorney fees, rents of business premises and registration costs) incurred within one year after the enterprise received the Certificate of overseas Investment issued by the Ministry of Commerce, and the maximum support limit for each project was RMB 50,000.

[52] A special focus under this initiative was on (apparel would qualify for some of these): (1) Investment projects of global 500 enterprises, internationally renowned enterprises and central enterprises; (2) projects of leading and backbone enterprises that formed industrial clusters; (3) projects with major contributions to employment and high tax payments; (4) projects with low pollution and low energy consumption; (5) water supply, sewage treatment and other supporting projects for the market oriented operation within the zones.

Province (to accelerate the development of export-oriented economy in Liaoning).

Other examples of Funds for providing subsidies can be found for instance in Tables 3.13 and A3.3 of the WTO Secretariat Report for the Trade Policy Review of China in 2018.[53]

An example of support for product development with a prominent role of industry associations that could be relevant to India: In 2006, China established a scheme to fund textile products based on technology service platforms for the textile industry, i.e. 'Notice on the Application for the Trade Promotion Fund for Agriculture, Light Industry and Textile Products'.[54] The platform was jointly or individually run by industry associations or companies and served export-oriented textile companies to provide technology and equipment required in R&D, product design, quality control and product testing.

If this scheme is de-linked from export-orientation and converted into a platform for product development and testing for textile and apparel sector, it would become a WTO consistent policy. Such a policy in India could focus on product development, quality control and product testing, similar to the policy earlier announced by China. This initiative recognises the key role of product development for textiles and apparel and emphasises the need to support such a development activity for reasons similar to conventional scientific Research and Development.

In this context, it is noteworthy that though India is focusing on the development of brands, an additional significant process relates to "product development" which is essential to establish a reputation for both good quality Indian products and designs. For apparel, it is crucial to encourage product development to facilitate competing in global markets.

4.4 Vietnam

Vietnam's major incentives are focused on investment promotion. According to Vietnam's law on investment, and Decree 118/2015/ND-CP which guides the implementation of the law, their investment incentives are broadly as follows:

Forms of incentives:

a) A lower rate of corporate income tax is applied for either a certain period of time or throughout the project life
b) Exemption of corporate income tax for specified period
c) Exemption of import tax on goods imported to create fixed assets, raw materials, supplies, and parts used to implement for the project;
d) Exemption or reduction of land rents, land levy.
e) Other incentives for reducing costs of inputs, training and technology development.

Investment incentives are given to:

Investment projects in the business lines specified as encouraged industry

(a) Investment projects in geographical areas of investment incentives, including
  - Areas with difficult socio-economic conditions;
  - Areas with especially difficult socio-economic conditions;
  - Industrial zones, export-processing zones, hi-tech zones and economic zones.

(b) Investment projects with investment capital of at least VND 6,000 bn, with at least VND 6,000 bn disbursed within 3 years from the date of issuance of Investment Registration Certificate or Decision on investment policies

(c) Investment projects in rural areas that employ at least 500 workers

[53] https://www.wto.org/english/tratop_e/tpr_e/s375_e.pdf

[54] For some more detail on the central and provincial government Notices regarding this policy, see Section IX of WTO Document G/SCM/Q2/CHN/51, dated 21 October 2014.

(d) High-tech companies, science and technology companies, and science and technology organizations.

At present, Vietnam does not focus on apparel in general through incentives. However, they have begun to emphasise higher domestic value added for textiles, based within a plan for textiles till 2020 and vision till 2030.

The incentives for the apparel sector are provided to investors, primarily based on two criteria:

(1) Incentives specified by the central government for FDI, also available to domestic investors.
(2) Additional incentives provided by provincial governments or zonal authorities that are agreed upon with specific enterprises based on negotiations between the enterprises and the government/authorities.

In addition to the incentive provided by the specified framework of investment incentives, the negotiated incentives can include cheaper power, transport and financial assistance in building housing for workers. The actual level of support depends on a combination of these two and may differ between regions and enterprises. Therefore, it is extremely difficult to know the actual level of support, because that depends on the result of negotiations. Thus, the total support could be larger than the framework of incentives specified by the central government.

Incentives provided by the central government combine two aspects[55]:

(a) The specified incentives that are provided under the announced policy.

(b) The criteria based on which these incentives are provided (see below).

The main form of incentive is provided through preferential corporate income tax (CIT) rates.

Specific Incentives relating to Corporate Income Tax (CIT)

The Standard rate (CIT) is **20%** as from 1/1/2016 (reduced from previous rate of 22%). The preferential rates and applicable periods relevant for preferred rates vary. For example:
17% as from 1/1/2016 (reduced from previous rate of 20%):

- **For the first 10 years**: for areas with socio-economic difficulties; and for production of feed for poultry, livestock and fisheries; agricultural machinery, energy–saving products, high-grade steel; traditional trades
- **For the entire operation period**:

(i)enterprises with aggregate revenues of less than VND 20 billion (1 mil USD); (ii) income of people's credit fund & micro-finance institutions

(e) **10%**:
- **For the first 15 years**: valid in areas with special socio-economic difficulties, economic zones and high-tech zones, for activities such as: hi-tech, R&D, software, especially important infrastructures, environmental protection, large-scale manufacturers.
- **For the entire operation period**: valid for socialisation sectors (education, training, health care, culture, sports and environment…), agriculture, social residential housing development etc.

(f) CIT exemption up to 4 years and CIT reduction of 50% up to 9 years (applicable for new investment by industries that enjoy the incentive rate of 10% CIT)

(g) Tax exemption for 4 years, reduction of 50% for the next 5 years for new investment projects in the field of socialisation in areas not in the list of difficult or extremely difficult socio-economic conditions

(h) Tax exemption for 2 years, reduction of 50% for the next 4 years for new investment projects in industrial parks (not located in the areas with

[55] The recommendations made in this paper will follow a similar framework as guideline.

advantageous socio-economic conditions);

(i) CIT exemption for incomes generated from 11 eligible activities (e.g. agriculture, technology transfer, education & training, and R&D)

(j) CIT incentive for investment expansion (conditions apply)

Further, financial incentives are provided to high priority products for development include those which support the textile and garments sector. Supporting industries are defined as industries that manufacture for the priority industries, materials, accessories, components and spare parts used for assembling goods assembling or manufacturing finished products.[56] Supporting industry development programs covers a combination of contents and tasks of supporting industry and assistance activities in order to develop the manufacture of supporting industry products. A wide range of activities of supporting industries are eligible for financial support, including:

- activities to assist state management agencies, organizations and individuals in supporting industry,
- human resource training,
- research and development,
- supporting the transfer of technologies to manufacture supporting industry products,
- international cooperation,
- market development
- investment in projects to manufacture supporting industry products and,
- provision of supporting industry services.

Thus, the apparel sector of Vietnam benefits through incentive schemes for investment located in designated locations, large scale manufacture, small scale enterprise with aggregate revenues less than US 1 million, investment expansion, and incentives for supporting industries. These incentive schemes are periodically revised, and are linked for example to location, sector, scale of enterprise, and level of investment.[57]

Other forms of subsidies include:

(a) Import duty exemption for:

- Machines, materials, special transport means imported to create fixed properties of investment incentive projects.
- Materials which are not locally produced.
- Commodities and devices that are imported for the first time for projects such as hotels, offices, apartments, supermarkets, golf course, resorts, clinics, training, culture, finance (regulated in the list specified by the government).
- Raw materials, other materials, components of projects enjoying investment incentives or areas with especially socio-economic difficulties are exempted from import tax for 5 years.
- Exemption of VAT on imported inputs for specified time periods provided exports using those inputs can take place within that time period
- Import tax incentives too are linked to the level of investment, location of investment or the employment level of projects.[58]

[56] See Government of Vietnam's Decree No. 111/2015/ND-CP, dated 3rd November 2015.

[57] See Article 4 of Circular 83 for more detail, i.e. Circular No. 83/2016/TT-BTC of June 17, 2016

[58] See for example Article 5 of Circular 83 (Circular No. 83/2016/TT-BTC of June 17, 2016). Examples include: "Investment projects located within rural areas that hire at least 500 employees (excluding those who are not working full time and those who sign under-12-month employment contracts). a) shall be entitled to import tax incentives which are the same as those applied to investment projects located within areas faced with economic – social difficulty in accordance with Clause 2 of this Article. b) Investment projects hiring at least 500 employees, and located within rural and non-rural areas shall, subject to the number of employees working at each project site or work section in rural areas (exclusive of the number of employees at the project site or section located within non-rural areas, be granted respective import tax incentives."

Land Rents are also exempted as shown below:

Table 13: Land rent exemption:

Type of projects	Exemption
Projects in sectors of investment incentive	3 years
Projects in areas with socio-economic difficulties	7 years
Projects in areas with special socio-economic difficulties or in sectors of investment incentives and in areas with socio-economic difficulties	11 years
Projects in sectors of investment incentives and in areas with special socio-economic difficulties	15 years

Vietnam's Circular 83 provides[59] that projects in sectors subject to investment incentives, or implemented in areas of difficult socio-economic conditions, or in rural areas with at least 500 employees are entitled to 50 per cent reduction in non-agricultural land use tax.

(c) Support for other aspects of policy and cost mitigation.

These incentives include financial support for developing domestic supply chains, easier credit, marketing support, cheaper power, training and housing of workers, infrastructure, for environmental objectives and incentives for upgrading technology and R&D.

In addition, financial support is provided for specified activities such as increasing or upgrading production capacity, changing to new technology or improving design capacity.[60]

These subsidies are not provided in the entire territory of Vietnam, nor for all sectors or types of investment. They are provided subject to investment meeting the specified criteria for location, encouraged sector, level of investment, employment, socio-economic conditions of the place where investment takes place, and also depend on negotiations with Provincial or local Governments.

4.5 Costa Rica

Costa Rica phased out its export subsidy programme over the period 2006 to 2015. The main changes introduced by Costa Rica were[61]:

[59] Circular No. 83/2016/TT-BTC ("Circular 83") of June 17, 2016

[60] Circular 83 states: "Projects expanding their scope of business, upgrading production capacity or changing new production technology ("expanded project") and satisfying criteria about increasing the original cost of fixed assets (minimum VND20 billion), increasing the original cost proportion of fixed assets (minimum 20 per cent) or of design capacity (minimum 20 per cent), are entitled to get either CIT incentives during its remaining operational period, if any, or CIT exemption or reduction over the increased revenue caused by expansion. The period of tax exemption or reduction for this additional revenue of expanded projects is equal to the tax exemption or reduction period of new projects in the same area or sector qualifying for CIT incentives."

[61] Free Zone Regime Act N° 7210, Act N° 8794, and in its Bylaws.

1. Changed the link of incentives with exports: The Government dropped the requirement that support would be provided only if certain export levels were met. Thus, the eligibility criteria were changed for companies admitted to the Free Trade Zone and the benefits were decoupled from export performance. The decoupling was achieved by introducing a new category of processing companies which may belong to the Free Trade Zone, irrespective of whether or not they export.[62] The incentives for the Free Trade Zone were provided under a Free Trade Zone Regime (RZF).

2. Activities covered under RZF: The following companies may apply for the incentives under the RZF in Costa Rica:

    - Export manufacturing companies
    - Export trade companies (not producers)
    - Export service companies
    - Companies or organizations engaged in scientific research
    - Manufacturing firms which may or may not export (minimum export level is not required)
    - Local suppliers which manufacture and sell at least 40% of their output to other companies operating under the RZF may also be admitted to the Regime.
    - Companies engaged in mining, exploration or exploitation of hydrocarbons, generating electric power (unless for own consumption) or producing arms are not eligible for the RZF.

3. Companies under RZF not limited to specified geographical location: The Government has specified the RZF to cover groups of companies that are not limited to a geographical region. Instead they are eligible for a specific set of incentives and benefits granted by the Costa Rican government if they make new investments in the country and meet certain specified criteria of investment, employment and location (see Tables 14 to 17 below).
4. Eligibility criteria for investment levels: The minimum amount of investment required varies, depending on the company's location, either within or outside an industrial park, or outside or within the established Expanded Greater Metropolitan Area (GAMA; see Tables 15 to 17 below).
5. Tax incentives: Differential tax incentives to encourage businesses to invest in less developed areas to attract large-scale investment.
6. Training Support: Introduced tax credits for staff training.
7. Other incentives: Introducing policies to reinforce production chains and developing local suppliers, as well as other support policies to improve technical capabilities and provide factory space at reasonable low cost.[63]

It is important to note that the extent of incentives also depends on whether the sector to which a company belongs is classified as a strategic sector for Costa Rica's development.

[62] This type of enterprise was introduced in subparagraph (f) of Article 17 of the amended text of Law No. 7210. For some more detail, see Report by the Secretariat in the WTO's Trade Policy Review of Costa Rica, Document WT/TPR/S/286, dated 6 August 2013. (Web link: https://www.wto.org/english/tratop_e/tpr_e/s286_e.pdf); and also, http://cdn.cinde.org.s3.amazonaws.com/content/resources/8.pdf?1478821536.

[63] Please see Table on "Free Trade Zone Regime: Other considerations" in http://cdn.cinde.org.s3.amazonaws.com/content/resources/8.pdf?1478821536

Table14. Costa Rica's Free Trade Zone Regime: Main Requirements For Greater Metropolitan Area[64]

Main requirements	Small / Mid-Scale Projects	Large Scale Projects
Minimum export level	Not required	Not required
Belong to a strategic sector (2)	Yes	Yes
Minimum employment level	Not required	100
Minimum required investment	US$150,000 (2)	US$10,000,000 (3)

Notes: (1) Examples include Advanced Manufacturing and Life Sciences projects, R&D activities, and Innovation projects; (2) US$150,000 in fixed assets within Free Zone Park or US$2,000,000 outside Free Zone Park.; For details of (3) and other incentives, please see http://cdn.cinde.org.s3.amazonaws.com/content/resources/8.pdf?1478821536

Table 15. Costa Rica Free Trade Zone Regime: Main Incentives For Greater Metropolitan Area

Tax Incentives	Time Period Limit	Small / Mid-Scale Projects	Large Scale Projects *
Income Tax (statutory income tax = 30%)	8 years	6% of Statutory Tax	0% of Statutory Tax
Income Tax	Further 4 years	15% of Statutory Tax	15% of Statutory Tax
Income Tax deferral	No limit	Not available	Up to 10 years
Import Duty	No limit	100% exemption	100% exemption
Excise Taxes	No limit	100% exemption	100% exemption
Remittances Repatriation Tax	No limit	100% exemption	100% exemption

Note: * Additional 8-year renewal may be granted if significant reinvestment is made.

Table 16. Costa Rica's Free Trade Zone Regime: Main Requirements Outside GMA (i.e. Outside the Expanded Greater Metropolitan Area)[65]

Main requirements	Small Scale Projects	Mid-Scale Projects	Large Scale Projects
Minimum export level	Not required	Not required	Not required
Belong to a strategic sector (1)	Not required	Yes	Not required
Minimum employment level	Not required	100	100
Minimum required investment (2)	US$100,000	US$100,000	US$10,000,000 (3)

Notes: (1) Examples include Advanced Manufacturing and Life Sciences projects, R&D activities, Innovation projects; (2) US$100,000 in fixed assets within Free Zone Park or US$500,000 outside Free Zone Park; For details of (3), please see http://cdn.cinde.org.s3.amazonaws.com/content/resources/8.pdf?1478821536

Table 17. Costa Rica Free Trade Zone Regime: Main Incentives Outside GMA (i.e. Outside the Expanded Greater Metropolitan Area)

[64] http://cdn.cinde.org.s3.amazonaws.com/content/resources/8.pdf?1478821536
[65] http://cdn.cinde.org.s3.amazonaws.com/content/resources/8.pdf?1478821536

Tax Incentives	Time Period Limit	Small / Mid-Scale Projects	Large Scale Projects *
Income Tax (statutory income tax = 30%)	6 years	0% of Statutory Tax	0% of Statutory Tax
Income Tax (statutory income tax = 30%)	Further 6 years	5% of Statutory Tax	0% of Statutory Tax
Income Tax (statutory income tax = 30%)	Additional 6 years	15% of Statutory Tax	15% of Statutory Tax
Income Tax deferral	No limit	Up to 10 years	Up to 10 years
Import Duty	No limit	100% exemption	100% exemption
Excise Taxes	No limit	100% exemption	100% exemption
Remittances Repatriation Tax	No limit	100% exemption	100% exemption

Note: * Additional 6 / 12-year renewal may be granted if significant reinvestment is made.

It is important to note that the key benefit is provided through a major income tax rebate for a significant period of time, as well as exemption from import duty and excise tax. However, within the 'Free Trade Zone' benefits allotted to enterprises vary, such that:

(a) Different levels of benefits are provided to small, medium and large enterprises.
(b) Larger benefits are provided for investment outside the main "metro" area
(c) Larger benefits are provided for a larger scale of investment

To summarise, the set of Tables above suggest that Costa Rica developed a WTO-consistent subsidy regime by creating a 'Free Trade Zone', while expanding the focus of incentive schemes so that they did not focus on the geographical location of enterprises. The criteria emphasised are:

(a) No link with exports, although if some enterprises do export as a primary activity they are also potential beneficiaries. However, their benefits are not linked to their export levels.
(b) Location of investment determines different extent of benefits, to encourage geographical dispersion and development of economically weak parts of the country
(c) In certain specified cases, the benefits provided are linked to:

- A specified minimum employment level, with different thresholds for employment depending on location.
- The small-scale sector is not subject to any minimum employment requirement, irrespective of where it invests in the country.
- Specified investment level depending on the location of investment and size of the enterprise.
- In certain cases, the enterprise should belong to a strategic sector/sectors specified by the government, in order to get the subsidy benefits.

5. Export subsidy prohibition under WTO

Section 5 explains the key provisions of the WTO Agreement on Subsidies and Countervailing Measures (ASCM) relevant for the identification of prohibited subsidies under the WTO. In this context, the categories of WTO-consistent subsidies will also be explained.

The WTO has three types of subsidy regimes, which depend on the product under consideration, i.e. agriculture, services, and non-agriculture or industrial products. The WTO provisions applicable to apparel are contained in the Agreement on Subsidies and Countervailing Measures (ASCM), which applies to industrial products (see Annex 5 where a number of relevant ACSM provisions are reproduced).

5.1 WTO subsidy regime relating to export subsidy policy

Article 3 of ASCM outlines the subsidies which are prohibited under WTO regulations. The present WTO dispute settlement complaint lodged by the U.S. specifically cites violations of Articles 3.1(a) and 3.2 of ASCM, which relate to the WTO prohibition of export subsidies.[66]

The key points regarding the WTO prohibition of export subsidies under Article 3.1(a) are:

(i) Subsidies that are contingent upon exports are prohibited.
(ii) Thus, if a subsidy is not received by any enterprise unless its exports take place, then that subsidy is "export-contingent", i.e. it is an export subsidy.
(iii) An important requirement under Article 3.1(a) is that if "in fact" the implementation of the subsidy regime is such that it is actually being provided linked to export performance, then it will be considered to be an export subsidy even if "in law or in regulation" it is not so provided.[67]
(iv) Therefore, even if not specified under any policy scheme, the provision of any subsidy that is determined to be "in fact" linked to export performance, that measure will be considered as a prohibited export subsidy under WTO.

This feature of implementation of "in fact" criteria in the context of subsidies is also relevant for another concept in the context of devising WTO-consistent subsidy policy, namely the concept of "specificity". This is addressed in Section 5.6 below, in the context of the discussion of subsidies that are considered to be "non-actionable" subsidies, i.e. subsidies that are not restrained by the disciplines of ASCM.

5.2 Exception to the export-subsidy prohibition under WTO

Though an export subsidy is prohibited in general, Article 27 of ASCM provides an exception to certain specified countries, that are allowed to give such subsidies. Annex 5 to this paper shows that Article 27 together with Annex VII of ASCM specify the conditions for such an exception. The countries that are the subject of this exception include least developed countries (LDCs) and countries with GNP per capita below $1,000 per annum. At the 2001 Ministerial Meeting in Doha, the scope of this exception was expanded. WTO members agreed that the threshold of $1,000 for GNP per capita would be measured in terms of constant 1990 dollars, and that if a country exceeds this threshold for three consecutive years it would not be eligible for the exception.

India was initially granted the flexibility to provide export subsidies to goods under Annex VII of ASCM, but crossed this threshold in 2015. it is therefore not entitled to provide this subsidy as claimed by the US complaint in the WTO (See Annex 6 of this paper). However, since 2011, India and a number of other countries[68] have raised the point that a significant period—at least eight years — should be provided to countries that come out of Annex VII to phase out their export subsidies.[69] This matter remains to be addressed but the conclusion may be expedited due to the dispute raised by the United States against export subsidies provided by India.

5.3 The time table for the WTO dispute

The export subsidy dispute has been raised by the US under the "fast-track" process for addressing prohibited policies, and the panel was composed on 23rd July 2018.[70] However, given the work-load at WTO Secretariat and reported discussions between India and the United States, a longer period would be taken. The panel process may take up to the second quarter or middle of 2019. After that,

[66] For more detail on the dispute, see https://www.wto.org/english/tratop_e/dispu_e/cases_e/ds541_e.htm

[67] Jurisprudence within WTO on this issue can be seen at https://www.wto.org/english/res_e/publications_e/ai17_e/subsidies_art3_jur.pdf

[68] The countries are Bolivia, Egypt, Honduras, India, Nicaragua and Sri Lanka. The relevant WTO document is TN/RL/GEN/177/Rev.2, dated 18 March 2011.

[69] This is based on Article 27.4 reproduced in Annex 5 of this paper.

[70] See WTO Document, WT/DS541/5, dated 24th July 2018.

the Appellate Body process will also take some time, especially as there is currently a considerable shortage of Appellate Body members to address the dispute.

5.4 Certain complicating factors

Discussions between India and the US could provide the possibility of some solution emerging on the phase-out of export subsidies in general. However, three factors complicate that situation.

1. Several countries have shown an interest in this dispute,[71] and may raise independent disputes if they are not satisfied by the result reached through discussions between India and the United States.
2. President Trump is focusing in a major way on "unfair trade policies" of countries that have a trade surplus with the United States. India is one such country, and a prohibited measure under WTO (such as an export subsidy) could be seen as an "unfair trade policy."[72]
3. When exports of any product from a country mentioned in Annex VII reach "a share of at least 3.25% in world trade of that product for two consecutive calendar years",[73] it will need to be phased out. Textiles and apparel belong to this category of products.
4. Thus, the case of textiles and apparel is special, and India had agreed that it had till end-2018 for phasing out the export subsidies for textiles and apparel. As stated in the relevant Minutes of the meeting, "Despite the fact that there were certain issues regarding the legal interpretations on the definition of product, India reiterated that it had time till December 2018." (See Section 1 of Annex 6)

Thus, while the period concerned has been extended beyond December 2018 based on the panel's time-table and further discussions between India and the US on the issue may further extend it, the time period available for keeping export subsidies for India's textiles and apparel is unlikely to be very long since India has already exhausted an eight-year period for phase out of these subsidies.

In this situation, addressing and replacing export subsidies for the apparel sector is a pressing need.

5.5 Relevant WTO issues for devising WTO-consistent subsidy policies

Under ASCM, subsidy policies are divided into three categories:

- Prohibited subsidies (covers two types of subsidies, mentioned in Article 3 of ASCM)
- Non-actionable subsidies (these are not subject to WTO disciplines and thus to WTO dispute settlement process or countervailing measures)[74]
- Actionable subsidies (subject to disputes and countervailing measures - most subsidies provided by WTO members are actionable subsidies)

Actions to address subsidies under WTO take place either through the dispute settlement system or through countervailing measures on imports. Such actions can be taken against both prohibited subsidies and actionable subsidies. The WTO dispute settlement process for prohibited subsidies is much shorter than that for actionable subsidies. In the case of actionable subsidies, a dispute case arises if these subsidies are shown to cause "adverse effects"[75] on the trade of the complaining party. In the case of prohibited

[71] Brazil, Canada, China, Egypt, the European Union, Japan, Kazakhstan, Korea, the Russian Federation, Sri Lanka, Chinese Taipei and Thailand reserved their third-party rights in this dispute.

[72] A recent statement by President Trump takes this issue to a much higher level of concern expressed by him regarding inter alia India's subsidies. See, https://www.thehindubusinessline.com/news/world/trump-wants-to-stop-subsidies-to-growing-economies-like-india-china/article24900585.ece

[73] For more detail, see Articles 27.5 and 27.6 reproduced in Annex 5 of this paper.

[74] If disputes or countervailing actions are brought into effect, then it would have to be shown in that process that the subsidy policy is a non-actionable one, or the subsidy implementing country can go to dispute settlement for the determination that the subsidy in question is "non-actionable".

[75] Adverse effects are defined in Article 5 of ASCM.

subsidies, a ruling by the Dispute Settlement Panel confirming that the challenged subsidy is a prohibited one under WTO is enough to show that "adverse effects" are caused by such subsidies. Alternatively, adverse effects could be determined through the process of determining injury within the context of a countervailing measure investigation, before imposing such a measure.

Actionable subsidies are WTO-consistent as long as it is not established that they cause "adverse effects". In the situation that adverse effect are likely or have been established, the subsidising country can decide to review the policy and amend it to mitigate the injury or adverse effect caused by the subsidy.

Usually, the number of subsidy related WTO disputes each year are few in comparison to the large number of subsidies used by WTO Members (see Table 18 below). Many more actions are taken directly by the affected countries through countervailing measures. For example, till 30th June 2017, a total of 154 countervailing measures were in place.[76] Most of these were imposed by the United States (91), Canada (22), EU (16) and Australia (11). India has been a significant focus of countervailing measures, second only to China in this context. For example, in the three years from July 2014 onwards, India faced 9 definitive countervailing duties against certain products (6 by the US, and 1 each by Brazil, EU and Mexico). This number is comparatively small considering India's range of exports to these large markets and the financial support policies that may have helped on a whole range of products.

[76] WTO Document with double symbol G/L/1195 and G/SCM/150, dated 3rd November 2017.

Table 18: Number of Disputes Relating to Two Parts of ASCM: Subsidy Disciplines and Countervail Disciplines

No. of Disputes Claiming Violation of →	Subsidy Disciplines	Countervail Disciplines
2018	1	1
2017	3	2
2016	3	2
2015	2 (check)	2

The above discussion suggests that:

- It is best if non-actionable subsidies can be used for supporting domestic producers, because they are not restricted by WTO disciplines.
- Actionable subsidies are the most widely used measures in the world. Very few of them are found to cause "adverse effects". Thus, most actionable subsidies are actually WTO consistent.
- When a subsidy is found to cause adverse effects, it could be reviewed and changed to mitigate its effect.
- In this background, it would be appropriate to use either non-actionable subsidies or use actionable subsidies and combine that with a periodic review, say every four or five years.

5.6 Non-Actionable Subsidies

Non-actionable subsidies would qualify as subsidies under the definition of subsidies under WTO[77] but they are covered by the exception under Article 2 (see Annex 5). The relevant WTO disciplines need to be considered in terms of six different aspects pertaining to this type of subsidy.

First, it is important to understand the general criteria under Article 2 of ASCM for subsidies to be non-actionable. These are subsidies which are not explicitly limited to certain enterprises, i.e. they are not provided to a limited number of enterprises or sectors under manufacturing. Thus, these subsidies are available to all sectors of manufacturing. They are general and non-specific subsidies.

Two, the relevant criteria or conditions for the subsidy provided must be clearly spelled out in law, regulation, or other official documents, so as to be easily verifiable. Furthermore, the subsidy programme should be such that eligible firms get selected automatically if they meet the specified criteria.

Three, even if subsidies are limited to "certain enterprises" (i.e. not all enterprises in the manufacturing sector), they could still be treated as non-actionable if they meet the conditions specified in Footnote 2, namely: "Objective criteria or conditions, as used herein, mean criteria or conditions which are neutral, which do not favour certain enterprises over others, and which are economic in nature and horizontal in application, such as number of employees or size of enterprise".

It would therefore be useful to devise subsidies based on number of employees, size of enterprises, or other economic criteria which allow any enterprise in the manufacturing sector to benefit as a beneficiary of a non-actionable subsidy.

Four, even if the criteria meet the above two conditions "de jure" i.e. in law or regulation, general coverage or non-specificity of subsidy can still be questioned if "in fact" the provision of such subsidies is limited to "certain enterprises". This arises when in practice those benefiting from the subsidy are only a few sectors or enterprises and not the manufacturing sector as a whole.

Five, the ASCM provides that the assessment of whether the subsidy is "in fact specific" should inter alia be based on the following aspects:

[77] The definition of subsidies is in Article 1 of ASCM. See Annex 5 of this paper.

- use of a subsidy programme by a limited number of certain enterprises,
- predominant use by certain enterprises,
- the granting of disproportionately large amounts of subsidy to certain enterprises, and
- the manner in which discretion has been exercised by the granting authority in the decision to grant a subsidy.

Six, the text of Article 2 of ASCM states that to assess de-facto specificity, "account shall be taken of the extent of diversification of economic activities within the jurisdiction of the granting authority, as well as of **the length of time during which the subsidy programme has been in operation**". (emphasis added)

Therefore, even if a subsidy is considered in fact a specific subsidy in the short term, there is a possibility of a window in terms of a transition over a period of time so that the subsidy in question meets the condition of "non-actionability" within a reasonable period of operation.

If, however, the WTO panel process determines examines the subsidy scheme and concludes that it does not meet the criteria for non-actionable subsidies under Article 2 of ASCM, the policy would then be considered an actionable subsidy.

As mentioned above, an actionable subsidy is permissible under the WTO unless there is a demonstration that "adverse effects" are caused by that subsidy to another WTO Member's trade[78]. This is not an easy process under dispute settlement, and even if the subsidy is determined to cause adverse effects, a period of time is provided to correct the policy and make it consistent with WTO. Within that period, a review of the subsidy could be conducted to change the criteria

relevant for the subsidy. Therefore, the government should in any event plan to review its subsidy schemes every four or five years, similar to China which periodically reviews its subsidy schemes and changes it as required.

Another possibility would be that the subsidy may be countervailed by an importing country, which has to show that subsidized imports cause or threaten to cause material injury to its domestic industry. In that event as well, the process takes time and a review leading to an amendment of the subsidy policy could show a way out.

The important point is that if a link with exports is not a requirement for getting the subsidy, it would be either non-actionable or actionable. The former category (i.e. non-actionable) is completely consistent with WTO criteria. The latter (i.e. actionable subsidies) is consistent with WTO till a Member can show either through WTO dispute settlement or through a countervailing investigation that such a subsidy has caused adverse effects to its trade or domestic industry.

[78] Adverse effects are defined in Article 5 of ASCM.

6. Alternate Support Schemes

This section begins with a summary of the rationale for continuing with financial support for the Indian apparel sector. This is followed by a summary of the support proposals suggested by the industry. It then discusses the proposed alternative schemes for apparel in terms of the objectives of national importance. Based on these objectives, certain criteria are developed for devising WTO consistent subsidy policy. Combining these aspects, the paper suggests financial support policies for the apparel sector. The following section makes a case for implementing certain other policies that are not considered as subsidies under the WTO but would provide support to apparel.

Based on the financial support schemes suggested, the paper reports the results of a simulation exercise that assesses the impact of the proposed subsidies. This will help ascertain how the situation would change due to the subsidies that are being proposed as an alternative to the existing export subsidies for apparel.

6.1 Rationale for providing subsidies for Indian apparel industry

Chapters 1, 2, and 3 of the paper have developed the rationale for providing subsidies to India's apparel industry. The main points are:

(a). Exports are falling due to factors such as delay in GST refund, changes in the tax regime and reduction in duty drawback rates implies that the sector needs additional support (see Chapter 1 for more detail).

(b). Likewise, Chapter 2 of the Paper, titled "Costs and Competitiveness Issues in this Sector and rationale for providing support" discusses yet another basis for providing subsidies to Indian apparel industry. It is noteworthy that some of the cost items for India are relatively higher due to low productivity caused by the shortcomings in logistics and other infrastructural facilities available to them compared to exporters from competitor countries. They are also unable to realise economies of scale which its competitors enjoy.

(c). The strongest rationale is that India's competitors have a large advantage in comparison to India, and without financial support such as that provided at present, the Indian exporters will not be able to effectively compete in global markets. Chart 3 of the paper shows that subsidies and preferential tariffs for India's competitors (including duty-free exports to the EU) result in an effective support of 17% to 19% for exporters from countries competing with India (see Chart 3 in Chapter 3).

(d). Apparel is a low-margin industry where subsidies provided by India's competing economies give their exporters an edge in global markets. It is noteworthy that these competing countries support key cost items for their exporters. In addition, they impose comparatively very low corporate income tax rates for their apparel industry.

(e). The competing countries emphasise financial assistance and cost reduction by supporting scale of production, product development, employment generation, and simpler indirect tax mechanisms. These factors contribute to enhancing competitiveness. Such support policies need to be considered for India's apparel industry as well.

(f). If alternate subsidy in place of export subsidies are not provided to Indian apparel industry, then this employment intensive (and also female employment intensive) industry will not only face major difficulties to increase its sales, its operations will actually begin to shrink, as is shown by the simulation estimates arising from removing export subsidies to apparel (Chapter3). This sector, which can be part of a solution to addressing employment growth, will then become a source of net job losses.

In this background, this paper has considered the subsidy programmes of Indian States and the four countries discussed in Chapter 3 and 4 above. This large information base has been supplemented by interviews with the industry and a consideration of the proposals for alternative subsidies suggested by them.

6.2 Subsidies and related processes emphasised by Indian firms

The study team met with about 50 exporters with different turnovers. In addition, telephonic interviews were conducted with some others. While certain concerns of the firms were uniform across different sizes of firms, large firms articulated other concerns too. These are summarised below according to the scale of operation.

Table 19: Consolidated report of suggestions from firms interviewed

Scale	Suggestions
Small (<50 crore)	**Current or Additional Subsidies** • Duty Drawback should be enhanced for small and medium enterprises. • Product Development (samples) should be considered as R&D, because this is an essential part of the research for creating new and products acceptable/attractive to buyers. Sufficient incentives should be provided for this purpose. • Create a single window, simplified process for getting subsidies or refunds **Labour and Logistics** • Provide subsidies for training programmes. • Reduce labour cost by providing subsidies. • Provide incentives for expanding export products and skill sets to meet global competition (e.g. active wear). • Provide subsidies for transportation costs.
Medium (50 - 250 crore)	**IGST and GST** • Refunds should be provided quickly after they are filed for. **Labour and Logistics** • State government should support firms by providing wage subsidies. • Help reduce extra administrative costs caused by delay due to inadvertent mistakes in data entry as correction takes time. • Simplify transport procedure and reduce transportation time and costs for inland travel to ports. • Create a single window, simplified process for getting subsidies or refunds
Large (250 crore <)	**Current or Additional Subsidies** • Freight Subsidies. • Cover all labour under PF, • Provide financial support subsidies not only Duty Neutralisation. • Create a single window, simplified process for getting subsidies or refunds

	IGST and GST • Reduce compliances required for IGST refund or waive them altogether. • GST refunds should be effected within 15 days once request is filed. • GST on imported goods should be waived off. • GST on fabric and Job work should be waived as it blocks working capital. **Labour and Logistics** • Reduce labour cost by providing subsidies. • Improve connectivity • Help reduce extra administrative costs caused by delays, inadvertent mistakes in data entry and the process of obtaining certain refunds. • Simplify transport procedure and reduce transportation time and costs.

The support schemes proposed in this paper take account of these suggestions, in addition to the schemes used by India's major competitors in the apparel market, and the support schemes implemented in some States in India.

6.3 Financial support policies: Objectives emphasised

A number of objectives are emphasised in developing the proposed financial support schemes. These include:

(i) Support for employment generation, in particular female employment.

- Employment generation is a very important national objective. This objective could implicitly be also read in the text of the criteria mentioned in Footnote 2 of ASCM.
- Female employment is emphasised even more. Studies have shown that female employment can be productivity enhancing and leads to benefits in terms of economic and social wellbeing.

(ii) Encourage enterprises to meet compliance criteria.

- Under this criterion, financial support could be provided to enterprises that comply fully with the legal conditions relating to commercial operations within India, e.g. the Factories Act, Minimum Wages Act, Occupational Health and Safety Standards, EPF registration, and ESI registration.
- In this context, a special focus could be given to encouraging labour registered for EPF, as a specific point of departure for considering the basis of subsidy schemes.

(iii) Support for large scale of operation.

- Scale of production is important to get larger orders and promote greater certainty of work for a longer period. It results in cost-efficiency through economies of scale that arise with large scale of operation. This provides a basis for higher employment and creates greater possibility of enabling value-chain linkages.

6.4 Developing criteria for non-actionable subsidies

The preferred aim is to develop criteria for potentially non-actionable subsidies under WTO, i.e. identify criteria which allow all manufacturing sectors to potentially benefit from them.

The objective of meeting the compliance conditions, i.e. firms should meet all relevant laws of the land for its operations, is valid for all production sectors in manufacturing. It thus meets the criteria relevant for non-actionable subsidies.

When emphasizing employment, to begin with sectors which have above average jobs per unit investment in the manufacturing sector can be considered. (i.e. industries defined in terms of 2-digit level of the National Industrial Classification (NIC) of the Indian Government from Divisions 10 to 33 under NIC 2008 categories). Subsequently, the scheme may be extended to all sectors. The extension to other sectors would make it non-actionable (more on this below). In this regard, it would be relevant to consider the following WTO conditions for non-actionability, i.e.: "In applying this subparagraph, account shall be taken of the extent of diversification of economic activities within the jurisdiction of the granting authority, **as well as of the length of time during which the subsidy programme has been in operation**."

The subsidy programme could thus begin by focusing on the sector which has the highest share of female employment in total employment. This happens to be the apparel industry (see Table in Annex 7). Though tobacco products have a higher ratio for female employment, support to them is ruled out based on the previous decisions of the Indian Government to not encourage the sector.[79]

It would be relevant to emphasise that the coverage of the programme will change over time by including other sectors as well. Thus, "the length of time during which the subsidy programme has been in operation" will be relevant.

A period of about five years could be considered as the length of time that the subsidy programme has to be in operation to reasonably provide the possibility for other sectors to be covered based on potentially meeting the relevant conditions specified below for granting the subsidy.

However, the only way to get a final decision on whether a financial support policy is a "non-actionable" subsidy is through the decision of a Panel that examines it under the WTO Dispute Settlement process. The result of the Panel's deliberations cannot be anticipated in advance. If the WTO Panel determines the subsidy to not be "non-actionable" because it is limited at present to a few sectors of manufacturing, then the subsidy would become an "actionable" subsidy under WTO.

As explained earlier, an actionable subsidy too is WTO consistent till it is shown either through a WTO Panel process or through an injury analysis required for countervailing measures that it causes adverse effects on the trade of another WTO Member.

In that situation, the subsidy could be revised. This is an important reason to suggest inclusion of a review process every four years in the overall subsidy policy framework itself.

6.5 Two sets of alternative criteria to provide financial support

Two alternative criteria are used to provide financial support. Table 20 provides a summary of the overall eligibility criteria for these schemes.

[79] India is one of the signatories to the WHO Framework Convention on Tobacco Control 2005and is committed to reducing consumption of tobacco products. It is for this reason that FDI in the manufacture of tobacco products has been prohibited many years ago. In such circumstances, it is unlikely that the government would support any policy proposal which entails increasing employment in the tobacco products industry.

Table 20: Eligibility Criteria for Support Schemes

Schemes	Eligibility Criteria	Additional Eligibility Criteria
(1.a) The simpler alternative subsidy scheme (1.b) The other alternative scheme that focuses on enhancing competitiveness of apparel firm.	1. Must comply with all national and State regulations specified above 2. Begin by providing incentives to labour intensive industries (defined in terms of above average employment per unit investment for the manufacturing sector) 3. The manufacturing sector includes industries covered by NIC 2-digit categories 10 to 33.	1. Within the sectors selected, begin by a focus on the sector (other than tobacco products) which has the highest share of female employment in total employment for the manufacturing sector industries defined at NIC 2-digit categories 2. Eligible turnover (see main text for explanation)
(2) Emphasis on scale of operation	As above	As above. Plus, production facility of at least 250 employees for non-urban and min 300 employees in urban areas

Note: The criteria for the competitiveness-enhancing subsidies, i.e. item (1) in the above Table, are specified as "general criteria". The other detailed scheme is discussed as a scheme with criteria favouring scale, i.e. those covered by item (2) in the above Table.

6.6 Developing alternative subsidy schemes for India's apparel industry

Two schemes are suggested here, i.e. a simple scheme and a scheme focused on improving competitiveness for seeking financial support. The Government may decide on implementing one or the other. Another option could be to begin with a simpler scheme and then phase-in the other scheme that focuses on making firms more competitive.

Even within the competitiveness enhancing scheme, all those meeting the conditions specified for "scale" are the only ones that are eligible to benefit from the higher financial support specified for larger scale of operation. All the rest can have access to only the schemes under the general criteria. The specific category to apply for financial support (general or scale) has to be selected by the enterprise itself.

The financial support policies are proposed in a manner that the funds required for the alternative schemes are similar to the amounts currently being disbursed under MEIS and other export subsidies.

It is important to emphasise that the schemes proposed in this paper are not meant to replace the other existing support schemes (i.e. ongoing schemes other than the export subsidies). These include schemes such as ROSL and ROCL, interest subvention scheme, financial support for waste treatment plants, support to upgrade technology such as ATUFs, setting up textile and garment parks, design centers, and support for connecting with national and international expert institutions. These other schemes should continue as at present.

As both the schemes will use the concept of 'eligible turnover' instead of f.o.b. value of exports, this concept is explained first.

6.6a The concept of 'Eligible Turnover'

Subsidies for manufacturing products that are contingent on or linked to exports, are prohibited under the WTO. Therefore, the first step is to delink exports from any form of financial support. This implies that subsidies must be provided to both exports and domestic production.

It is proposed that financial support be based on a concept of 'eligible turnover', i.e. an adjusted value of the conventional concept of turnover. This adjustment takes account of the fact that the Government has encouraged compliance with EPF regulations, including development of its support policy based on EPF for reducing the burden on employee costs for new employees.

This option involves four steps.

(a) Calculate the average turnover per employee of the apparel industry.

Information from AEPC[80] and two sources confirm that the domestic market for apparel is around INR 3,30,000 crore.[81] This suggests that the total turnover of the apparel industry in 2017-18 was about INR 437,690 crore.[82] Now, the ratio of EPF registered employees to the total employees for the apparel industry needs to be calculated as data on EPF registrations in the apparel sector is available and stands at 10.25 million. The data on EPF website[83] and World Bank data suggests that

[80] AEPC reports an export total of 1,07,689.89 cr INR in the financial year 2017-2018, using the DGCI&S, Kolkata figures given in 2018.

[81] Statistica estimated the clothing market in India in 2015 to be around 3.3 trillion INR. https://www.statista.com/statistics/747845/apparel-market-size-india/. Similar figures are provided by the fashion retail industry which estimated the apparel retail industry at around 3,30,000 cr INR. https://www.indiaretailing.com/2017/10/15/fashion/indian-fashion-apparel-market-2016-beyond/

[82] For the financial year 2017-2018, total turnover was US$ 68 Billion. An average exchange rate of the INR to US$ for 2018-18 was INR 64.40 to 1 US$. https://economictimes.indiatimes.com/industry/cons-products/garments-/-textiles/apparel-exports-to-decline-by-10-per-cent-in-fy19-due-to-gst/articleshow/64871690.cms. Moreover AEPC showed the export figures for the financial year 2017-2018 to be at 1,07,690. Thus aggregating domestic production with exports gives us the same amount.

[83] The data for March 2018 showed that there were 17.4 cr EPF accounts in India.

the average ratio of EPF registered employees to total employees is 0.35. This average is considered as being applicable to the apparel industry too. Therefore total employment of the industry was around 29.3 million in the apparel sector.[84]

Dividing the total turnover with the total employment shows that the average turnover per employee for the industry is around INR 150,000 – (1)[85]

(b) Eligible Turnover for the industry = Average turnover of the Apparel industry, multiplied by the ratio of employees registered under EPF for the industry.

The eligible turnover of the apparel industry becomes INR 153,300 crore.

(c) Third, calculate the eligible turnover for the firm through a process of self-certification.

Eligible turnover for the firm is equal to the average turnover per employee, as derived in (1) **for the apparel industry** multiplied by the number of **EPF registered employees for the firm**.

Each firm submitting its application for the subsidy would have to provide proof of the number of EPF registered employees it has.

(d) Provide to the firm a subsidy equal to about 3.5% of its eligible turnover. The amount resulting from this would be that already budgeted as export subsidies in the year 2017-2018. By delinking with exports and using the eligible turnover as a base, these subsidies will become WTO compatible.

At the level of the industry, the amount of subsidy would be equal to 3.5% of INR 153,500 crore which is INR 5365.5. This is very close to the amount of about INR 5,100 crore which was the export subsidies to the apparel sector last year. The outflow under the subsidy scheme, and the number of employees under EPF could be verified from the government databases as part of a review of the subsidy scheme after two years.

6.6b The First Option (Simpler Alternative Subsidy Scheme)

The first scheme is a simple alternative suggested similar to the MEIS scheme, based on the explanation of eligible turnover above.

The existing main export scheme, MEIS, is a relatively simple scheme to implement. Likewise, the countries competing with India have adopted a simple method of providing financial support, i.e. exempting or reducing the applicable corporate income tax rate. To the extent such a tax reduction in India is difficult at present, the paper proposes a simple option in terms of "eligible turnover".

The MEIS scheme provides financial support equal to 4% of the f.o.b. exports of apparel. The link with exports makes it a prohibited subsidy under WTO. As explained above, the simpler alternative scheme removes the link with exports, and calculates the percentage of support in terms of a concept of "eligible turnover". This is because the firms may sell either in the domestic market or export its products. In either case the subsidy would be provided. The filtering is done with the concept of eligible turnover. However, as the eligible turnover of the sector as a whole is larger than the f.o.b. value of exports, in order to maintain revenue neutrality, the percentage of eligible turnover would be 3.5% versus 4% given under MEIS.

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https://epfindia.gov.in/site_en/index.php. The labour force in 2016 according to the World Bank was 494.8 millions. http://datatopics.worldbank.org/jobs/country/india. Hence the percent of people registered under EPF is roughly 35% of the labour force. Using the same percentage for the apparel sector, the eligible turnover can be derived for the sector as a whole.

[84] The total number of EPF accounts in this sector was 10.26 million. According to the World Bank and EPF data, approximately 35% of the total employees both organised and unorganised have EPF accounts. Using this multiplier the total employment in this sector is 29.3 m.

[85] It is to be noted that the turnover per employee obtained from AEPC sample level data, (See Annex 8) is very close to this figure at 0.0135 crores per employee

6.6c Basis For Suggesting Subsidies Under The Alternative Scheme Focused on Improving Competitiveness

The competition-enhancing scheme is a more detailed option which suggests support for costs and activities that would help improve India's competitive position. The basis for focusing on the specific cost items and the proposals made for the level of subsidies to be provided to alleviate those costs, are as follows.

(i) Labour cost (wages): Labour is one of the main cost items for apparel exporters (Table 2 above). Some countries competing with India subsidise these costs, as do some States in India. Established schemes focus on new investment or expansion in existing plants, in order to generate new employment. This paper does the same. Since the focus is on new employment, the support proposed for this item in this paper is a relatively small part of the total costs.

It should be emphasized and noted that this proposed scheme is IN ADDITION to the existing schemes, including those which provide subsidies to wages for new employment. The support to wages proposed here should not be seen as an alternative to the existing schemes, but as an additional scheme to mitigate labour costs.

(ii) Non-wage items in labour cost: These costs range between 2% to 5% of total costs. They are required to meet the relevant social and sustainable development objectives linked to employment generation. Only a part of this cost is suggested as subsidy. The overall impact will be smaller because this subsidy is proposed for eligible turnover, which will be less than total turnover.

(iii) Product development: Discussions with industry and experts have shown that product development is a very important component for market development and to sustain a competitive position in the market (this factor was identified as a key factor for competitiveness in another study carried out for the Government). The average cost for this item is between 2% to 5% of total costs (the relevant cost item is the cost of "sampling" shown in Table 2 of the Paper[86]). This cost item and the importance of product development has formed a basis for the proposed support values.

(iv) Cost of meeting compliance conditions: Meeting compliance conditions is essential for ensuring production processes are consistent with legal and regulatory requirements. The cost estimate that is suggested for support is a portion of the total cost for compliance.

Both product development and meeting compliance conditions are essential for generating global markets. Competitiveness in those markets by enhancing the ability to meet the legal and regulatory conditions as well as the demands of importers from significant markets.

(v) Logistics costs: Logistics costs are a well-recognized constraint on Indian industry's competitiveness. Table 2 shows this to be a significant part of total cost. The support proposed is a portion of the total cost of this item.

(vi) Income tax exemption for foreign experts: This is proposed based on the feedback from industry, and also based on the fact that some competing countries provide favourable tax conditions for foreign experts employed in their apparel industry. The main point that emerged in the feedback was that a high tax added to the costs of employing foreign experts. These experts are usually crucial for improving technical competence and competitiveness.

(vi) Exempt stamp duty and registration fees for land bought or leased for new investment: This is based on the support provided by competing countries, practices of some states in India and feedback from industry.

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[86] IIFT, 2018, ""Challenges and Strategies to Promote India as a Sourcing Destination. A Report Submitted to Ministry of Textiles, Government of India".

(vii) Tariff lines for machines under ATUFS to be made duty free: This aims at facilitating the import of machinery which is already given duty free treatment. To the extent there is a significant market erosion for domestic machinery suppliers, the policy could be reviewed in that context.

6.7 The Details of The Alternative Subsidy scheme To Address Key Costs and Activities

The objective of this alternative scheme is to incentivize and support the Indian apparel industry in areas of activity which need to be emphasized for building global competitiveness. It has two parts, as mentioned in table 20 above. One is based on the 'general set of criteria, and the other emphasises a larger scale of operation as well.

6.7.a Financial support for the "general criteria"

(a) One month's wages per year. i.e. 8.33% of annual wages as financial support for employment resulting from NEW investment or the EXPANSION of existing enterprise.

This financial support would be in addition to any scheme presently being implemented to support wage cost. One way of implementing the scheme could be by deducting this amount from income for the income tax purposes.

(b) Product development and R&D support of up to 2% of eligible turnover.

- Product development and testing are particularly important for competing with enterprises that have regional or international market presence based on their brand and quality.
  - This support strengthens the firm for maintaining/enhancing its ability to develop new products, practices and techniques so as to be an active and efficient part of domestic and foreign markets.
- Firms could certify their expenditures on the basis of their balance sheets.
- Disbursement of the amount to be carried out by any agency/agencies designated by the Ministry of Textiles, Government of India.
- The scope of product development would include the technical activity involved in sampling. This is an essential requirement to maintain, attract and generate market demand. The technical activities would involve product development, testing and installing quality control systems.

(c) Product development, upgrading quality, and developing market presence may require foreign experts. The income tax should be exempted for such foreign experts employed for these tasks.

(d) Up to 2% of eligible turnover be provided as financial support for transport for workers, subsidised food, housing, ESI and other social policies implemented by the producers.

- For the apparel sector, disbursement of the amount to be carried out by any agency/agencies designated by the Ministry of Textiles, Government of India.
- Firms can self-certify these expenditures on the basis of their balance sheets

(e) Delays and costs due to logistics, especially at the ports, have been recognized as major factors that need to be addressed through the ongoing efforts to introduce ease of doing business and improve economic competitiveness. While such efforts are in place, the lack of competitiveness should be mitigated by financial support as follows:

- 1% of eligible turnover to be paid towards this cost item.
- Disbursement of the amount to be carried out by any agency/agencies designated by the Ministry of Textiles, Government of India.

(f) 0.5% of eligible turnover to be paid towards the cost of compliance for meeting relevant standards for high quality production acceptable in domestic and major markets abroad.

- For the apparel sector, disbursement of the amount to be carried out by the agency designated by the Ministry of Textiles, Government of India.

(g) Other ongoing financial support schemes such as loans at reduced rates for fixed capital and working capital, financial support for waste treatment plants, and technology upgradation support, should continue as at present.

(h) Review support schemes after four years.

6.7. Financial support for the "scale related criteria"

<u>To encourage scale of production under a single production unit</u> financial support be provided to those producers meeting the following criteria:

- The above-mentioned "general criteria", PLUS,
- Production facility with the number of workers employed being at least 300 in urban areas and at least 250 in non-urban areas.
- Review support scheme after four years.

Financial support for this category of criteria should be provided for those eligible, as follows:

(a) For wage support:

Table 21. Financial support for wages in non-urban areas

Number of workers (non-urban areas)	Benefits
250 to 499	One month's wages per year. i.e. 8.33% of annual wages as financial support for employment resulting from new investment or the expansion of existing enterprise. This would be in addition to any scheme being implemented. One way of implementing the scheme could be by deducting this amount from income for the income tax purposes.
500 to 999	Instead of the one month's wages specified above, one and a half months' wages per year. i.e. 12.5% of annual wages as financial support.
1000 and above	Two months' wages per year. i.e. 16.7% of annual wages as financial support instead of the one month specified above.

<u>Note:</u> Non-urban areas are those with population less than 1 lakh. See for example, https://rbi.org.in/scripts/bs_viewcontent.aspx?Id=2035

Table 22. Financial support for wages in urban areas

Number of workers (Urban areas)	Benefits
300 to 599	One month's wages per year. i.e. 8.33% of annual wages as financial support for employment resulting from new investment or the expansion of existing enterprise. This would be in addition to any scheme being implemented. One way of implementing the scheme could be by deducting this amount from income for the income tax purposes.
600 to 999	One and a half months' wages per year. i.e. 12.5% of annual wages as financial support instead of the one month specified above.

1000 and above	Two months' wages per year. i.e. 16.7% of annual wages as financial support instead of the one month specified above.

Note: Urban areas are those with population of 1 lakh or more. See for example, https://rbi.org.in/scripts/bs_viewcontent.aspx?Id=2035

The other parts of the scheme are the same for both urban and non-urban areas. The support schemes proposed are summarised in Table 23.

Table 23: Support Schemes Proposed[87]

Type of Subsidy	General Category	(Category Based on Scale)
Wage	8.33 % of Annual wage bill for new enterprises or expansion of existing enterprises.	For new enterprises or expansion of existing enterprises: **In non-urban areas:** 1. 250-499 employees 8.33%. of annual wage bill 2. 500-999 employees 12.5% 3. 1000 or more employees 16.7% **In Urban areas:** 1. 300-599 employees 8.33% 2. 600-999 employees 12.5% 3. 1000 or more employees 16.7%
Other labour costs such as transportation, Housing, ESI, Health and other benefits	2 % of eligible turnover	Same as General Category
Product development and Brand building including sampling	2% of eligible turnover	3% of eligible turnover, Plus, 0.5% of eligible turnover, if an enterprise obtains Department of Scientific and Industrial Research (DSIR) recognition and registration to in-house R&D units
Cost of compliance with standards	0.5% of eligible turnover	1% of eligible turnover
Logistics costs	1% of eligible turnover	1.5% of eligible turnover
Income tax Exemption of foreign consultants	Yes	Yes
Exempt stamp duty and registration charges for land bought or leased for New Investment	Yes	Yes
Other ongoing schemes such as interest subvention, ATUFs etc. to continue	Yes	Yes
All tariff lines listed under ATUFs to be made duty free	Yes	Yes

[87] Details of the other support schemes are the same as for the general categories, except for the subsidy levels which are shown in Table 23.

Review of schemes after 4 years	Yes	Yes

6.8 Support through policies that are not considered subsidies under WTO

When discussing subsidies under the WTO regime, it is important to distinguish between support policies which the WTO categorises as subsidies and those which are not considered subsidies under the WTO. The latter set includes three important types of support policies.

(a) Reducing the import tariff to zero for any product as a matter of general policy rather than linking zero tariffs to performance criteria. This would not be a subsidy under WTO.
(b) Trade facilitation policies of the government are not subsidies under WTO. They do however improve operational performance of the benefiting industries.
(c) Duty drawback and ROSL are not subsidies under WTO. They are allowed under WTO as policies which are not considered subsidies, provided the duty refund or remission is not more than the actual duty. These should be treated separately from subsidy policies.

These imply the following support policies for apparel.

1. Reduce the tariff to zero for imports of capital equipment for apparel, in particular the list under ATUFS. In general, such machinery is not produced in India. The list can be reviewed every 4 years so that if domestic firms can meet the quality and quantity requirements for machinery of the sector, applied tariffs could be changed as decided.
2. Implement facilitation policies that are planned or in the pipeline, starting with employment intensive sectors like apparel. The initial experience of implementing facilitation policies for such sectors would help improve implementation of facilitation policies for all sectors.
3. As complete an information as possible on ROSL should be considered for its refunds when a product is exported. As mentioned in Footnote 61 of the ASCM[88], this would include indirect taxes on inputs consumed in the process of production for inputs physically incorporated in the product, as well as energy, fuels and oil used in the production process and catalysts which are consumed in the course of their use to produce the exported product. To the extent that it is not easy to calculate a small part of the ROSL, an average estimate based on input-output system should be calculated for that part for refund.

[88] WTO allows for exports, rebate, remission or drawback of indirect taxes on inputs consumed in the process of production. The definition of this coverage is in Footnote 61 of ASCM, which states that: "Inputs consumed in the production process are inputs physically incorporated, energy, fuels and oil used in the production process and catalysts which are consumed in the course of their use to obtain the exported product".

6.9 The treatment of Merchant Exporters

Concept

1. The activity of merchant exporters can be classified under distribution services. Hence any WTO rules on subsidy (including export subsidy) for services are those given under the WTO General Agreement on Trade in Services (GATS).
2. The GATS has no disciplines on subsidies and hence, services as such could be provided subsidies without any disciplines relevant to them.
3. Consequently, any subsidy for the services component of exports from Merchant Exporters would be consistent with WTO provisions on subsidies.
4. For this, the total amount of exports would not be eligible for the subsidy but only the amount of embedded services provided by Merchant Exporters.
5. The concept of embedded services would be derived as the difference between the value of Bank realisation from exports and the total cost to the exporter from procuring the products for which he has GST receipts. Thus the GST receipts would determine the procurement value of the merchant exporter. The difference would be the value of the service exported by the merchant exporter.
6. Thus, for example, if the export realisation is INR100 and the GST data shows that the garment was procured at INR60, the value of embedded services would be INR40.
7. A certain percentage of this INR40 could be provided as an export subsidy to the merchant exporter.

Subsidies to Merchant Exporters

For merchant enterprises, the condition specified in Customs Notification No. 50/2017 dated 30.07.2017 could be used as a starting point, namely: "the entitlement certificate issued by respective export promotion councils shall carry the name of supporting manufacturers along with the name of the merchant-exporter in case the goods are exported by a merchant exporter."[89] This data could be used to distribute subsidies between merchant exporters and manufacturers.

However using the services route is a neater way of disbursing subsidies to merchant exporters. Hence, over a short period of time, this scheme could be replaced by another more specific one using data from GST. The Government could calculate the turnover of exports by Merchant Exporters (T), and the average share in this turnover contributed by the value added by the Merchant Exporters (V) as explained above.

At present, MEIS provides 4% of f.o.b. their exports, i.e. 4% of "T" mentioned above. This subsidy amount could be kept unchanged. The existing rates of subsidy for Merchant Exporters could remain the same as at present, but that rate be applied to their value-added part. In our example, this would mean a subsidy of 8% of "V" mentioned above. Based on feedback from the industry the service component of merchant exporters is about 25%. This would result in a subsidy of about INR 550 crores. This relatively smaller amount could be in addition to the amount calculated for the manufacturers in apparel industry.

Documents required for the Merchant Exporter

1. The Merchant Exporter will be required to submit the Bank realisation certificate and the GST certificate which specifies the price at which garments were procured.
2. The Merchant Exporter should self-certify the embedded services as the difference between procurement price and bank realisation price.

[89] See, Condition 28 (aa) in the notification shown at: http://howtoexportimport.com/Customs-notification-50-2017-last-part-6970.aspx

3. This document with proper proof should be submitted to the DGFT as this is a case of export subsidies on services.
4. The Merchant Exporter will then be given a certificate of the subsidy entitlement which he can then use to pay his direct and indirect taxes. These certificates will not be transferrable.

6.10 Benefits of reinstating subsidies which have to be removed because of WTO

Section 3 had indicated the export subsidies that would need to be phased out. While the actually disbursed amounts for these subsidies totally amount to about 3% of exports, at present less than half the amount allocated for MEIS is being disbursed due to the problems associated with accessing it as shown in sections 3.3.a AND 3.3.b. If all of the budgeted MEIS were to be disbursed, and the other four subsidies in Table 6 added to the MEIS amount added which have to be phased out would amount to roughly 5-6% of total F.O.B value of exports which would be roughly INR 6,300 cr. This figure is based on the average exports of the past three years of the apparel sector. To replace these subsidies with an equivalent value of support the following amounts are considered for calculating the impact of the suggested subsidies schemes.

1. Product development and R&D subsidy amounting to roughly INR 2,000 crore (equivalent to 2%-3% of eligible turnover).
2. Removing EPCG and making the list of eligible machinery under ATUFS duty free, without any link with export performance. This would result in a benefit of 0.25% of turnover to the apparel sector. By making this duty free the government would in effect forgo no revenue as most of the duty was in any case not charged to the exporter. However, modernisation, employment and competitiveness would be positively impacted.
3. Support for compliance standards amounting to over INR 1,000 crore (1% of total eligible turnover of exporters).
4. Logistics support would amount to roughly INR 1,000 core (1% of total eligible turnover of exporters)
5. Additional amount of INR 1,500 for other support including for wages in new investment, and scale.
6. Support for transport, housing, food, etc of workers amounting to 0.5% of eligible turnover amounting to roughly INR 600cr.

These amounts were then simulated in the CGE model and the following results were obtained:

1. **Exports from the Indian apparel sector increase by 6.8%; they range between 6.5% and 7.3% for different destination countries.**
2. **Output from the Apparel sector in India rises by 2.98%.**
3. **Employment in the Apparel sector rises by 3.15% for unskilled labour and 3.08% for skilled labour.**
4. **Cost of production of apparel that gets exported falls by 1.03%.**
5. **Prices of apparel decrease by 0.15% (while we may expect a demand-pushed rise in prices, they decrease instead because of the lower cost pressures shown in 4).**
6. **GDP rises by 0.03%.**
7. **National employment of unskilled labour rises by 0.07% and skilled labour rises by 0.05%.**

These could be compared with the results obtained in Section 3 in terms of the simulation of likely conditions arising as a result of removing the export-related subsidies. To recall those results:

1. **Exports from the Indian apparel sector fall by 5.9%; they range between 5.6% and 6.3% for different destination countries.**
2. **Output from the Apparel sector in India falls by 2.63%**
3. **Employment in the Apparel sector falls by 2.71% in unskilled labour and 2.58% in skilled labour.**

4. **Cost of production of apparel that gets exported rises by 1%**
5. **Prices of apparel increase by 0.08% (while we may expect a fall in prices, it increases because of the cost pressures shown in 4).**
6. **GDP falls by 0.03%.**
7. **National employment of unskilled labour falls by 0.06% and skilled labour falls by 0.04%.**

With a near equivalence in terms of revenue neutrality, the subsidies suggested can be considered smart subsidies, as they would result in improved competitiveness and better performance of the garment sector. Thus, while being WTO compliant such subsidies would also provide greater benefits to the sector.

6.11 The implementation mechanism

The Implementation mechanism would rely on self-certification by firms. Two different ways for providing subsidy could be selected.

Both schemes: The firms would need to self-certify the number of EPF employees and calculate its eligible turnover. This would then be checked with the EPF website of the Ministry of labour and a certificate obtained for this purpose. As this information is provided in the web-site of the Ministry of labour, checking and certifying could be done by the relevant industry associations such as the AEPC.

Additional documents needed for the scheme aimed at improving competitiveness: Records to show employment generated from new investment or from expansion of existing production facilities. Such schemes are in operation in certain States and the same documents would be required for this part as well.

Other cost items such as "other labour related costs", product development, compliance with standards and logistics related costs occur for all producers. The basic suggestion is to provide subsidy as a proportion of eligible turnover. Aggregate amounts together for all these items could be provided based on eligible turnover. Over time, the components of the balance sheet of the company could show that these activities have been undertaken.

In addition, for the 0.5% of eligible turnover proposed for those who have Department of Scientific and Industrial Research (DSIR) recognition and registration to in-house R&D units, would need to show the relevant papers of this registration.

The other schemes relate to taxes exempted or reduced. Those would be addressed as a policy decision regarding those taxes and charges.

Based on these documents the firm could go to the Textiles Commissioner's office or the DGFT and obtain a certificate similar to the EPC.

The DGFT or Textile Commissioner's office could provide the scrips or certificates equivalent to the support for each firm seeking support. These scrips or certificates could be used to pay taxes and duties that the firm has to pay, including income tax or GST.

It is very important to improve performance based on learning from experience and addressing implementation problems. The implementation experience of Indian States could be one basis of identifying processes that are relatively simpler and enable timely response. In view of the several concerns expressed by exporters about delays in implementation, complexity, and processes of different institutions that need to be made consistent, it would be appropriate for industry associations to work in close collaboration with the government to identify major implementation problems and develop ways of addressing them, as and when they are identified. In the initial phase, there would be a need to prioritise amongst the various concerns that are identified. Over time, however, these issues will be fewer and thus easier to address as and when they arise.

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Annex 1: Description of GTAP Model

The GTAP model is a multi-sectoral and multi-regional economic model, which captures linkages between several industries in each country and across the world. It captures markets for supply and demand in households (consumers), firms, primary factors and products. Trade between a given industry and linkages across industries are captured based on an Input-Output (IO) table for every country within the data base. Government collects taxes and provides subsidies to firms and individuals in each country, and also spends on various goods and services. Bilateral exports and imports between different countries are captured, based on relative price differences arising from tax/subsidy policies and technological changes. The model also allows for global savings and investment flows to balance each other globally. Households receive income from the labour and capital that they own. Consumption shares are determined by Cobb-Douglas expenditure function with shares derived from IO tables.

The purpose of the GTAP model is to determine the effects of a change in trade policy on the endogenous variables of the model – prices, production, consumption, exports, imports and welfare. Introducing such changes in the model is known as a shock or a simulation; it represents what the economy would look like if the policy change or shock had occurred. The difference in the values of the endogenous variables in the base data and the simulation represents the effect of the policy change. All the policy simulations as well as results reported in the paper, as in other major models of this type, may be thought of as occurring in one-shot over a time-period that is needed for equilibrium to be achieved. In other words, the model analyses the effect on economic variables such as trade and production patterns if the policy was changed; in our case, the policy change is the removal and reinstatement of export subsidies to apparel sector.

Specifically, in terms of wearing apparel, as shown in the detailed table below, GTAP framework captures 220 products at HS-code (Harmonized Systems) six digit level. These products span over the two-digit chapters of 42, 43, 61, 62 and 65. In addition to apparel sector, there are all other sectors in the economy, captured in 56 other industry groups, which span across several agricultural, manufacturing, energy/extraction and services sectors. Some of these sectors may be major users of products from apparel sector, while others may be major suppliers of inputs to this sector. For example, final consumers (foreign and domestic households, mainly) are the major users of apparels, and textile sector is the major supplier to apparel sector. Any shocks to the apparel sector affects both the suppliers and users. Thus, the model captures the forward and backward linkages of the apparel sector with the rest of the economy in a comprehensive manner.

Table A1: Description of sectors in wearing apparel sector in GTAP

HS6 Code	Description of the code
420310	Articles of apparel, of leather or compo
420329	Gloves, mittens and mitts, of leather or
420330	Belts and bandoliers, of leather or comp
420340	Clothing accessories of leather or compo
430211	Tanned or dressed furskins of mink, whol
430219	Tanned or dressed furskins, whole, with
430220	Heads, tails, paws and other pieces or c
430230	Tanned or dressed whole furskins and pie
430310	Articles of apparel and clothing accesso
430390	Articles of furskin (excl. articles of a

430400	Artificial fur and articles thereof (exc
610120	Overcoats, car coats, capes, cloaks, ano
610130	Overcoats, car coats, capes, cloaks, ano
610190	Overcoats, car coats, capes, cloaks, ano
610210	Women''s or girls'' overcoats, car coats
610220	Women''s or girls'' overcoats, car coats
610230	Women''s or girls'' overcoats, car coats
610290	Women''s or girls'' overcoats, car coats
610310	Men''s or boys'' suits of textile materi
610322	Men''s or boys'' ensembles of cotton, kn
610323	Men''s or boys'' ensembles of synthetic
610329	Men''s or boys'' ensembles of textile ma
610331	Men''s or boys'' jackets and blazers of
610332	Men''s or boys'' jackets and blazers of
610333	Men''s or boys'' jackets and blazers of
610339	Men''s or boys'' jackets and blazers of
610341	Men''s or boys'' trousers, bib and brace
610342	Men''s or boys'' trousers, bib and brace
610343	Men''s or boys'' trousers, bib and brace
610349	Men''s or boys'' trousers, bib and brace
610413	Women''s or girls'' suits of synthetic f
610419	Women''s or girls'' suits of textile mat
610422	Women''s or girls'' ensembles of cotton,
610423	Women''s or girls'' ensembles of synthet
610429	Women''s or girls'' ensembles of textile
610431	Women''s or girls'' jackets and blazers
610432	Women''s or girls'' jackets and blazers
610433	Women''s or girls'' jackets and blazers
610439	Women''s or girls'' jackets and blazers
610441	Women''s or girls'' dresses of wool or f
610442	Women''s or girls'' dresses of cotton, k
610443	Women''s or girls'' dresses of synthetic
610444	Women''s or girls'' dresses of artificia
610449	Women''s or girls'' dresses of textile m
610451	Women''s or girls'' skirts and divided s
610452	Women''s or girls'' skirts and divided s
610453	Women''s or girls'' skirts and divided s
610459	Women''s or girls'' skirts and divided s
610461	Women''s or girls'' trousers, bib and br
610462	Women''s or girls'' trousers, bib and br
610463	Women''s or girls'' trousers, bib and br
610469	Women''s or girls'' trousers, bib and br
610510	Men''s or boys'' shirts of cotton, knitt
610520	Men''s or boys'' shirts of man-made fibr
610590	Men''s or boys'' shirts of textile mater
610610	Women''s or girls'' blouses, shirts and
610620	Women''s or girls'' blouses, shirts and
610690	Women''s or girls'' blouses, shirts and
610711	Men''s or boys'' underpants and briefs o
610712	Men''s or boys'' underpants and briefs o

610719	Men''s or boys'' underpants and briefs o
610721	Men''s or boys'' nightshirts and pyjamas
610722	Men''s or boys'' nightshirts and pyjamas
610729	Men''s or boys'' nightshirts and pyjamas
610791	Men''s or boys'' bathrobes, dressing gow
610799	Men''s or boys'' bathrobes, dressing gow
610811	Women''s or girls'' slips and petticoats
610819	Women''s or girls'' slips and petticoats
610821	Women''s or girls'' briefs and panties o
610822	Women''s or girls'' briefs and panties o
610829	Women''s or girls'' briefs and panties o
610831	Women''s or girls'' nightdresses and pyj
610832	Women''s or girls'' nightdresses and pyj
610839	Women''s or girls'' nightdresses and pyj
610891	Women''s or girls'' négligés, bathrobes,
610892	Women''s or girls'' négligés, bathrobes,
610899	Women''s or girls'' négligés, bathrobes,
611120	Babies'' garments and clothing accessori
611130	Babies'' garments and clothing accessori
611190	Babies'' garments and clothing accessori
611211	Track-suits of cotton, knitted or croche
611212	Track-suits of synthetic fibres, knitted
611219	Track-suits of textile materials, knitte
611220	Ski-suits, knitted or crocheted
611231	Men''s or boys'' swimwear of synthetic f
611239	Men''s or boys'' swimwear of textile mat
611241	Women''s or girls'' swimwear of syntheti
611249	Women''s or girls'' swimwear of textile
611300	Garments, knitted or crocheted, rubberis
611420	Special garments for professional, sport
611430	Special garments for professional, sport
611490	Special garments for professional, sport
611610	Gloves, mittens and mitts, impregnated,
611691	Gloves, mittens and mitts, of wool or fi
611692	Gloves, mittens and mitts, of cotton, kn
611693	Gloves, mittens and mitts, of synthetic
611699	Gloves, mittens and mitts, of textile ma
611710	Shawls, scarves, mufflers, mantillas, ve
611780	Ties, bow ties, cravats and other made-u
611790	Parts of garments or clothing accessorie
620111	Men''s or boys'' overcoats, raincoats, c
620112	Men''s or boys'' overcoats, raincoats, c
620113	Men''s or boys'' overcoats, raincoats, c
620119	Men''s or boys'' overcoats, raincoats, c
620191	Men''s or boys'' anoraks, incl. ski jack

620192	Men''s or boys'' anoraks, windcheaters,
620193	Men''s or boys'' anoraks, windcheaters,
620199	Men''s or boys'' anoraks, incl. ski jack
620211	Women''s or girls'' overcoats, raincoats
620212	Women''s or girls'' overcoats, raincoats
620213	Women''s or girls'' overcoats, raincoats
620219	Women''s or girls'' overcoats, raincoats
620291	Women''s or girls'' anoraks, incl. ski j
620292	Women''s or girls'' anoraks, windcheater
620293	Women''s or girls'' anoraks, windcheater
620299	Women''s or girls'' anoraks, incl. ski j
620311	Men''s or boys'' suits of wool or fine a
620312	Men''s or boys'' suits of synthetic fibr
620319	Men''s or boys'' suits of textile materi
620322	Men''s or boys'' ensembles of cotton (ex
620323	Men''s or boys'' ensembles of synthetic
620329	Men''s or boys'' ensembles of textile ma
620331	Men''s or boys'' jackets and blazers of
620332	Men''s or boys'' jackets and blazers of
620333	Men''s or boys'' jackets and blazers of
620339	Men''s or boys'' jackets and blazers of
620341	Men''s or boys'' trousers, bib and brace
620342	Men''s or boys'' trousers, bib and brace
620343	Men''s or boys'' trousers, bib and brace
620349	Men''s or boys'' trousers, bib and brace
620411	Women''s or girls'' suits of wool or fin
620412	Women''s or girls'' suits of cotton (exc
620413	Women''s or girls'' suits of synthetic f
620419	Women''s or girls'' suits of textile mat
620421	Women''s or girls'' ensembles of wool or
620422	Women''s or girls'' ensembles of cotton
620423	Women''s or girls'' ensembles of synthet
620429	Women''s or girls'' ensembles of textile
620431	Women''s or girls'' jackets and blazers
620432	Women''s or girls'' jackets and blazers
620433	Women''s or girls'' jackets and blazers
620439	Women''s or girls'' jackets and blazers
620441	Women''s or girls'' dresses of wool or f
620442	Women''s or girls'' dresses of cotton (e
620443	Women''s or girls'' dresses of synthetic
620444	Women''s or girls'' dresses of artificia
620449	Women''s or girls'' dresses of textile m
620451	Women''s or girls'' skirts and divided s
620452	Women''s or girls'' skirts and divided s
620453	Women''s or girls'' skirts and divided s
620459	Women''s or girls'' skirts and divided s
620461	Women''s or girls'' trousers, bib and br

620462	Women''s or girls'' trousers, bib and br
620463	Women''s or girls'' trousers, bib and br
620469	Women''s or girls'' trousers, bib and br
620520	Men''s or boys'' shirts of cotton (excl.
620530	Men''s or boys'' shirts of man-made fibr
620590	Men''s or boys'' shirts of textile mater
620610	Women''s or girls'' blouses, shirts and
620620	Women''s or girls'' blouses, shirts and
620630	Women''s or girls'' blouses, shirts and
620640	Women''s or girls'' blouses, shirts and
620690	Women''s or girls'' blouses, shirts and
620711	Men''s or boys'' underpants and briefs o
620719	Men''s or boys'' underpants and briefs o
620721	Men''s or boys'' nightshirts and pyjamas
620722	Men''s or boys'' nightshirts and pyjamas
620729	Men''s or boys'' nightshirts and pyjamas
620791	Men''s or boys'' singlets and other vest
620799	Men''s or boys'' singlets and other vest
620811	Women''s or girls'' slips and petticoats
620819	Women''s or girls'' slips and petticoats
620821	Women''s or girls'' nightdresses and pyj
620822	Women''s or girls'' nightdresses and pyj
620829	Women''s or girls'' nightdresses and pyj
620891	Women''s or girls'' singlets and other v
620892	Women''s or girls'' singlets and other v
620899	Women''s or girls'' singlets and other v
620920	Babies'' garments and clothing accessori
620930	Babies'' garments and clothing accessori
620990	Babies'' garments and clothing accessori
621010	Garments made up of felt or nonwovens, w
621020	Garments of the type described in subhea
621030	Garments of the type described in subhea
621040	Men''s or boys'' garments of textile fab
621050	Women''s or girls'' garments of textile
621111	Men''s or boys'' swimwear (excl. knitted
621112	Women''s or girls'' swimwear (excl. knit
621120	Ski suits (excl. knitted or crocheted)
621132	Men''s or boys'' tracksuits and other ga
621133	Men''s or boys'' tracksuits and other ga
621139	Men''s or boys'' tracksuits and other ga
621141	Women''s or girls'' tracksuits and other
621142	Women''s or girls'' tracksuits and other
621143	Women''s or girls'' tracksuits and other
621149	Women''s or girls'' tracksuits and other
621210	Brassieres of all types of textile mater
621220	Girdles and panty girdles of all types o
621230	Corselettes of all types of textile mate
621290	Corsets, braces, garters, suspenders and

621320	Handkerchiefs of cotton, of which no sid
621390	Handkerchiefs of textile materials, of w
621410	Shawls, scarves, mufflers, mantillas, ve
621420	Shawls, scarves, mufflers, mantillas, ve
621430	Shawls, scarves, mufflers, mantillas, ve
621440	Shawls, scarves, mufflers, mantillas, ve
621490	Shawls, scarves, mufflers, mantillas, ve
621510	Ties, bow ties and cravats of silk or silk
621520	Ties, bow ties and cravats of man-made
621590	Ties, bow ties and cravats of textile ma
621600	Gloves, mittens and mitts, of all types
621710	Made-up clothing accessories, of all types
621790	Parts of garments or clothing accessories
650100	Hat-forms, hat bodies and hoods of felt,
650200	Hat-shapes, plaited or made by assembling
650400	Hats and other headgear, plaited or made
650510	Hairnets of any material, whether or not
650590	Hats and other headgear, knitted or croc
650699	Headgear, whether or not lined or trimmed
650700	Headbands, linings, covers, hat foundation

Annex 2: Government of Andhra Pradesh, Textile & Apparel Policy 2015 – 2020

Excerpts

(http://www.apindustries.gov.in/APIndus/Data/Industry/Textile%20Policy_April_2_2015.pdf)

Mega Projects
Projects with an investment of at least ₹125 crore or providing employment to 2000 people or more, will be accorded mega industry status.

Large Projects
Projects with an investment of less than ₹125 crore but higher than the investment threshold set for medium enterprises as per MSMED Act from time to time.

MSME Projects
GoAP follows the MSME definition laid out by Government of India as per MSMED Act 2006 (as updated from time to time).

General incentives
1 Interest Subsidy on long term loans linked to Centrally Sponsored TUFs scheme
Financial assistance by way of credit linked Interest Subsidy will be given in Ginning & Pressing, Cotton Spinning, Weaving, Dyeing & Processing, Knitting, Garment/Made-ups, Machine Carpeting, Machine Embroidery and any other activities/ process like crimping, texturizing, twisting, winding, sizing etc. within the Textile value chain.
a. Eligible Activities
i. Spinning Spinning activities means setting up of unit with raw material as follows:
1. 100% cotton or
2. blended with any of the textile fibres or
3. any kind of spun yarn based on the cotton spinning system or technology from Blow room to Yarn packaging (Winding).
4. Spinning operation can be performed on Ring spinning, Rotors or Jet Spinning.
ii. Other activities
Ginning & Pressing, Weaving (with or without preparatory), Dyeing & Processing, Knitting, Garment /Made-ups Machine Carpeting, Machine Embroidery and any other activities/process like crimping, texturizing, twisting, winding, sizing etc. within the Textile value chain.
Investment in Plant & Machinery as specified in the updated list of machinery under TUF scheme of Government of India from time to time or as decided by GoAP.

b. Quantum of assistance
i. (a) Interest subsidy provided by GoAP after taking into account assistance from all sources, (Centrally Sponsored TUF scheme, Industrial policy of the state etc.) shall be capped at 12.5% per annum in a way that **maximum interest subsidy provided by GoAP will be up to 8% per annum for Weaving (with or without preparatory) Dyeing & Processing, Knitting, Garment**/Made-ups Machine Carpeting, Machine Embroidery, technical textiles and any other activities/process like crimping, texturizing, twisting, winding, sizing etc. within the Textile value chain **and up to 7.5% for Spinning & modern Ginning.**
(b)For the purpose of this scheme, either 12.5% or the bank prime lending rate or the rate of interest actually charged, whichever rate is less, will be taken as the applicable rate of interest
ii. Interest subsidy will be **available for establishing new enterprises or for expansion/diversification, only for the investment in new & modern Plant & Machinery as specified under TUF scheme of GoI**
iii. **To qualify for interest subsidy, the enterprise should get term loan from a Financial Institution/ Bank recognized by Reserve Bank of India**

iv. **An enterprise applying within one year of loan disbursement (but not later than the date of commencement of commercial production) will be eligible**

v. **Applicable to new units or existing units (only expansion or diversification) commencing production during the policy period**

vi. The enterprise must start commercial operation within the operative period of the scheme

vii. Interest subsidy will be available only on interest levied by the Financial Institution. Penal interest or other charges will not be reimbursed

viii. The interest subsidy will be for seven years including a moratorium of two years OR for the period of repayment of loan whichever is earlier

ix. Interest subsidy will be given to the enterprise which pays regular instalments and interest to the financial institutions. If the enterprise defaults, it will not be eligible for interest subsidy pertaining to the default period and such defaulting period will be deducted from 5-year period

x. The amount of interest subsidy due to the unit under the Central Government's TUF scheme, shall be deducted to arrive at the interest subsidy admissible

xi. Interest subsidy under this policy will become admissible after the interest subsidy becomes admissible under the centrally sponsored TUFs scheme

xii. **Under this scheme, the total period of reimbursement of interest subsidy shall be 7 years which will include 2 years of moratorium. However, if the period of implementation of the project is more than 2 years then the period of implementation to be taken into account shall be 2 years for calculating the interest subsidy. The period of implementation will be counted from the date of disbursal of the first instalment of the loan**

xiii. Banks may give loans for a period exceeding 7 years but the interest subsidy shall be admissible for 7 years only inclusive of 2 years for implementing the project

2 Power

a. Power tariff subsidy will be at ₹1 per unit for Spinning and modern Ginning and at ₹1.50 per unit for other categories (including technical textiles) for a period of 5 years from date of commencement of commercial production

b. **This will be applicable for setting up of new enterprises as well as for expansion/diversification of existing enterprises**

c. There will be clear demarcation on supply of electricity as per the eligibility criteria. Subsidy will be paid to utilities by office of the Industries Commissionerate after due verification of claims

d. Units who purchase electricity from state discoms/open access will be eligible for this relief

7. VAT/CST/SGST Concession[90]

GoAP will provide VAT/CST/SGST benefits as mentioned under:

a. Details:

i. Refund is available for VAT/CST/SGST paid by the unit on purchases of intermediate product/raw material except for certain goods and certain transactions which are not eligible for tax credit under the AP VAT Act – 2005

ii. VAT/CST/SGST reimbursement is available for tax collected on end product/intermediate product **within entire value chain** (from cotton to Garment and made ups**) to the extent of 100% of the eligible fixed capital investments in plant and machinery**

a. For investments less than ₹500 crores made within one year from the date of production or during the operative period of the scheme whichever is earlier.

b. For investments over ₹500 crores made within two years from the date of production or during the operative period of the scheme whichever is earlier

This incentive can be claimed only within 8 years from the date of commencement of commercial production limited to 5 year period.

[90] The original document itself has this gap in numbering.

iii. The Eligibility Certificate for the above VAT/CST/SGST concessions will be issued by the Industries department.
iv. For the purpose above, Eligible Fixed Capital Investment means investment made for setting up of new units or expansion/diversification of existing units that commence commercial production during the policy period.

b. General conditions:

The following conditions shall apply to the above scheme:
i. The enterprise must start commercial operation within the operative period of the scheme
ii. The enterprise availing benefit under the scheme will have to remain in production/service at least for ten years from the date of commencement of commercial production/service
iii. All the benefiting enterprises shall file information about annual production, sales, power consumption and such other details as may be asked by DIC on 31st of every March annually.
iv. For expansion/ diversification/ modernization the enterprise will be entitled for incentives only once during the operative period of the scheme.
v. The Enterprises availing benefit under this scheme cannot avail benefit from any other State Government scheme like MSMED for the same purpose. However, enterprises are eligible to get any other additional benefit under Government of India scheme.
vi. All the benefits will be over and above the benefit and support given by GoI.
vii. VAT/CST/SGST concession for composite unit is eligible for investment in any part of the whole value chain
viii.Technical textiles sector will also be eligible to get VAT/CST/SGST concessions

8. Capital Subsidy

GoAP will provide capital subsidy to standalone garmenting and apparel units. These units will not be eligible for tax incentives mentioned in this policy under para 7 (VAT/CST/SGST concession). a.

Details & Quantum:

i. GoAP will provide capital subsidy up to ₹ 10 crore
ii. For the purposes of calculation of incentives under the policy, gross fixed capital investment would be defined as investment in factory building, infrastructure (other than land and land development), plant & machinery and other productive assets with transportation, erection & electrification
iii. Capital subsidy would be provided to all eligible units, during the policy period for Expansion/Diversification as follows:

Investment bracket	Quantum of Investment
MSME Projects (Up to ₹10 crores)	20% of the Fixed Assets
10 crore to 25 crore	20% of the Fixed Assets or ₹3 crore, whichever is less
26 crore to 50 crore	20% of the Fixed Assets or ₹4 crore, whichever is less
51 crore to 125 crore	20% of the Fixed Assets or ₹6 crore, whichever is less
Mega Projects	10% of the project cost or ₹10 crore, whichever is less

9. Support for Establishing Textile & Apparel Park

a. Eligibility:

i. Any Industry Association/ Industrial House/ Co-operative society / Institution registered under the Societies Act, Partnership Act or the Companies Act OR any Government body shall be eligible as developer to avail assistance under the scheme
ii. The park must have provision for co-locating minimum 10 manufacturing/ service enterprises. Out of these, a maximum of 25% of units can be from service and allied enterprises

iii. In addition to the above, provision of all common facilities are required to be established by the developer in the textile park

b. Land

i. GoAP shall provide land as per the industrial development policy

c. Infrastructure facilities

i. Developer shall make provision for common internal infrastructure facilities such as internal roads, power lines, communication facilities, water distribution line and water augmentation facilities, sewage and drainage lines, effluent treatment and disposal facilities, storage facilities, common facility centre like training centre, display centre etc. and other facilities as may be required in the Industrial Park.

d. Quantum of assistance

i. The park developer and enterprises in the park will be eligible for **reimbursement of stamp duty on lease of land required for the new park**

ii. This reimbursement will be available only once to the developer and the first lessor of an individual unit. **Stamp duty reimbursement certificate will be issued after approval of the project**.

iii. Assistance shall be provided on case to case basis for creation of external infrastructure. This assistance shall be drawn from Industrial infrastructure development fund (IIDF) and/or funding from multilateral agencies

iv. For establishing common infrastructure facilities, **GoAP will provide financial assistance of up to 50% of expenditure incurred, with maximum limit of ₹15 crore (₹30 crore for composite/integrated park) limited to 10% of the total project cost (excluding cost of land)**

e. Mode of implementation

Textile/Apparel parks are required to have the minimum infrastructure facilities. **An indicative list of common infrastructure facilities is**:

i. Asphalt road, concrete road
ii. Storm water drainage system
iii. Domestic sewage collection and disposal system
iv. Street lights
v. Open & Green spaces
vi. Water & Power supply & distribution network
vii. Entrance gate and security
viii. Communication network
ix. Effluent treatment collection/disposal
x. Fire station/ firefighting facilities with equipment
xi. Common storage facilities for raw materials finished products.
xii. Boundary wall
xiii. Public transit within park
xiv. Centralised washing (apparel park)
xv. Centralised embroidery unit (apparel park)

f. Other conditions

i. Developer of parks availing incentives under the scheme will not be eligible to avail incentive under any other schemes of the State Government, unless specified otherwise. However, enterprises coming up in the park shall be eligible to avail incentives under other schemes of the State Government

ii. Construction of infrastructure facilities of the sanctioned project should be completed within a period of three years from the date of project approval. Failure to complete within the specified period will attract the recovery of Stamp duty as per rules. Failure to complete the project within the specified period, will render the project ineligible for financial assistance

iii. The promoter/ developer of the project shall commit to hold at least 20% equity in the project

iv. **Expansion or modification/modernization of existing industrial parks shall not be eligible under this scheme**

v. Promoter/developer of parks shall operate & maintain the park, failing which, sanctioned/ disbursed/ reimbursed amount will be recovered as arrears of land revenue under Land Revenue Laws

vi. Detailed organization and management arrangements and mechanism of third party inspection will have to be set up as an integral part of the project to claim assistance under this scheme

b. Assistance of up to 50%, subject to a maximum amount of ₹50,000 for Energy Audit/Water Audit/Environmental Compliance. The limit of ₹50,000 will be applicable to each category separately.

c. The enterprise will be eligible for the above benefit once during operating period of the scheme.

10. Assistance for Energy Conservation, Water Conservation and Environmental Compliance to existing units (more than 3 years old)

a. GoAP will support setting up of Common Effluent Treatment Plant (CETP) at Industrial clusters/ textile parks. GoAP will provide following incentives

a. 50% of the Project cost or ₹10 crore, whichever is less.

b. In case of Handloom sector- 80% of the project cost or ₹2 crore, whichever is less

b. Assistance of up to 50%, subject to a maximum amount of ₹50,000 for Energy Audit/Water Audit/Environmental Compliance. The limit of ₹50,000 will be applicable to each category separately. c. The enterprise will be eligible for the above benefit once during operating period of the scheme.

11. Assistance for Technology acquisition and upgradation

Enterprises acquiring specialized application technology for the first time in India will be considered eligible under the scheme. Acquisition of technology and collabouration can be in any form, including purchase of drawing, design and technology development **through engaging experts/ R&D institutions and/or technical consultancy firms**. **Mere import of Machinery or Technology will not be considered as Technology Acquisition.**

a. Quantum of Assistance

i. Enterprises acquiring technology will be provided financial assistance of up to 50% of the investment in technology/collabouration, subject to a maximum amount of ₹25 lakh per process/product, only once during operative period of the scheme

ii. Enterprises availing a benefit for the same purpose under any other scheme of the State Government will not be eligible to get benefits under this scheme

12. Assistance to Apparel Training Institutions and Trainees

The section below profiles eligible activities and the amount of assistance proposed.

a. Apparel and textile designing courses in Industrial Training Institutes (ITIs)

i. Under this scheme, **any autonomous institution promoted by government/public sector undertakings or private sector with a substantive background of textile and apparel industries or skilled manpower development will be provided assistance up to 75% subject to a maximum amount of ₹4 crore of the project cost.**

ii. **Project cost will cover fixed capital investment in building, equipment and machinery (including installation cost), electrification, furniture and other miscellaneous investment** required for setting up training facilities, excluding land cost. **A maximum of 25% cost of Machinery and Training Equipment will be eligible to be considered under infrastructure including building**.

iii. **The promoter will bear the recurring expenditure of running the training institution**

b. Training Centres

i. Training centres, that intend to upgrade their facilities in order to provide apparel training will be given assistance as follows:

a) **50% of their investment towards purchase of equipment and machinery (including installation cost), electrification and necessary furniture subject to a maximum amount of ₹20 lakh per centre**.
b) Establishment of new training centres will also qualify for financial assistance as in (a) mentioned above.
ii. To be eligible for the above benefit, Institution/Training centre shall create mechanism for assessment of trainees either along the lines of ITIs and Polytechnics or undergo third party assessment by certified industry bodies.

c. Reimbursement of tuition fees to trainees

i. **The assistance will be at 50% of total fees charged by institutions approved by the State Level Committee. This will be subject to a limit of ₹7,500 per trainee for a minimum of 15 working days (120 hrs duration) per course in apparel production. The assistance for women trainees shall be 60% of total fees charged by the institution subject to a limit of ₹8000 per trainee**.
ii. However, this support will not be available to those trainees availing any other similar support provided by State Government. iii. Training Institutions/Centres promoted under the scheme of GoAP or GoI will continue to get benefit up to 10 years of commissioning

d. Assistance for Training to Trainers

i. Apparel training institutions/centres approved by State Level Committee, imparting training to trainers will be provided financial assistance, as **reimbursement of training cost up to ₹7,500 per trainer, per week**. The reimbursement will be subject to the following:
a. 100% in case of trainers attending autonomous institutions promoted by Government/Public sector undertakings and
b. 50% in case of trainers attending other institutions ii. The training period should not be more than four weeks. iii. The training will be conducted in the institutions approved by the State Level Committee/ Anchor Institutions

13. Training support to Powerloom sector

Trainees of powerloom training centres operated by powerloom
Service Centres or Skill Development Centres promoted by the State or Central Government or any autonomous body as approved by State Level Committee from time to time will be provided financial assistance.

i. Quantum of Assistance:

Trainees will be given stipend of ₹3000 per month for a period of three months.

a. Assistance for advanced training to powerloom owner/jobber and worker

Financial assistance for advanced training to powerloom owner/jobber and worker to upgrade skills to work on Auto looms, high speed auto looms and shuttle-less looms to improve their working style, skill and behaviour

i. Quantum of Assistance

a. **Allowances towards cost of transport and incidental expenses to weavers at ₹200 per day and jobbers at ₹300 per day for a duration of six days. No allowance will be given to powerloom owner**.
b**. No fees will be charged by the institution from weaver, jobber or owner for providing training**

ii. Other Conditions

The following conditions shall apply for providing financial assistance:
a. Training period will be two days for weaver, six days for jobber and two days for powerloom owner
b. Fees to experts, practical training, facilities for training etc. will be decided in consultation with the office of Industries Commissionerate for each training programme. **Reimbursement of actual cost of such expenditure will be given to institutions/autonomous or Non-Profit Organisation with maximum 25% of the estimated cost as an advance as approved by the State Level Committee**

14. Transport subsidy to labour intensive Textile/Apparel units

Labour intensive Textile/Apparel units may be considered for provision of transport subsidy limited to first two years of operations of units providing direct employment to at least 1000 people in backward districts of Rayalaseema and North Coastal Andhra. The incentive will be subject to a maximum of ₹500 per employee per month or ₹3 lakh per year whichever is less, reimbursed on an annual basis.

Note: Incentives mentioned in the Textile Policy 2015 - 20 will be extended to industries as per guidelines to be notified separately

Annex 3: Jharkhand Textile, Apparel and Footwear Policy 2016,

Excerpts

(http://momentumjharkhand.com/wp-content/uploads/2016/09/Jharkhand-Textiles-Policy-2016.pdf)
Further the clusters will be developed as per the guidelines set for Scheme for Integrated Textile Park (SITP), under Ministry of Textiles, Government of India (Jharkhand, section 6.2(c))

Brown field Cluster Development:
(a) A cluster based development strategy is proposed to be adapted for the existing industrial estates having textile units, in the State. These units may belong to sub sectors of the value chain or an integrated textile unit
(b) The objective is to continue the sustainable growth of the sector and become internationally competitive through expansion or technology up-gradation
(c) Associations could be formed with Textile Units in the existing industrial estates or outside to approach the State Government for funding of specific common infrastructure such as CETP etc. and common amenities which are currently not available
(d) State Government may also provide funding for developing soft inputs for the units in the industrial estate and nearby it. These soft inputs maybe provided in the form of skill development, marketing/ branding and capacity building. The association may carry the operations and maintenance activities of these common amenities
Eco Textiles
(c) Certification process would ensure that global standards of organic production and processing have been met. It would authenticate the company and its products and increase its credibility in international market
(d) Policy to be focused on eco-friendly manufacturing and eco-labelling of products. State Government will promote eco-friendly fabric and apparel manufacturing projects which conforms to specifications laid out as per international benchmark
(e) Infrastructure facilities within the project may include water supply, biological and chemical effluent treatment plants, alternative electricity supplies, steam and compressed air-all designed to include energy-saving processes
(f) To encourage eco textiles in the State, Government will promote companies complying to certain standards of organic production and processing
6.7.7 Clothing
Government of Jharkhand shall take the following measures to promote the industry:
• joint ventures and strategic alliances with leading world manufacturers will be promoted;
• setting up of strong domestic retail chains to ensure easy availability of branded Indian products will be encouraged
Exports
Textile exports play a crucial role in the overall exports from India. The thrust will be on:
• forging of strategic alliances for gaining access to technology;
• Operating a brand equity fund exclusively for textile and apparel products.
• Developing infrastructural facilities in the predominantly textile and apparel export oriented areas in close co-operation with Financial Institutions and the private sector;

6.7.13 Fiscal and Financing Arrangements
Funding requirements of different segments of the textile and apparel industry will be periodically reviewed and short-term and long-term requirements spelled out, particularly of the handloom, powerloom, handicrafts and sericulture sectors. Innovative measures for tapping public and private sector funding will be worked out.
The endeavour will be to:

• Encourage the private sector to take the initiative in participating in financing of specific needs of the textile industry;
• Set up a Venture Capital Fund in consultation with and involvement of financial institutions for the promotion of talented Indian Designers, Technologists, innovative market leaders and e-commerce ventures

Industry Workers' Hostel Scheme
With an aim to provide a safe and secured accommodation for the workforce and ensure better retention of the work force by way of decent accommodation in/vicinity of the textile parks, **Government of India has launched this scheme** to establish workers' hostel for the workers of textile industry with the support of Ministry in /in the vicinity (with in 5 km radius of the park) through grant assistance from MoT.
Project Implementing Agencies (PIAs)
The following organizations will be eligible to submit proposals under the Scheme and will function as PIA's: • The SPV's set up under SITP where a minimum of 25% units are operational and where the approved DPR of the ITP does not include components provided under this scheme. • The SPVs promoted under the other schemes of Ministry of Textiles viz., TCIDS, APES, etc. • State Industrial Development Corporations. • SPV's of Textile Parks promoted by State governments/UTs • Developers of SEZs. • Industry Associations or groups of Entrepreneurs

Grant Assistance and Release of Grant The grant from Ministry of Textiles will be limited to 50% of the project cost per project subject to a ceiling of Rs. 3 Crore for each workers' hostel with built up area @ 125 sq. ft. per capita. The PIA can built hostels for a maximum of 1000 workers. The cost of Land shall not be considered in the project cost. Land for hostels shall be contributed by the IA.
8.1 Capital Investment Subsidy (CIS)
a. Units shall be entitled to get CIS for investments made in fixed capital investment. **Subsidy under CIS shall be admissible at the rate of 20% of investments made in fixed capital with an upper cap of Rs 50 crore.**
b. SC/ST/Women/Handicapped Entrepreneurs will avail 5% additional benefit under CIS. This benefit shall be applicable only to residents of Jharkhand.
For the purpose of this clause, those persons will be eligible for benefit under SC/ST category that are issued caste / residential certificate to this effect by competent authority, not below the rank of SDO, in the State of Jharkhand. Similarly, those persons will be deemed to be of handicapped category that are certified by a competent Medical Board to have handicap of more than 40%.
Only one time subsidy under CIS category will be provided to the industries.
The State government incentive under Capital investment subsidy shall be in addition to Capital investment subsidy provided under ATUFS scheme of Government of India.

8.2 Interest Subsidy
8.2.1 **New units shall be entitled to interest subsidy for timely payment @7% per annum or 50% of the interest rate per annum, whichever is lower on total loan availed from public financial institutions / Banks for period of seven years from the date of commencement of production subject to total maximum limit of Rs 1 Crore**
8.2.2 Units which are classified as Non-performing Asset (NPA) at the time of making the application will not be eligible to avail such incentive.
8.2.3 **In addition to the interest subsidy, the guarantee fee charged under the Credit Guarantee Trust for Micro and Small Enterprises (CGTMSE) scheme to Micro and Small Enterprises (MSEs) will be reimbursed** to the enterprises in order to improve the CGTMSE coverage for collateral free loans in the state.

8.3 Subsidy / Incentive on VAT

(a) Incentive on VAT:
New units will be given incentive of 100% NET VAT payable p.a for seven years and 40% for the next three years from the date of Production with a ceiling of maximum 100% of total fixed capital investment made.
b) **Units which have qualified to be new unit by expansion / modernisation / diversification will be entitled to get similar benefits in respect of VAT. However, they have to maintain separate record of production, investment details and VAT paid/ payable after such expansion / diversification / modernisation.** In case, maintaining a separate record is not possible by such units the benefit to such eligible units shall be available in the ratio of installed capacity.
(c) **Any unit claiming these benefits will have to get registered with Commercial Taxes Department, Government of Jharkhand and shall have to file all their statutory returns**.
(d) Department of Commercial Taxes shall give top priority to such units in matters of final assessment of annual tax return in a specific time frame.
(e) Commercial Taxes Department shall also notify the responsibility of assessing officers along with time frame to be maintained in assessment of tax.
(f) **VAT incentive will be made on annual basis and claim for such incentives shall be made in the next financial year after the financial year in which DoP was given**
(g) The unit for which return assessment has not been duly completed by Commercial Taxes Department will not be eligible for incentive of the VAT claimed for the next year.
(h) **Net VAT incentive claim for the final year i.e. the last year of eligibility period can only be entertained after the complete assessment of all the previous years.**
(i) **After availing VAT incentive facility for eligibility period, industrial units are to maintain tax compliance at similar level in future for the same number of years they have claimed VAT e.g. a unit which has claimed VAT incentive for five years for location, will have to do the tax compliance for another five years after the expiry of incentive**.
Note : Notwithstanding anything contained in this Textile, Apparel and Footwear Policy, the State reserves its right, to take appropriate direction including amendment, deletion or substitution of any incentives as granted in this Policy after the implementation of the Goods and Services Tax System into the State.

8.4 Stamp duty and Registration fee
100% reimbursement of stamp duty and transfer duty paid by the industry will be allowed for execution of lease, lease cum sale or sale deeds in respect of industrial land / plots/ sheds allotted or purchased by industry and Execution of Lease Deeds in case of Industrial Area Development Authority (IADA) lands/ plots taken on lease.
8.5 Quality Certification
(a) High priority is being accorded by the State government for improvement of quality of the industrial units and will be provided with assistance for obtaining quality certification from B.I.S. and other internationally recognised institutions **@ 50% of the expenditure incurred up to maximum of Rs. 10.00 lakh.**
Units obtaining certification / accreditation under any of the following internationally recognised / accepted standards will be eligible for the benefit:
• ISO 9000 Quality Management System
• ISO 14000 Environmental Management System
• BIS certification
• Social Accountability Standards, including SA 8000
• Green Energy Certificate
• Bureau of Energy Efficiency (BEE) Certificate
• LEED Certification in New and renewable Energy
• Internationally accredited eco-labels OKE-TEX 100 etc.
• Any other internationally accredited certification that will enable better market positioning

(b) An Enterprise can avail the facility for more than one certification during the policy period subject to maximum limit
(c) Incentives for quality certification (ISO-9000, ISO-14000 and SA 8000) are also being given by Government of India. State Government will promote and facilitate the Unit getting such benefits on priority basis

8.6 Patent Registration
Units will be encouraged for filing their successfully generated, registered and accepted patents based on their original work / research. **The State Govt. will provide financial assistance of 50% of the expenditure incurred, up to a maximum of Rs. 10 lakh, per patent. Out of these a maximum of Rs 4 lakh may be given on expenditure incurred in filing of patent, attorney fees, patent tracking etc. and up to maximum of Rs. 10 lakhs on final acceptance of the patent**.
8.7 Cluster Development
A grant of 15% of the grant released by the government of India shall be offered by State Government to Cluster schemes approved by Government of India for the State to SPV/ promoter.
8.8 Power Tariff
State shall provide reimbursement of 50% of power tariff for 7 years from the date of release of electricity connection
8.9 Export Subsidy
As per Jharkhand Export Policy 2015, MSME Exporters shall be assisted with 75% of Stall charges paid up to maximum of Rs. 2,25,000/- (90% of Stall charges paid up to maximum of Rs. 2,70,000 /- for women entrepreneurs) for one fair/ exhibition.

Also, **assistance of 75% of Air fare by economy class, max. up to Rs. 50,000/- (90% by economy class, max. up to Rs. 60,000/- for women entrepreneurs) per person per unit per annum shall be provided to MSME Exporters**. Exporting organisations availing travel support from Government of India under similar scheme shall not be eligible for the above mentioned State Incentives)
Apart from this, units shall **be eligible for all other incentives as mentioned in the Jharkhand Export Policy 2015. Incentives under Government of India schemes and those under this policy cannot be availed for the same component related to exports**
8.10 Assistance for construction of dormitories
Textile / apparel manufacturing units/Parks will be provided **financial assistance for purchase of land close to the Apparel / Textile Park for construction of dormitories to house the workers at the rate of one acre for every 1000 workers employed. The assistance will be limited to 50% cost of land up to a maximum of Rs. 50 lakh.**
8.11 Skill Development
a. **One-time support of Rs. 13,000 or actual cost of training per person, whichever is lower, for capacity building of persons belonging to Jharkhand (skilled/semi-skilled)** engaged in the sector (Any other category notified by the Government) as per notification of Jharkhand Skill Development Mission Society.
b. Also, the **State shall provide Employment generation subsidy of Rs. 5,000 per month per worker for 7 years for capacity building of workers. For SC/ST/Women, this subsidy will be Rs 6,000 per month per worker for 7 years**
c. In addition to this, the state shall reimburse to employer up to Rs. 1000 per person per month to towards expenditure on ESI and EPF for 5 years

8.12 Mandi Fees Exemption
No Mandi tax shall be levied on raw materials used in textiles, apparel and footwear units in the State
8.13 Electricity Duty

State shall provide 100% exemption for 7 years from the date of release of electricity connection.
8.14 Land allotment Land will be provided to units as upfront or in 5 equal instalment in five years as per the rules applicable at the time of allocation by IADA.
8.15 Support for Incubation centres
For setting up of incubation centres, financial support of INR 50 lacs annually for the first 5 years (maximum 10 institutions can be given this grant in the first year) will be provided. Procedure and details for availing this incentive will be as per the Jharkhand Start-Up Policy. Any private university/research institution can also apply for this funding, given the fact that they have operated in the state for the last 4 years and qualify through the selection process. **A special incentive of INR 10 lacs would be given to the incubator for every successful start-up (Start-up that raises series B funding) they incubate**.

8.16 Establishment of new Textile/ Apparel/ Footwear Parks
8.16.1 Private Sector, PPP mode and JV mode industrial parks play an important role in the establishment of necessary infrastructure in the state. With this in mind, Government of Jharkhand has already launched Jharkhand Industrial Park policy 2015 for the establishment of apparel and textile park under sector specific and general parks.
8.16.2 Eligible institution, both private and public can establish apparel and textile parks under the Jharkhand Industrial Park policy 2015.

8.16.3 Mega Textile/Apparel Park:
With an objective to provide the industry with State of the art world-class infrastructure facilities for setting up their textile/ apparel units, Government of Jharkhand shall support setting up of Textile/ Apparel parks with size more than 75 acres. This would facilitate textile and apparel units to meet international environmental and social standards.
a) Capital Investment Subsidy
Government of Jharkhand shall contribute 50% of the project cost or Rs 40 crore, whichever is lower. The procedure, eligible items and other details shall be followed as per Jharkhand Industrial Park policy 2015.
Developer availing benefits under Government of India scheme on SITP will be given additional capital subsidy up to 10% of the project cost or Rs 10 crore, whichever is lower.
In addition to this, the state shall also provide core infrastructure up-to the gate of the Park at remote locations:
- Dedicated power through overhead transmission line network system, substation and transformer and associated electrical equipment/items/gadgets and protective devices
- Water and Sewage lines
- Metaled road from national highway or main road to up to park gate

The SPV shall be allowed to allocate land for setting up and starting of operations of units before completion of park.
Developer of parks availing incentives under the scheme will not be eligible to avail incentive under any other schemes of the State Government, unless specified otherwise. However, textile and apparel units coming up in the park shall be eligible to avail incentives under the schemes of the State Government and schemes of Government of India
b) Stamp Duty
State Government shall provide reimbursement of 50% stamp duty to the developer of Industrial Estates
c) Export Exhibition
The financial assistance of Rs. 20 crore shall be provided to JIADA for making Export Exhibition Centre

Annex 4: Subsidies in China's Development Plan for the Textile Industry (2016 to 2020)[91]

(Translated from Chinese)

A. Policy Measures Specified in the Development Plan

(1) Improve the environment for market development: Transform government duties. Further simplify customs clearance, exchange settlement, and other administrative procedures. Advance administrative streamlining and decentralization. Clean up unreasonable fee collection in commerce channels.

(2) Intensify fiscal and financial support: Utilize well the central government and local fiscal administrations' capital guidance role. Utilize existing capital channels and support textile enterprises in scientific and technological innovation, technological renovation, smart manufacturing, green manufacturing, brand building, and industry service platform building. Technological R & D work in related specialized projects or programs that require central fiscal support are to be incorporated into the national science and technology planning (project, fund) system, and supported by overall planning channels such as the central fiscal science and technology budget. Support textile enterprises that meet the conditions for new- and high-tech enterprises to enjoy the preferential tax policies for new- and high-tech enterprises. Reduce in a stepwise manner the contributions-to-savings ratio of the housing accumulation fund. Implement the spirit of national documents related to the stepwise reduction of social insurance fee rates. Implement policies to reduce taxes and clean up fee collection, and reduce enterprise costs. Strengthen industry-finance linkages, achieve national financing assistance policies directed toward the real economy, and advance the implementation of brand mortgage loans. Encourage enterprises to establish textile industry funds, and support enterprises to accelerate technological renovation via financing and leasing. Encourage all levels of local government to formulate related policies to guide the transformation and upgrading of the textile industry.

(3) Further improve policies to regulate and control cotton: Improve cotton import quota management, increase quota utilization efficiency, and satisfy textile enterprises' demand for high-quality cotton. Implement the linking of the base sales price of cotton reserves to domestic and international spot prices. Continue to improve the price formation mechanism for cotton, cotton target-price subsidy policies, and cotton trade remedy measures. Improve the quality and competitiveness of domestically produced cotton.

(4) Expand application of industrial-use textiles: Strengthen the textile industry's communication linkage with related departments such as construction, transportation, and medicine. Formulate and revise regulations for applying industrial-use textiles in related fields, and expand application demand.

(5) Strengthen talent safeguards: Improve systems for cultivating textile talent that cultivate multiple strata of talent (such as practical skill-oriented, innovation-oriented, and hybrid systems) through the integration of vocational schools, technical institutes, and professional training agencies with key enterprises. Cultivate and promote craftsmanship and create an excellent growth platform for skilled worker groups. Relying on the industry's major scientific research and engineering projects, focus on cultivating strategic talent and innovative entrepreneurial leaders. Propel institutions and enterprises to collabourate and establish training bases. Promote the coordinated development of the textile industry's transformation and upgrading with the creation of academic disciplines and skills training.

(6) Fully develop the role of industry associations: Support industry associations to widely undertake work such as enterprise surveys, operations monitoring, and industry research. Organize and undertake activities such as brand assessments, brand publicity, and talent training. Spur the implementation of the three-pronged strategy of increasing varieties, improving quality, and

[91] We are grateful to a senior official of USTR for this translated text and several other translated material from China.

creating brands. Guide textile enterprises to utilize well all national policy measures. Promptly respond to industry developments and trends, as well as enterprise appeals. Propose recommendations to improve relevant policy measures. Encourage industry associations to thoroughly undertake service work such as information consulting, technology popularization, quality certification, trade friction, exhibitions, and press releases. Actively advance the establishment of corporate social responsibility, strengthen the industry's self-regulation, and promote the industry's healthy development.

(7) Strengthen planning, organisation, and implementation: Formulate programs to implement division of labour for planned tasks. Assign responsibilities. Strengthen communication and coordination among departments. Safeguard the orderly advancement of key tasks. Strengthen planned publicity, and enhance the initiative-taking and proactive nature of all area of society in implementing the plan. Strengthen the tracking and monitoring of plan implementation, as well as the dynamic assessment of implementation outcomes. Monitor implementation progress and existing problems, and promptly adjust and improve related policy measures. The industrial and information technology authorities of all provinces (autonomous regions and municipalities directly under the central government), working with related departments, will take into account local realities and pay close attention to formulating work plans. They will propel the execution of key tasks and policy measures, and earnestly utilize the plan's guiding role to ensure that inroads are made toward establishing a textile power by the end of the "13th Five Year Plan".

B. Key Tasks Specified in the Development Plan

(a) Propel optimization and upgrading of clusters.

- Create three to five world-class textile-industry clusters with output reaching RMB 100 billion yuan.
- Strengthen planning and guidance for the development of industry clusters, and accelerate the upgrade of textile-industry clusters.
- Strengthen the coordinated development of large, medium-sized, and small enterprises within the clusters.
- Promote highly efficient coordination between the specialized division of labour and the industrial chain.
- Improve the capacity of cluster enterprises to coordinate innovation and safeguard quality.
- Advance the application of information technology such as Internet+ and big data in industry clusters.
- Expand resource openness and sharing among enterprises within clusters.
- Popularize new models such as coordinated manufacturing and cloud manufacturing, and promote the building of intelligent clusters.
- Optimize the industrial structure within clusters. Accelerate the development of advantageous, leading industries and products.
- Cultivate industrial cluster regional brands. Utilize the role of e-commerce platforms.
- Promote information exchange between specialty markets and cluster enterprises.
- By 2020, build a group of new industrialized textile industry demonstration bases possessing advanced technological management, comprehensive quality systems, prominent dominant products, and strong brand impact.

(b) Strengthen the coordinated development of large, medium-sized, and small enterprises within the clusters.

- Promote highly efficient coordination between the specialized division of labour and the industrial chain.
- Encourage textile enterprises to extend the industrial chain. Support the industry's leading enterprises and brand enterprises in M & A and restructuring. Improve and strengthen by horizontal integration and vertical integration, thereby increasing enterprises' global resource integration capacity.

- Promote the scale-based, intensive, and platform-based operation of enterprises. Cultivate a group of textile enterprise groups that possess international competitive advantages.
- By 2020, have more than 50 brand enterprises in the entire industry with an annual sales revenue of RMB 10 billion yuan or more. Encourage small and medium-sized enterprises to focus on specific textile product market segments, technological fields, and customer demand.
- Take the development track of "specialty, precision, characteristic, and new." Continue to elevate technological innovation capacity and production process levels.
- Grow and strengthen into "single-item champion" enterprises.
- Strengthen collaboration among large, medium-sized, and small enterprises. Utilize the driving and linking role of advantageous brand enterprises.
- Have small and medium-sized enterprises do well in specialty complementary services, and create a high-quality supply chain with coordinated development.

(c) *Cultivate and develop and personalize large scale, made-to order systems.*

- Formulate standards for apparel measurement methods. Propel the establishment of body databases and the formulation of apparel size standards.
- Improve the accuracy and practicality of three-dimensional body measurements, 3D clothing visualization, and simulation technologies.
- Encourage the development of information exchange platforms for consumers and production enterprises and coordinated supply platforms for the industrial chain.
- Popularize personalized made-to-order and batch-order systems in the apparel and household textile industries.
- Directly connect with consumption demand, and produce individualized products using industrialized measures.

(d) Utilise eastern region's location and its role as industry leader.

- Focus on developing high-end links in the value chain, such as technology R & D centers, fashion creativity centers, brand marketing centers, and high-end manufacturing centers.
- Use the region as the starting point and pivot point of the "One Belt, One Road" and the Yangtze River Economic Belt to provide momentum to regional development of the industry.
- Widely absorb and finance superior domestic and international innovation resources.
- Develop the production services industry for e-commerce transactions, textile and apparel logistics, testing and inspection certification, and energy conservation and environmental protection services.
- Promote the growth of internationally oriented leading enterprises

(e) *Promote co-ordinated regional development.*

- Support textile industry development and collaboration in the central and western regions. Undertake industry transfer in an orderly manner, and promote the development of the textile industry in the central and western regions.
- Execute the Yangtze River Economic Belt development strategy; Advance the coordinated development of the textile industry in the upstream and downstream areas of the Yangtze River.
- Construct new industrialized bases and logistics centers focusing on apparel, household textiles, and industrial-use end products.

(f) Enhance internationally oriented development of textiles.

- Actively guide advantageous enterprises to integrate global resources, strengthen international cooperation, and create transnational enterprise groups with competitive advantages.
- Actively guide advantageous enterprises to integrate global resources, strengthen international cooperation, and create transnational enterprise groups with competitive advantages.

- Encourage the industry's leading and backbone enterprises to transnationally deploy raw materials production and processing, build raw materials bases abroad for cotton, wool, and chemical fibers, and stabilize the supply of raw materials.
- Support enterprises with brand advantages to increase their capacity to open up market channels and brands for sale in target markets via methods such as M & A and equity capital cooperation.
- Utilize information technology such as the Internet and the Internet of Things to establish a rapid-response system to complement foreign brands.
- With help from the international transport corridors and simpler and faster customs clearance in countries along the "One Belt, One Road" line, as well as advance in facilitated investment and trade, undertake the mutual recognition of "authorized economic operators" (AEOs).
- Strengthen cooperation on technology standards from countries along the "One Belt, One Road."
- Drive the development of related service industries, and create trans-border e-commerce demonstration regions.

(g) *Develop service-oriented manufacturing.*

- Support textile enterprises in developing from traditional production models toward service manufacturing models, and to reach for the middle and high end of the value chain.
- Guide textile manufacturing enterprises to focus on expanding product functions, increasing transaction efficiency, and satisfying deep-level customer demand, and provide customers with individualized product design and overall solutions.
- Rapidly promote the development of advanced industry formats and business models. For end-product brand enterprises, strengthen research guidance in consumption demand and strengthen brand operation functions.
- Provide design and channel platform services to enterprises that complement the industrial chain and provide consumers with consumption experiences and individualized services.
- Support enterprises that provide spinning equipment and textile industry system software and services to develop whole \-product life cycle service models, and build big data platforms to provide clients with remote operation and maintenance and process optimization services.
- Support enterprises that produce textiles for construction use to extend toward service fields such as product R & D, project design and construction, operations and maintenance, and product replacement and recovery.
- Support large, backbone enterprises to build industrialized e-commerce platforms, optimize the industry's purchasing and supply chain, innovate business processes, reduce transaction costs, and improve efficiency, while focusing on their dominant business.

(h) *Accelerate enterprise technological renovation and link the producers to new technologies and service platforms that use such technologies.*

- Implement projects to strengthen infrastructure.
- Improve the development and application of core basic spare parts (components and parts), critical basic materials, and advanced basic processes for the industry, as well as basic for industry technology public service capacity.
- Improve and elevate the levels of textile products' quality, efficiency, energy efficiency, and environmental friendliness.
- Encourage enterprises to expand the development of technological renovation and technological innovation capacity.
- Expand the industrialization of new fiber materials, smart equipment, new products with high added value, and their application in the textile and related industries.
- Support printing and dyeing enterprises to accelerate, replace, and renovate based on the principle of equivalent or lessened pollutant emissions.

- Increase the textile industry's levels of clean production and green manufacturing. Spur the construction of brand enterprise R & D design centers, information-based integration systems, and smart warehousing and distribution systems.
- Propel chemical-fiber, cotton yarn, printing and dyeing, and long chemical-fiber spinning industries to stringently enforce relevant laws and regulations and mandatory standards.

(i) *Develop and popularize advanced green manufacturing technologies.*

- Green development projects include water conservation technologies, energy conservation technologies, clean production technologies, pollutant treatment and comprehensive resource utilization technologies, universal technologies for recycling discarded and used textiles, and development and application technologies for textile chemicals.
- Popularize water-free or water-conserving processing technologies and equipment.
- In the printing and dyeing industry, execute campaigns to seek out leaders in water efficiency. Promote the achieve water efficiency standards. Dramatically reduce the amount of water used per unit of product.
- Support key energy-using enterprises to establish energy management and control centers.
- Accelerate the popularization and application of short process technologies such as variable-frequency motors, energy-conserving air conditioners, direct nylon melt spinning, and direct spinning of recycled polypropylene fiber.
- Popularize clean, green production processes. Popularize technologies to recover, recirculate, and utilize thermal energy, water resources, dyes, chemicals, and raw materials from waste water and exhaust.
- Research, develop, and popularize low-sludge, low-cost, critical processing technologies for the advanced treatment of waste water from printing, dyeing, and viscose.
- Reduce pollutant emissions such as chemical oxygen demand and ammonia nitrogen.
- Advance textile enterprises' technological renovations such as comprehensive treatment of dust removal, desulfurification, and denitrification of coal-fired burners.

(j) *Strengthen fundamental management of green textile manufacturing.*

- Advance the construction of green manufacturing and green product standard systems in the textile industry.
- Formulate and revise standards for energy consumption and water consumption for key products, as well as for pollutant emissions by key industries.
- Improve the clean production assessment system for textiles.
- Promote clean production validation for key industries such as printing and dyeing and chemical fibers.
- Establish recovery and reutilization systems for discarded and used textiles. Standardize systems for the recovery, sorting, and graded utilization of discarded and used textiles, as well as for the "don't throw away old clothes" campaign process.
- Based on the requirements for building a national, unified, qualifying green product assessment system, advance the certification of "green fibers" and green textiles that include products such as pre-spinning coloured fibers, recycled chemical fibers, and bio-based chemical fibers.
- Formulate a "13th Five-Year Plan" road map for the research, development, and popularization of critical, energy-conserving and emissions-reducing universal technologies in the industry.

(k) *Strengthen enterprise management innovations.*

- Build a stronger modern enterprise system in the textile industry.
- In accordance with the law, establish a comprehensive corporate governance structure and elevate the level of scientific decision-making.
- Thoroughly advance the application of the Internet, the Internet of Things, and next-generation information technology.

- Build a modern management system that is digital, networked, and smart. Spur enterprises to organize the development of networked, flat, and platform-based structures, and spur enterprise supply-chain management to be flexible, precise, and highly efficient.

Annex 5: Relevant Provisions From WTO'S ASCM

Members hereby *agree* as follows:

PART I: GENERAL PROVISIONS

Article 1

Definition of a Subsidy

1.1 For the purpose of this Agreement, a subsidy shall be deemed to exist if:

(a)(1) there is a **financial contribution** by a government or any public body within the territory of a Member (referred to in this Agreement as "government"), i.e. where:

(i) a government practice involves a **direct transfer of funds** (e.g. grants, loans, and equity infusion), potential direct transfers of funds or liabilities (e.g. loan guarantees);

(ii) **government revenue that is otherwise due is foregone or not collected** (e.g. fiscal incentives such as tax credits) [92];

(iii) **a government provides goods or services other than general infrastructure**, or purchases goods;

(iv) **a government makes payments to a funding mechanism, or entrusts or directs a private body to carry out one or more of the type of functions illustrated in (i) to (iii) above** which would normally be vested in the government and the practice, in no real sense, differs from practices normally followed by governments;

or

(a)(2) there is any form of income or price support in the sense of Article XVI of GATT 1994;

and

(b) **a benefit is thereby conferred**.

[92] In accordance with the provisions of Article XVI of GATT 1994 (Note to Article XVI) and the provisions of Annexes I through III of this Agreement, the exemption of an exported product from duties or taxes borne by the like product when destined for domestic consumption, or the remission of such duties or taxes in amounts not in excess of those which have accrued, shall not be deemed to be a subsidy.

1.2 A subsidy as defined in paragraph 1 shall be subject to the provisions of Part II or shall be subject to the provisions of Part III or V **only if such a subsidy is specific in accordance with the provisions of Article 2.**

Article 2

Specificity

2.1 In order to determine whether a subsidy, as defined in paragraph 1 of Article 1, is specific to an enterprise or industry or group of enterprises or industries (referred to in this Agreement as "certain enterprises") within the jurisdiction of the granting authority, the following principles shall apply:

(a) Where the granting authority, or the legislation pursuant to which the granting authority operates, **explicitly limits access to a subsidy to certain enterprises, such subsidy shall be specific**.

(b) Where the granting authority, or the legislation pursuant to which the granting authority operates, **establishes objective criteria or conditions[93] governing the eligibility for, and the amount of, a subsidy, specificity shall not exist, provided that the eligibility is automatic and that such criteria and conditions are strictly adhered to. The criteria or conditions must be clearly spelled out in law, regulation, or other official document, so as to be capable of verification.**

(c) **If, notwithstanding any appearance of non-specificity resulting from the application of the principles laid down in subparagraphs (a) and (b), there are reasons to believe that the subsidy may in fact be specific, other factors may be considered**. **Such factors are: use of a subsidy programme by a limited number of certain enterprises, predominant use by certain enterprises, the granting of disproportionately large amounts of subsidy to certain enterprises, and the manner in which discretion has been exercised by the granting authority in the decision to grant a subsidy.[94]** In applying this subparagraph, account shall be taken of the extent of diversification of economic activities within the jurisdiction of the granting authority, **as well as of the length of time during which the subsidy programme has been in operation**.

2.2 A subsidy which is limited to certain enterprises located within a designated geographical region within the jurisdiction of the granting authority shall be specific. It is understood that the setting or change of generally applicable tax rates by all levels of government entitled to do so shall not be deemed to be a specific subsidy for the purposes of this Agreement.

2.3 **Any subsidy falling under the provisions of Article 3 shall be deemed to be specific**.

2.4 **Any determination of specificity under the provisions of this Article shall be clearly substantiated on the basis of positive evidence**.

PART II: PROHIBITED SUBSIDIES

[93] Objective criteria or conditions, as used herein, mean criteria or conditions which are neutral, which do not favour certain enterprises over others, and which are economic in nature and horizontal in application, such as number of employees or size of enterprise.

[94] In this regard, in particular, information on the frequency with which applications for a subsidy are refused or approved and the reasons for such decisions shall be considered.

Article 3

Prohibition

3.1 Except as provided in the Agreement on Agriculture, the following subsidies, within the meaning of Article 1, shall be prohibited:

(a) **subsidies contingent, in law or in fact[95], whether solely or as one of several other conditions, upon export performance, including those illustrated in Annex I**[96];

(b) subsidies contingent, whether solely or as one of several other conditions, upon the use of domestic over imported goods.

3.2 A Member shall neither grant nor maintain subsidies referred to in paragraph 1.

PART VIII: DEVELOPING COUNTRY MEMBERS

Article 27

Special and Differential Treatment of Developing Country Members

27.1 Members recognize that subsidies may play an important role in economic development programmes of developing country Members.

27.2 **The prohibition of paragraph 1(a) of Article 3 shall not apply to:**

> **(a) developing country Members referred to in Annex VII**.
>
> (b) other developing country Members for a period of eight years from the date of entry into force of the WTO Agreement, subject to compliance with the provisions in paragraph 4.

27.3 The prohibition of paragraph 1(b) of Article 3 shall not apply to developing country Members for a period of five years, and shall not apply to least developed country Members for a period of eight years, from the date of entry into force of the WTO Agreement.

27.4 Any developing country Member referred to in paragraph 2(b) shall phase out its export subsidies within the eight-year period, preferably in a progressive manner. However, a developing country Member shall not increase the level of its export subsidies[97], and shall eliminate them within a period shorter than that provided for in this paragraph when the use of such export subsidies is inconsistent with its development needs. If a developing country Member deems it necessary to apply such subsidies beyond the 8-year period, it shall not later than one year before the expiry of

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[95] This standard is met when the facts demonstrate that the granting of a subsidy, without having been made legally contingent upon export performance, is in fact tied to actual or anticipated exportation or export earnings. The mere fact that a subsidy is granted to enterprises which export shall not for that reason alone be considered to be an export subsidy within the meaning of this provision.

[96] Measures referred to in Annex I as not constituting export subsidies shall not be prohibited under this or any other provision of this Agreement.

[97] For a developing country Member not granting export subsidies as of the date of entry into force of the WTO Agreement, this paragraph shall apply on the basis of the level of export subsidies granted in 1986.

this period enter into consultation with the Committee, which will determine whether an extension of this period is justified, after examining all the relevant economic, financial and development needs of the developing country Member in question. If the Committee determines that the extension is justified, the developing country Member concerned shall hold annual consultations with the Committee to determine the necessity of maintaining the subsidies. If no such determination is made by the Committee, the developing country Member shall phase out the remaining export subsidies within two years from the end of the last authorized period.

27.5 **A developing country Member which has reached export competitiveness in any given product shall phase out its export subsidies for such product(s) over a period of two years**. **However, for a developing country Member which is referred to in Annex VII and which has reached export competitiveness in one or more products, export subsidies on such products shall be gradually phased out over a period of eight years**.

27.6 **Export competitiveness in a product exists if a developing country Member's exports of that product have reached a share of at least 3.25 per cent in world trade of that product for two consecutive calendar years.** Export competitiveness shall exist either *(a)* on the basis of notification by the developing country Member having reached export competitiveness, or *(b)* on the basis of a computation undertaken by the Secretariat at the request of any Member. For the purpose of this paragraph, a product is defined as a section heading of the Harmonized System Nomenclature. The Committee shall review the operation of this provision five years from the date of the entry into force of the WTO Agreement. …

27.9 Regarding actionable subsidies granted or maintained by a developing country Member other than those referred to in paragraph 1 of Article 6, action may not be authorized or taken under Article 7 unless nullification or impairment of tariff concessions or other obligations under GATT 1994 is found to exist as a result of such a subsidy, in such a way as to displace or impede imports of a like product of another Member into the market of the subsidizing developing country Member or unless injury to a domestic industry in the market of an importing Member occurs.

27.10 Any countervailing duty investigation of a product originating in a developing country Member shall be terminated as soon as the authorities concerned determine that:

(a) the overall level of subsidies granted upon the product in question does not exceed 2 per cent of its value calculated on a per unit basis; or

(b) the volume of the subsidized imports represents less than 4 per cent of the total imports of the like product in the importing Member, unless imports from developing country Members whose individual shares of total imports represent less than 4 per cent collectively account for more than 9 per cent of the total imports of the like product in the importing Member.

27.14 The Committee shall, upon request by an interested Member, undertake a review of a specific export subsidy practice of a developing country Member to examine whether the practice is in conformity with its development needs.

27.15 The Committee shall, upon request by an interested developing country Member, undertake a review of a specific countervailing measure to examine whether it is consistent with the provisions of paragraphs 10 and 11 as applicable to the developing country Member in question.

ANNEX I

ILLUSTRATIVE LIST OF EXPORT SUBSIDIES

(a) The provision by governments of direct subsidies to a firm or an industry contingent upon export performance. …

(e) The full or partial exemption remission, or deferral specifically related to exports, of direct taxes[98] or social welfare charges paid or payable by industrial or commercial enterprises.[99]

(f) The allowance of special deductions directly related to exports or export performance, over and above those granted in respect to production for domestic consumption, in the calculation of the base on which direct taxes are charged.

(g) The exemption or remission, in respect of the production and distribution of exported products, of indirect taxes [See Footnote 7 in this Annex] in excess of those levied in respect of the production and distribution of like products when sold for domestic consumption.

(h) The exemption, remission or deferral of prior-stage cumulative indirect taxes [See Footnote 7 in this Annex] on goods or services used in the production of exported products in excess of the exemption, remission or deferral of like prior-stage cumulative indirect taxes on goods or services used in the production of like products when sold for domestic consumption; provided, however, that prior-stage cumulative indirect taxes may be exempted, remitted or deferred on exported products even when not exempted, remitted or deferred on like products when sold for domestic consumption, if the prior-stage cumulative indirect taxes are levied on inputs that are consumed in the production of the exported product (making normal allowance for waste).[100]This item shall be interpreted in accordance with the guidelines on consumption of inputs in the production process contained in Annex II.[101]

[98] For the purpose of this Agreement:

The term "direct taxes" shall mean taxes on wages, profits, interests, rents, royalties, and all other forms of income, and taxes on the ownership of real property;

The term "import charges" shall mean tariffs, duties, and other fiscal charges not elsewhere enumerated in this note that are levied on imports;

The term "indirect taxes" shall mean sales, excise, turnover, value added, franchise, stamp, transfer, inventory and equipment taxes, border taxes and all taxes other than direct taxes and import charges;

"Prior-stage" indirect taxes are those levied on goods or services used directly or indirectly in making the product;

"Cumulative" indirect taxes are multi-staged taxes levied where there is no mechanism for subsequent crediting of the tax if the goods or services subject to tax at one stage of production are used in a succeeding stage of production;

"Remission" of taxes includes the refund or rebate of taxes;

"Remission or drawback" includes the full or partial exemption or deferral of import charges.

[99] The Members recognize that deferral need not amount to an export subsidy where, for example, appropriate interest charges are collected. The Members reaffirm the principle that prices for goods in transactions between exporting enterprises and foreign buyers under their or under the same control should for tax purposes be the prices which would be charged between independent enterprises acting at arm's length. Any Member may draw the attention of another Member to administrative or other practices which may contravene this principle and which result in a significant saving of direct taxes in export transactions. In such circumstances the Members shall normally attempt to resolve their differences using the facilities of existing bilateral tax treaties or other specific international mechanisms, without prejudice to the rights and obligations of Members under GATT 1994, including the right of consultation created in the preceding sentence.

Paragraph (e) is not intended to limit a Member from taking measures to avoid the double taxation of foreign-source income earned by its enterprises or the enterprises of another Member.

[100] Paragraph (h) does not apply to value-added tax systems and border-tax adjustment in lieu thereof; the problem of the excessive remission of value-added taxes is exclusively covered by paragraph (g).

[101] For the text of Annexes II and III, please see https://www.wto.org/english/docs_e/legal_e/24-scm.pdf

(i) The remission or drawback of import charges [See Footnote 7 in this Annex] in excess of those levied on imported inputs that are consumed in the production of the exported product (making normal allowance for waste); provided, however, that in particular cases a firm may use a quantity of home market inputs equal to, and having the same quality and characteristics as, the imported inputs as a substitute for them in order to benefit from this provision if the import and the corresponding export operations both occur within a reasonable time period, not to exceed two years. This item shall be interpreted in accordance with the guidelines on consumption of inputs in the production process contained in Annex II and the guidelines in the determination of substitution drawback systems as export subsidies contained in Annex III.

ANNEX VII

DEVELOPING COUNTRY MEMBERS REFERRED TO IN PARAGRAPH 2(A) OF ARTICLE 27

The developing country Members not subject to the provisions of paragraph 1(a) of Article 3 under the terms of paragraph 2(a) of Article 27 are:

(a) Least-developed countries designated as such by the United Nations which are Members of the WTO.

(b) **Each of the following developing countries which are Members of the WTO shall be subject to the provisions which are applicable to other developing country Members according to paragraph 2(b) of Article 27 when GNP per capita has reached $1,000 per annum**[102]: Bolivia, Cameroon, Congo, Côte d'Ivoire, Dominican Republic, Egypt, Ghana, Guatemala, Guyana, **India**, Indonesia, Kenya, Morocco, Nicaragua, Nigeria, Pakistan, Philippines, Senegal, Sri Lanka and Zimbabwe.

[102] The inclusion of developing country Members in the list in paragraph (b) is based on the most recent data from the World Bank on GNP per capita.

Annex 6: WTO Discussions/Decisions Related to Export Subsidy Regime of India

(1) Committee on Subsidies and Countervailing Measures, Document G/SCM/M/103, dated 23 January 2018, Text of the Minutes of the discussion on Agenda item 10 during the Regular meeting of the Committee held on 24 October 2017

"10. India's Elimination Of Export Subsidies For Textiles And Apparel Pursuant To Article 27.5 Of The SCM Agreement – Item Requested By The United States

163. The United States recalled its view, based on the Secretariat's calculations, that the Indian textile and apparel sector had reached export competitiveness no later than 2007. Therefore, India had had an obligation – at least since 2007 – to gradually phase out export subsidies provided to numerous products in the textile and apparel sector, meaning that the eight year phase-out period had ended and all export subsidies to India's textile sector should have been terminated. While India's recently released Foreign Trade Policy for 2015-2020 recognized the need to terminate certain programmes, unfortunately it did not establish any procedural framework for doing so and appeared to target 2018 as the operative date for termination. The US had made clear to India that it would welcome further dialogue as to how India could meet its WTO obligations.

164. India recalled its previous interventions noting that 2018 would be its timeline for phasing out the export subsidies to textiles and apparel products. Most of the existing programmes were in the form of remission or exemption of duties and therefore not export subsidies. For the remaining programmes, which were alleged to be export subsidies, India was committed to meet its obligations and ready to engage in discussions on the issues such as when export competitiveness was reached. India recalled its previous interventions that export competitiveness had been reached in 2010 therefore it had time until 2018 to remove the programmes in question. Despite the fact that there were certain issues regarding the legal interpretations on the definition of product, India reiterated that it had time till December 2018.

165. The Committee took note of the statements made."

(2) Committee on Subsidies and Countervailing Measures, Text of Document G/SCM/110/Add.15, dated 20 April 2018

"ANNEX VII(b) OF THE AGREEMENT ON SUBSIDIES AND COUNTERVAILING MEASURES

UPDATING GNP PER CAPITA FOR MEMBERS LISTED IN ANNEX VII(b) AS FORESEEN IN PARAGRAPH 10.1 OF THE DOHA MINISTERIAL DECISION AND IN ACCORDANCE WITH THE METHODOLOGY IN G/SCM/38

Note by the Secretariat

Addendum

In paragraph 10.1 of the Doha Ministerial Decision on Implementation-Related Issues and Concerns (document WT/MIN(01)/17, para. 10.1) Ministers:

"Agree[d] that Annex VII(b) to the Agreement on Subsidies and Countervailing Measures includes the Members that are listed therein until their GNP per capita reaches US$1,000 in constant 1990 dollars for three consecutive years. This decision will enter into effect upon the adoption by the Committee on Subsidies and Countervailing Measures of an appropriate methodology for calculating constant 1990 dollars. If, however, the Committee on Subsidies and Countervailing Measures does not reach a consensus agreement on an appropriate methodology by 1 January 2003, the methodology proposed by the Chairman of the Committee set forth in G/SCM/38, Appendix 2 shall be applied. A Member shall not leave Annex VII(b) so long as its GNP per capita in current dollars has not reached US$1,000 based upon the most recent data from the World Bank."

Pursuant to this paragraph, as of 1 January 2003, the methodology set forth in document G/SCM/38, Appendix 2 applies.

As foreseen in paragraph 10.1 of the Doha Ministerial Decision on Implementation-Related Issues and Concerns and in application of the methodology in G/SCM/38, the Secretariat informs the Committee of updated calculations reflecting: (i) GNI[103] per capita in constant 1990 dollars covering the three most recent years for which data are available (2014-2016)[104]; and (ii) GNI per capita in current dollars for the year 2016.

(i) Annex VII(b) Members, GNI per capita at constant 1990 dollars, 2014-2016

	2014*	2015*	2016
Bolivia, Plurinational State of	1,041	1,095	1,143
Cameroon	1,018	1,024	1,088
Congo	1,082	1,239	1,126
Côte d'Ivoire	816	869	917
Dominican Republic	1,870	2,009	2,111
Egypt	1,029	1,080	1,092
Ghana	772	794	803
Guatemala	1,220	1,252	1,265
Guyana	1,048	1,292	1,310
Honduras	913	875	889
India	1,100	1,178	1,246
Indonesia	1,277	1,317	1,454
Kenya	469	474	490
Morocco	1,639	1,672	1,673
Nicaragua	683	726	772
Nigeria	642	643	644
Pakistan	654	673	696
Philippines	1,376	1,421	1,488
Senegal	886	909	934
Sri Lanka	1,282	1,367	1,418

[103] The World Bank data series formerly identified as Gross National Product ("GNP") is now published as Gross National Income ("GNI"). This change reflects the implementation of the System of National Accounts 1993 ("SNA 93"). Although the underlying concepts are different (GNP being a measure of product, and GNI being a measure of income), the values calculated are the same.

[104] Figures for 1990-1999 are as already contained in G/SCM/38. As agreed in G/SCM/38, step 3, values of GNI per capita at constant 1990 dollars for the period 1990 - 1999 are not modified with subsequent revisions of the series. To derive GNI per capita at constant 1990 dollars for 2000, the growth rates for 2000 over 1999 at constant 1995 dollars, derived as foreseen in G/SCM/38 table B, have been applied to the 1999 GNI per capita values in constant 1990 dollars, as set forth in G/SCM/38, table C. Similarly, the growth rates of 2001 over 2000, 2002 over 2001, 2003 over 2002, 2004 over 2003, 2005 over 2004, 2006 over 2005, 2007 over 2006, 2008 over 2007, 2009 over 2008, 2010 over 2009, 2011 over 2010, 2012 over 2011, 2013 over 2012, 2014 over 2013, 2015 over 2014, and 2016 over 2015 have been applied to data for 2000, 2001, 2002, 2003, 2004, 2005, 2006, 2007, 2008, 2009, 2010, 2011, 2012, 2013, 2014, and 2015, respectively.

Zimbabwe	404	455	419

* 2014 and 2015 data as circulated in document G/SCM/110/Add.14.

(ii) Annex VII(b) Members, GNI per capita at current dollars, 2016

Bolivia, Plurinational State of	3,048.9
Cameroon	1,347.4
Congo	1,438.4
Côte d'Ivoire	1,490.0
Dominican Republic	6,399.6
Egypt	3,431.1
Ghana	1,464.2
Guatemala	4,045.0
Guyana	4,507.0
Honduras	2,196.4
India	1,688.2
Indonesia	3,449.4
Kenya	1,441.2
Morocco	2,840.1
Nicaragua	2,149.4
Nigeria	2,128.9
Pakistan	1,532.1
Philippines	3,552.2
Senegal	920.9
Sri Lanka	3,726.7
Zimbabwe	919.1

Accordingly, Annex VII(b) to the *Agreement on Subsidies and Countervailing Measures* includes the following Members that are listed therein until their GNP per capita reaches US$1,000 in constant 1990 dollars for three consecutive years: Côte d'Ivoire; Ghana; Honduras; Kenya; Nicaragua; Nigeria; Pakistan; Senegal; and Zimbabwe."

Annex 7: Share of Females in Total Jobs for NIC 2-Digit Level Categories (%)

NIC	Description	Total Jobs (Lakh)	Female Jobs (Lakh)	Share of Females in Total Jobs (%)
10	Manufacture of food products	50.2	10.6	21%
11	Manufacture of beverages	3.6	0.4	13%
12	Manufacture of tobacco products	31.7	24.9	78%
13	Manufacture of textiles	71.3	22.5	32%
14	Manufacture of wearing apparel	75.4	25.9	34%
15	Manufacture of leather and related products	11.5	1.5	13%
16	Manufacture of wood and products of wood and cork, except furniture; manufacture of articles of straw and plaiting materials	31.4	5.9	19%
17	Manufacture of paper and paper products	4.5	1.0	22%
18	Printing and reproduction of recorded media	5.4	0.4	8%
19	Manufacture of coke and refined petroleum products	1.3	0.0	3%
20	Manufacture of chemicals and chemical products	9.8	2.1	21%
21	Manufacture of pharmaceuticals, medicinal chemical and botanical products	6.9	0.8	11%
22	Manufacture of rubber and plastics products	9.9	1.6	16%
23	Manufacture of other non-metallic mineral products	43.1	7.2	17%
24	Manufacture of basic metals	13.0	0.5	4%
25	Manufacture of fabricated metal products, except machinery and equipment	26.0	1.6	6%
26	Manufacture of computer, electronic and optical products	3.7	0.4	10%
27	Manufacture of electrical equipment	8.5	0.6	7%
28	Manufacture of machinery and equipment n.e.c	8.6	0.2	2%
29	Manufacture of motor vehicles, trailers and semi-trailers	8.5	0.4	5%
30	Manufacture of other transport equipment	4.8	0.0	0%
31	Manufacture of furniture	21.0	0.2	1%
32	Other manufacturing	26.2	5.1	19%
33	Repair and installation of machinery and equipment	8.8	0.1	1%
	Aggregate Manufacturing 10 - 33 NIC codes	485.3	113.7	**23%**

Source: NSSO

Annex 8: Turnover and Employment in the Apparel Industry

city	Total Turnover (INR Cr.)	Present Employment
Noida	32.87	600
Noida	50.81	363
Noida	35	550
Noida	205	9903
Noida	96.48	950
Noida	214.16	2000
Noida	24.52	250
Noida	31.87	566
Noida	10.48	200
Noida	195	2500
Noida	12.09	40
Bangalore	150	4500
Bangalore	50.12	10916
Bangalore	755.75	23000
Bangalore	440.7	4641
Bangalore	38.47	1050
Bangalore	524.29	10558
Bangalore	58.61	2481
Kolkata	104.28	200
Kolkata	156	350
Kolkata	33.52	100
Kolkata	12.86	131
Kolkata	18	150
Kolkata	9.75	40
Ludhiana	33.28	405
Ludhiana	136.15	4424
Ludhiana	31.62	240
Ludhiana	135	1100
Ludhiana	17.95	180
Ludhiana	9.16	240
Ludhiana	5	107
Faridabad	5342	97869
Gurgaon	1741	30211
Gurgaon	650	8091

Jaipur	30	348
Jaipur	42	197
Jaipur	29	92
Tirupur	12	100
Tirupur	6	80
Tirupur	5	50
Tirupur	49	556
Tirupur	124	801
Tirupur	5	60
Tirupur	28	500
Tirupur	17	275
Tirupur	21	200
Tirupur	325	2456
Tirupur	12	100
Tirupur	15	100
Tirupur	26	250
Tirupur	50	450
Tirupur	30	300
Tirupur	10	100
Tirupur	3.5	40
Tirupur	69.5	600
Tirupur	1	25
Tirupur	1.5	30
Tirupur	1.5	20
Tirupur	3	30

Source: AEPC