Report prepared for TEXPROCIL on Replacing WTO inconsistent subsidies

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Executive summary

The textiles industry is at a turning point. On the one hand its competitor China is investing heavily in modernising machinery and developing a variety of textiles, and on the other hand India's exports over the past five years have been stagnant and fallen slightly. At the same time, 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 textiles and clothing fell by 3% in US$ terms, while that of Bangladesh went up by about 10%, and of Vietnam by about 8%. Though the 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 textiles exports and production in general.

Replacing WTO Inconsistent Subsdies

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 will address the issue of India's export subsidies in general. However, for textiles and clothing, 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, i.e. 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. Without this, India's difficult competitive position will become even more onerous for Indian textiles exporters.

India's Competitiveness disadvantages

While India has committed in the WTO that it would remove its export subsidies by end 2018, India's textiles industry is facing a crucial time due to a significant decline in exports in financial year 2017-2018. Several developments relating to its major competitor countries are likely to create even tougher competitive conditions for the industry in the near future. For example, a LDC, Bangladesh has duty free access to a number of international markets, including the EU, until at least late-2024. Similarly, Vietnam's Free Trade Agreement with the EU will begin phasing-in duty free access of Vietnam's exports to the EU by end 2018. China's outward FDI is continuing and the focus includes a restructuring of the

textiles and clothing industry, with large domestic support to textiles while increasingly shifting clothing production to other countries with low wages. Moreover, FDI from China, Korea and developed countries in these countries usually involve a large scale of production, which provides inherent cost and quality related advantages for the enterprises established. In contrast, the Indian production facilities are on average much smaller and miss out on the gains of large-scale production. Moreover, all three countries provide a range of subsidies which are not provided by India. India's competitiveness disadvantages also arise from a higher productivity adjusted wage cost, higher power and higher interest rates. Taking account of the various factors which result in erosion of competitiveness for India's exporters, the information gathered through IKDHVAJ's fact finding missions suggest that if tariffs, subsidies and other operational factors of competing countries are aggregated, India's disadvantage may be as much as about 18%. Taking account of these inadequacies, this report has proposed some schemes.

Replacing WTO inconsistent Subsides

Among the support programs challenged by the WTO the following Schemes are proposed:

- Replace MEIS with a similar scheme which is based on x% of eligible turnover instead of x% of fob value of exports.
- Replace EPCG with duty free imports for capital goods currently being imported or specified under the ATUFS scheme, subject to a review after 3-4 years.
- In SEZs and EOUs, the duty free import of capital goods and income tax exemptions are likely to be WTO inconsistent. For capital goods the replacement of EPCG could be applicable to all importers regardless of whether it is in a SEZ or not. For Income tax exemptions it is proposed to introduce a new scheme that will be applicable to all new investments irrespective of whether it is in an EOU or SEZ.
- Review DFIA on a case by case basis as most of these subsidies such as Advance authorization and EPC are likely to be consistent with WTO.

While all the other schemes apart from MEIS can be revoked by a stroke of the pen, it is the MEIS that requires replacement with a WTO compatible scheme. At the outset it should be clarified that all support measures suggested in this paper are in addition to those proposed under ROSL, duty drawback, refund of embedded taxes and any other taxes not classified as an export subsidy. The proposals made here are for support policies that would replace MEIS.

The idea behind replacing MEIS is to find a scheme which supports national objectives while at the same time provides support aimed at improving competitiveness.

Two schemes are proposed to replace MEIS

The first scheme to support manufacturing enterprises and the second is to support merchant exporters.

First Scheme for Manufacturing Enterprises

The MEIS scheme is WTO incompatible as it is linked to exports. The support scheme can instead be linked to turnover. However if the total value of the MEIS subsidy is to be shared across all producers of

textiles the amount of subsidy available to each would be so small as to provide no support at all. Hence it is necessary to introduce a filter that would take account of the objectives of some national scheme of the Government of India, e.g. the schemes which aim to promote employment and social equity. For instance, the Government has introduced schemes that provide Employers Provident Fund (EPF) benefits for new investment. The option suggested is to use EPF accounts as a filter to arrive at the figures for subsidy support. Thus, instead of using the entire turnover, it is suggested that a concept of "eligible turnover" be used based on the EPF employees of the firm.

Eligible Turnover and simple replacement of export subsidy schemes for textiles

Eligible Turnover = (Total Turnover/total employment), multiplied by number of EPF accounts.

$$= \text{Total Turnover} \times \frac{\text{No of EPF Accounts}}{\text{Total Employment}}$$

Implementing the subsidies based on this concept would involve a calculation of the eligible turnover for each part of the value chain, i.e. yarn, fabrics and made-ups.

Eligible turnover for the firm.

For an individual firm, the information required for calculating the eligible turnover will be the turnover for the firm, and the number of EPF employees it has on its books. Since average turnover for each of the three parts of the textiles value chain would differ, the relevant number of EPF employees must be multiplied by the average turnover per employee for the firm for different parts of the value chain of the industry (i.e. yarn, fabrics and made-ups).

Maintaining Revenue Neutrality

Table A: Comparison of support to Manufacturers under the old and new scheme

Category	Total Turnover of Manufacturing Enterprises[1]	Percentage EPF employees[2]	Total Eligible Turnover	Subsidy percentage	Proposed Subsidy amount	MEIS[3]
Cotton Yarn	56,045	25	14,380	0.75	108	0
Cotton Fabrics	3,70,231	5	18,511	2.0	370	169
Made-ups	71,600[4]	40	26,230	4.0	1053	1149
Total					1531	1318

Source: Textiles Commissioner's Office, and calculations using the methodology described above

The estimates used for the assessment of the proposed subsidy regime suggest that revenue neutrality will broadly be maintained and the situation after implementation is likely be similar to the present

[1] These figures are based on Textiles Commissioners figures for cotton yarn and textiles from Table 21. For the made-ups sector it is based on SIMA's figure of turnover for made-ups from Table 21. SIMA's figures have been divided by 2 to get cotton made-ups.

[2] These figures are based on the overall industry percentage adjusted for the share of formal and informal sector.

[3] Calculate on the basis of export figures made available by DGCIS and the assumption that 60% of the total exported for yarn and fabrics are from manufacturing enterprise whereas 80% of the made-ups exported are from manufacturing enterprises.

[4] Figures derived from Table 23 by multiplying the USD billion figures by 70 and dividing by 100 to get INR cr.

situation for MEIS (see Table A above). However, data gathered in the course of implementation of the scheme would be used to update estimates of turnover and the actual number of EPF employees.

Treatment of Merchant Exporters and addressing subsidies to small scale

Small-scale producers export through merchants who provide their services to them for distribution of the product in various export markets. There are three kinds of situations for these merchants. One, is those who provide all finance and inputs to the small-scale producers and they own the product and sell them to buyers outside the country. The second is the situation where the small-scale producers sell their product to a merchant who distributes the product in export markets. The third is a situation where the small-scale producer seeks the service of a distributor who does not purchase the product but simply acts as an intermediary to distribute the product in export markets. Producers may take funds from the distributor, or even seek other services like expediting the processes for sales, but the product is owned by the producer and not the distributor. The latter provides only services and gets paid for them.

The subsidy to services could be provided either to "Manufacturing services on physical inputs owned by others" or to as "Wholesale trade services on a fee or a contract basis", i.e. to the small-scale producers in the first instance or to merchants sought by the small-scale producer in the second case.

The number of small-scale producers is much larger than the number of wholesale trade services providers which are the distributors. Therefore, any subsidy to distribution service providers would be relatively easier to implement than subsidy to the several small-scale producers that provide a service.

Value added

Given the GST and the IGST data available with trading services agents it is now possible to net out their value added. Table B shows the level of subsidies which would maintain revenue neutrality. The levels of value added listed below have been based on primary data collection. However these estimates can be revised during the course of implementation of this project.

Table B: Subsidies for Traders under old and new schemes

Product	F.o.b value of exports by Traders[5] (INR cr)	Value Added percentage[6]	Total value added	Subsidy as percent[7]	Proposed Total subsidy	MEIS
Yarn	9590	3	288	15	43.2	0
Fabric	6055	5	303	35	106.	121
Made-ups	7301	7	511	50	255	292
Total					404.2	413

[5] Stakeholder meetings organised by TEXPROCIL showed that 40% of the yarn and fabric were exported by traders and 20% of the made-ups were exported by traders.

[6] Ibid. This consensus on the value added percentages, i.e. 3,5, and 7 was arrived at the stakeholder meetings organised by TEXPROCIL.

[7] These figures have been derived on the basis on the position of the product in the value chain. The lower the product in the value chain the lower is the requirement of the trader to provide services and vice versa.

Source: Calculations by IKDHVAJ

By postulating percentages less than the MEIS and putting a cap of the amount of MEIS there is a built in incentive to increase the value added by traders. This would lead to an increase in markets, diversification of exports, and improvement in quality of products.

Impact on the sector of introducing new subsidies

1. Exports from the Indian textile sector rise by 20.4%; they range between 19.2% and 21.4% for different destination countries.
2. Output from the textile sector in India rises by 5.5%;
3. Employment in the textile sector rises by 5.62% in both unskilled labour and skilled labour.
4. Cost of production of textile that gets exported falls by: 3.07%
5. Prices of textiles rise by 0.42% (while we may expect a larger rise in price due to the huge surge in demand, it rises less because of the cost reductions shown in 4 that push it downwards).
6. GDP rises by 0.18%.
7. National employment of unskilled labour rises by 0.44% and skilled labour rises by 0.27%.

Implementation mechanism

The documents and process of providing the subsidies to the merchant exporter could be as follows:

1. The Merchant Exporter be asked to submit the Bank realisation certificate and the GST certificate which specifies the price at which Textiles were procured.
2. The Merchant Exporter should self-certify the services as the difference between procurement price and bank realisation price.
3. This document with proper proof be submitted to the DGFT as this is a case of export subsidies on services.
4. The Merchant Exporter then be given a certificate of the subsidy entitlement which he/she could then use to pay his direct and indirect taxes. These certificates will not be transferrable.
5. The total subsidies to the yarn sector for traders is proposed to be 30% of value added for fabrics and 50% of value added in made-ups. It is to be noted that these subsidies are to be provided only on the service component of the exports and not on the f.o.b. value of exports. The differing percentage therefore is to maintain revenue neutrality and to ensure that the sector gets at least as much support as it got under MEIS.

For the manufacturing enterprises (including the case where the merchant owns the product), the documents required would be the EPF registration of employees. The number of employees registered for the whole financial year preceding the subsidy would be required for this purpose. This would need to be verified by the EPF ministry by the Textiles Commissioner's office. Upon verification the Textile Commissioner would issue a certificate similar to that mentioned above. The Textile Commissioner could delegate this authority to agencies such as TEXPROCIL which could do the job of verification and issuing the certificate for a small fee. Once this certificate is obtained, the firm could use it to pay its direct and indirect taxes.

Generally self-certification by firms along with random checks by the EPF department of the Ministry of Labour, or by the GST department of the Ministry of Finance should suffice.

Chapter 1 : Stagnating and falling exports

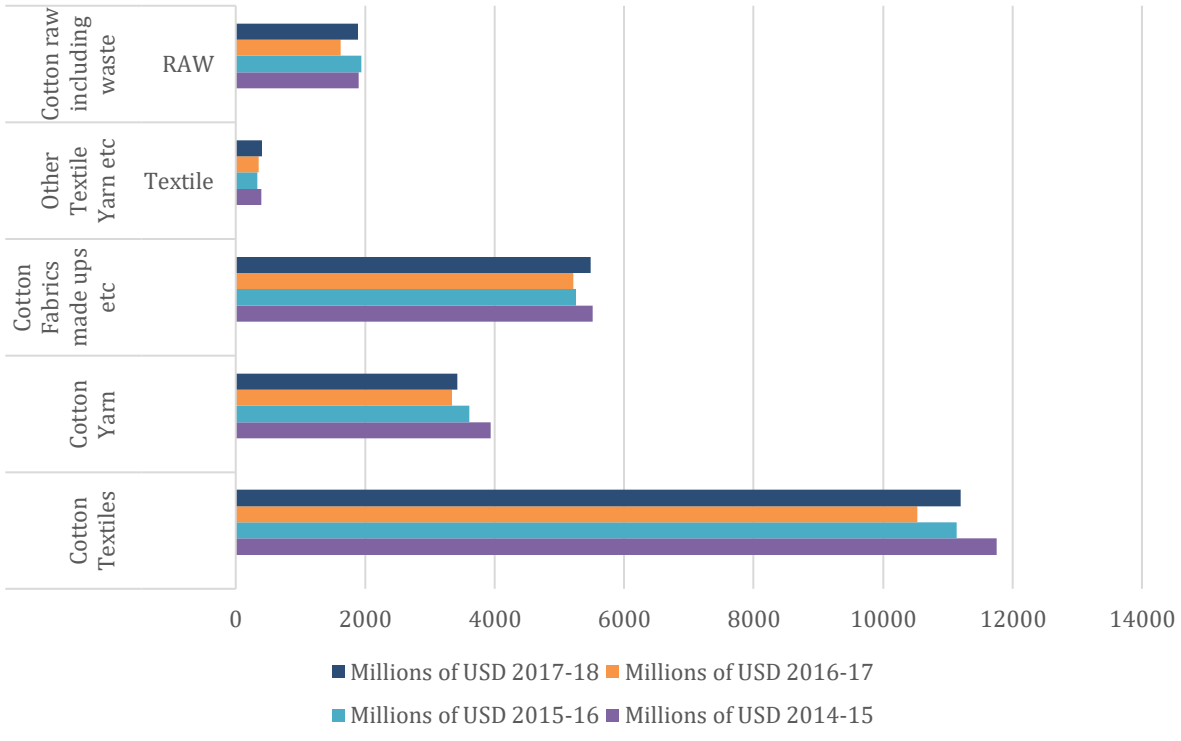
Introduction

Since the financial year 2014-2015, exports of textiles consistently declined for next two financial years, and then recovered in 2017-2018, but remained less than the 2014-15 level. Chart 1 shows the exports of different categories of textile exports from 2014-15 to 2017-18. In contrast, India's imports of textiles registered a much higher growth rate of around 15% in 2017-18, to reach $6.2 billion (See Table 1 below).[8] This chapter looks at the reasons for export decline which are short-term, i.e. changing market structures or GST, and those that are long-term i.e. structural issues. At the same time an import analysis is also carried out to understand whether imports have been export displacing.

Analysing India's Exports

The shares of different product categories in total textiles exports are shown below in chart 2. Exports of all products have not gone down uniformly. Exports of made-ups and yarn have decreased by roughly 3.5%. However, as exports are not recovering, and have not even reached the levels in 2014-15, there is cause for concern.

Chart 1: Change in Exports in various Textile products



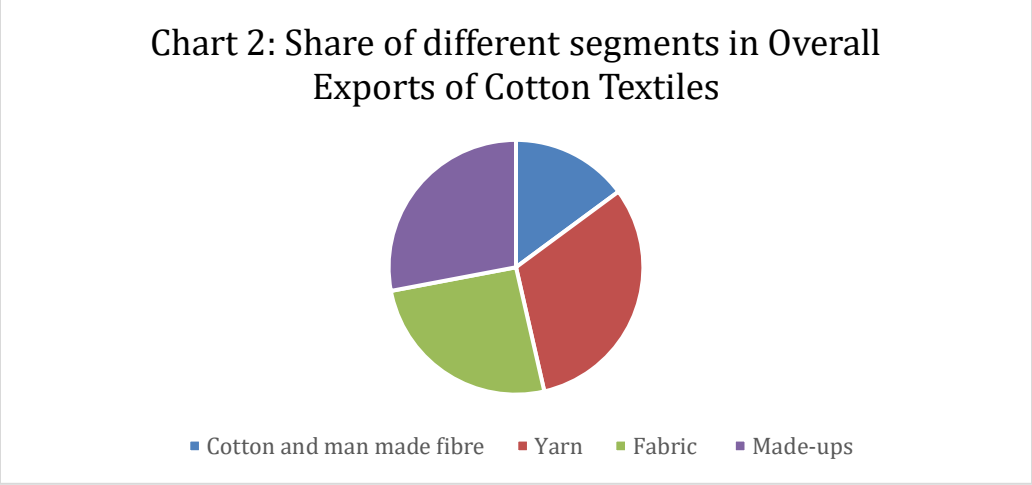
Source: **DGCIS, Ministry of Commerce and Industry, Government of India**

[8] Textile exports dip 4% in FY18, CITI report

Table 1: India's Export Statistics To World				
Commodity	Million United States Dollars			% Change
	2015-16	2016-17	2017-18	2018/2017
Textiles &Clothing	**36751.41**	**36664.02**	**36733.73**	**0.19**
Textiles	19750.22	19173.33	20014.40	4.39
RMG Clothing	17001.19	17490.69	16719.32	-4.41
Cotton Textiles	**10958.24**	**10696.09**	**10715.41**	**0.18**
Cotton Yarn	3610.56	3352.25	3424.61	2.16
Cotton Yarn (Mn Kgs)	**1307.11**	**1203.25**	**1097.43**	**-8.79**
Cotton Fabrics	2151.41	2047.91	2162.33	5.59
Cotton Made-ups	5196.26	5295.92	5128.46	-3.16
Raw Cotton	1939.81	1633.59	1887.10	15.52
Raw Cotton (Mn Kgs)	**1347.09**	**1002.77**	**1097.50**	**9.45**
Cotton Textiles + Raw Cotton	**12898.04**	**12329.67**	**12602.50**	**2.21**

Source of Data: GTA/Ministry of Commerce

Not all segments of the value chain have experienced a decline. The maximum decline has been in the made-ups segment. See table 1 and Chart 1. It is to be noted that the Made-ups segment received a 4% MEIS which was the highest in this sector. Moreover Made-ups comprise the largest share in exports from the cotton textiles sector. (See Chart 2 below). It is therefore mystifying that exports from this segment should have declined marginally when MEIS had been increased to 4% since November 2017.[9] However exports from the entire segment have remained stagnant for the past three years.



Source: **Table 1**

Therefore, the reasons for the decline in competitiveness need to be examined in detail. Some issues are structural in nature but a number of them such as GST have had immediate effects. In some cases

[9] https://www.business-standard.com/article/economy-policy/govt-increases-meis-by-2-manmade-fibre-industry-disappointed-117121200930_1.html

GST may have actually negated the possible effects of MEIS. See below. In addition, as MEIS will need to be removed (see Chapter 2 and Annex 6)[10], there is a need to examine what alternative forms of support would be needed for this sector for it to maintain at least its present competitive position in a highly competitive global market for textiles Hence this chapter sets the context of the industry in contemporary space pointing to issues that need to be addressed to improve competitiveness. But before that an analysis of imports is required to ascertain that imports have not displaced exports.

Imports Analysis

The high growth is imports versus the slowdown of exports would a priori indicate declining competitiveness of the industry (Tables 2 and 3). However, any assessment of a rise in import should be carried out in terms of the products being imported.

Table 2: India's Import Statistics

Commodity: Textiles

	Country	Million United States Dollars			% Share			% Change
		2015-16	2016-17	2017-18	2015-16	2016-17	2017-18	2018/2017
	World	**5288.24**	**5454.11**	**6262.87**	**100.00**	**100.00**	**100.00**	**14.83**
	China	2309.40	2082.93	2609.77	43.67	38.19	41.67	25.29
	United States	304.24	466.69	622.48	5.75	8.56	9.94	33.38
	Australia	198.26	445.54	325.84	3.75	8.17	5.20	- 26.87
	Vietnam	144.24	158.47	242.83	2.73	2.91	3.88	53.24
	Bangladesh	263.51	281.72	196.54	4.98	5.17	3.14	- 30.24
	Korea South	147.47	147.65	181.01	2.79	2.71	2.89	22.59
	Indonesia	149.19	121.38	172.31	2.82	2.23	2.75	41.96
	Taiwan	178.84	164.95	168.81	3.38	3.02	2.70	2.34
	Thailand	147.59	120.71	155.16	2.79	2.21	2.48	28.54
	Japan	130.01	118.75	134.67	2.46	2.18	2.15	13.41

Source: **GTA/Ministry of Commerce**

Table 3 below shows the 2-digit HS breakup of India's textile imports, which combines imports for domestic consumption as well as under the Advance Authorization Scheme for exports. The two cannot be separated, hence the part which is being imported for exports cannot be gauged accurately. There is

[10] The US challenge in the WTO to India's export subsidies, including MEIS, is most likely to lead to a ruling against India.

no immediate cause for concern on account of imports. A large part of it is still in the form of fibers or filament (silk, cotton, man-made fibre or MMF) or technical textiles, which India does not manufacture.

Table 3 : FIBRES, YARN AND FABRICS IMPORTED INTO INDIA					
HS Chapter	**Description**	**2014-15 (in $ million)**	**2015-16 (in $ million)**	**2016-17 (in $ million)**	**2017-18 (in $ million)**
50	SILK2	215.13	205.69	209.84	250.63
51	WOOL, FINE OR COARSE ANIMAL HAIR, HORSEHAIR YARN AND WOVEN FABRIC.	401.05	362.57	324.00	345.05
52	COTTON.	739.67	599.43	1,132.26	1,181.02
53	OTHER VEGETABLE TEXTILE FIBRES; PAPER YARN AND WOVEN FABRICS OF PAPER YARN.	305.41	371.99	340.50	348.09
54	MAN-MADE FILAMENTS.	824.87	746.12	724.07	859.22
55	MAN-MADE STAPLE FIBRES.	743.74	673.92	570.45	722.74
56	WADDING, FELT AND NONWOVENS; SPECIAL YARNS; TWINE, CORDAGE, ROPES AND CABLES AND ARTICLES THEREOF.	242.26	279.80	295.06	328.22
57	CARPETS AND OTHER TEXTILE FLOOR COVERINGS.	86.70	92.79	85.66	113.06
58	SPECIAL WOVEN FABRICS; TUFTED TEXTILE FABRICS; LACE; TAPESTRIES; TRIMMINGS; EMBROIDERY.	187.60	199.49	182.78	201.28
59	IMPREGNATED, COATED, COVERED OR LAMINATED TEXTILE FABRICS; TEXTILE ARTICLES OF A KIND SUITABLE FOR INDUSTRIAL USE.	784.34	713.11	677.54	860.97

Source: **GTA/Ministry of Commerce**

A particularly serious concern could however arise from the fact that there is a growing domestic demand in India for finer counts of cotton and sophisticated fabrics, with special qualities e.g. quick drying, wrinkle free, soft feel etc. Thus in case Indian textile industry does not upgrade its domestic

manufacturing of fabrics in terms of quality and scale, the imports of the special fabric items would keep going up. Competition will then be increasingly felt in the domestic markets, with an adverse effect both in the domestic market and abroad. Strengthening its export capacity will not only generate export revenues but will also bring in the technology to upgrade domestic capacity so that India can remain competitive in textiles, including to create a strong basis for the value chains which include clothing industry as well.

Major Exporters and Importers of Textiles in the World

India is among the largest exporters of textiles, but a number of other countries are more active in international trade (i.e. exports and imports). A number of the top importing economies are Bangladesh and Vietnam which are also- top exporters of clothing. Their focus is on increasing their domestic production of textiles as well to create a more robust supply chain for the entire textiles and clothing industry. Table 4 shows the top global exporters and importers of textiles.

Table 4. Top Exports and Importers of Textiles in the World, 2017

Top Exporters in 2017	Exports US$ Billion	Top Importers in 2017	Imports US$ Billion
China	110	EU (including intra-EU)	73
EU (including intra-EU)	69	EU (excluding intra-EU)	31
EU (excluding intra-EU)	21	US	28
India	17	China	17
US	14	Vietnam	14
Turkey	11	Bangladesh	9
South Korea	10	Japan	8
Taiwan	9	Hong Kong, China	7
Pakistan	8	Turkey	7
Hong Kong, China	8	Mexico	6
Vietnam	7	Indonesia	6

Source: Page 143 of https://www.wto.org/english/res_e/statis_e/wts2018_e/wts2018_e.pdf
Notes: Trade of China includes significant shipments through processing zones. Mexico's imports are valued f.o.b.

In this background, some main factors which are affecting the competitive opportunities and relative performance of India's textiles exports have been discussed below.

Fall in Exports and in Competitiveness

While there are several reasons for a decline in India's textiles exports in recent years, the stagnation of exports cannot be explained only by generic factors. The reasons for the decline are related to a decrease in demand within the Chinese market, the initial problems arising due to implementation of GST, deeper FTAs and preferential tariffs faced by main competitors of Indian textiles industry, new

sourcing strategy of the US, change in China's export strategy, as well as some domestic structural constraints and Technology-related issues.

Fall in Chinese demand

As Table 5 below shows the major countries to which India exports cotton textiles.

Table 5: India's Export Statistics To World

Commodity: Textiles

Rank	Country	Million United States Dollars			% Share			% Change
		2015-16	2016-17	2017-18	2015-16	2015-17	2016-18	2018/2017
	World	**19750.22**	**19173.33**	**20014.40**	**100.00**	**100.00**	**100.00**	**4.39**
1	United States	3659.26	3840.92	3880.65	18.53	20.03	19.39	1.03
2	Bangladesh	2034.47	2054.73	2267.72	10.30	10.72	11.33	10.37
3	China	1892.60	1595.65	1280.50	9.58	8.32	6.40	- 19.75
4	Turkey	588.08	564.61	743.63	2.98	2.94	3.72	31.71
5	Pakistan	989.44	617.62	687.24	5.01	3.22	3.43	11.27
6	UAE	1045.74	793.58	604.31	5.29	4.14	3.02	- 23.85
7	Germany	569.09	599.95	599.56	2.88	3.13	3.00	- 0.07
8	United Kingdom	595.48	560.00	557.11	3.02	2.92	2.78	- 0.52
9	Vietnam	361.33	389.39	553.84	1.83	2.03	2.77	42.23
10	Sri Lanka	507.12	519.39	517.57	2.57	2.71	2.59	- 0.35

Source: **GTA, Ministry of Commerce, government of India**

India's cotton textiles exports to China have decreased by 19% in the last three years (See Table 5 above). China was by far the largest market for India's yarn exports. Its cotton yarn exports to China fell by 58% in the last three years, while Vietnam's exports to China increased by 88%.[11] The Indian textile industry is sensitive to even small changes and if it had a level-playing field with its competitors abroad, Indian exports to China could double.[12] China buys cotton fibre from India but prefers other countries such as Viet Nam and Europe for value added products, such as yarn and fabric. China's own production and export of cotton fabric has declined, though overall textile exports have increased.[13] Thus India has

[11] https://economictimes.indiatimes.com/news/economy/foreign-trade/citi-expresses-concern-over-indias-huge-trade-deficit-with-china/articleshow/65257754.cms. See also data from GTA-Ministry of Commerce, Government of India

[12] Ibid.

[13] https://gain.fas.usda.gov/Recent%20GAIN%20Publications/Cotton%20and%20Products%20Annual_Beijing_China%20-%20Peoples%20Republic%20of_4-6-2018.pdf

suffered a decline in Chinese markets on two accounts. One Chinese cotton fabric exports are declining and hence yarn demand is shrinking and secondly Vietnam is replacing India in Chinese markets.

The GST issue

The domestic textiles industry to some extent faces a lower effective duty on imports due to the Goods and Services Tax on imports (IGST) regime.

In the post-GST regime, CVD and SAD were withdrawn and IGST has been introduced. For a trader, IGST is fully adjustable against GST liability on the sale of the imported goods, whereas CVD was not adjustable in the pre-GST era for a trader. SAD was refundable, if the trader charged Sales Tax / Vat on sale of the imported goods in the domestic market. Therefore, imports of textiles products by a trader have become cheaper in the GST regime as compared to imports in the pre-GST era. Hence import protection for manufacturers to the tune of CVD of 6.6% in comparison to traders in the pre-GST era has now been reduced to 0%. (See Tables 6 and 7).

However, in the case of a manufacturer, cost of import of textile products remain more or less unchanged. This is due to the fact that, for a manufacturer, CVD and SAD components were Cen vatable[14] in the post GST era IGST is available as Input Tax Credit under GST. A comparative chart of cost of imports by a manufacturer in the pre-GST and post –GST era are shown below in Tables 6 and 7. It shows that earlier they paid 11.3% CVD and SAD for cotton fabric and 13% for synthetic fabrics which was refunded to them. However in the post GST regime they pay roughly 13% for both which is also refunded to them.

According to the industry the effective GST is only 5% on cotton textiles. However, because of the non-refund of excess input tax credit under an inverted duty structure, it actually adds up to 8-9%, while imports have to pay only 5% IGST.[15] While incentives such as MEIS were increased to 4% from 2% for made-ups in 2017, there is still about 2.7 per cent shortfall compared to incentives drawn before GST implementation. In addition, there has been a reduction of ROSL from 3.2 to 1.7%. Hence the effective refund of embedded taxes at both the Central and State level is significantly lower than the pre-GST era. With this decrease in protection, operating in competitive market which functions with narrow margins of less than 5% has becomes difficult.[16]

[14] CENVAT credit is a credit in respect of central excise on inputs purchased for the manufacture or duty paid in relation to the manufacture of the final product. ... Virtually, CENVAT CREDIT is like a credit balance in bank account that can be adjusted towards the excise duty payable.

[15] Vide Central Tax (Rate) Notification 5/2017 dt. 28.06.2017 the Central Government has notified that no refund of unutilised input tax credit shall be allowed in case of output supply of the following goods:

1	5007	Woven fabrics of silk or of silk waste
2	5111 to 5113	Woven fabrics of wool or of animal hair
3	5208 to 5212	Woven fabrics of cotton
4	5309 to 5311	Woven fabrics of other vegetable textile fibres, paper yarn
5	5407, 5408	Woven fabrics of manmade textile materials
6	5512 to 5516	Woven fabrics of manmade staple fibres
7	60	Knitted or crocheted fabrics [All goods]

[16] https://www.business-standard.com/article/economy-policy/sops-lower-than-pre-gst-ones-textile-sector-117112700049_1.;html

Categories	**Cotton Fabrics**	**Synthetic Fabrics**
Assuming Assessable Value	Rs.100.00	Rs.100.00
BCD @ 10%	Rs. 10.00	Rs.10.00
CVD@ 6%	Rs.6.60	Rs.13.75 (@12.5%)
Education Cess @ 3%	Rs.0.50	Rs. 3.00
4% SAD	Rs.4.70	Rs.5.10
Total Custom Duty	Rs.21.80	Rs.31.85
Landed Cost	Rs.121.80	Rs.131.85
Less : Cenvat Credit [CVD & SAD)	Rs.11.30	Rs.18.85
~~Cost of Imports~~	~~**Rs.110.50**~~	~~**Rs.113.00**~~

Table 6: Pre GST Taxation on Textiles

Source: **Calculations by Texprocil**

~~**Cotton Fabrics**~~	~~**Synthetic Fabrics**~~
Rs.100.00	Rs.100.00
Rs. 10.00	Rs.10.00
Rs.3.00	Rs. 3.00
Rs.5.65	Rs.5.65
Rs.118.65	Rs.118.65
Rs.5.65	Rs.5.65

Table7: Post GST taxation on Textiles

Cost of Imports	**Rs.113.00**	**Rs.113.00**

Source: **Calculations by Texprocil**

Notwithstanding these differences between merchant and manufacturer exporters, the delayed refund of GST has reduced the available working capital to firms. Small firms have been the worst affected. According to the firms interviewed for this study, in addition to delays in refund of IGST and GST, delayed refund of duty drawback and Refund of State levies (RoSL) were also common. On average there was a 3 to 6 months delay in the refund of all four duties, depending on the State in which the firm was set up. [17] Some found the process of refunds under these schemes easy while others found it highly complex and inflexible 'with no mechanism to correct or check mistakes'. Overall the industry complained that GST added roughly 3-4% to their burden of taxes, and reduced protection of 6% from imports. Hence a MEIS of 2-4%, overall 1.6% to the textiles industry as a whole was not a net gain to the industry. The industry complained that what the government gave with one hand was taken away with another through GST.

Deeper FTAs and Preferential Tariffs of Competitors

Major export markets of India offer preferential tariffs to certain competitor countries but not to India. Tariffs on exports of textiles from India to China (world's largest importer of yarn)[18] range from 7.5% (yarn), 10% (fabric), and 12% (made-ups), while Vietnam, Cambodia and Indonesia enjoy duty-free access under their FTAs with China. In addition, Bangladesh and Pakistan get preferential tariff for their exports to China.[19]

[17] Information provided by firms interviewed by the consultants for this study.
[18] China is the third largest importer of textiles products in the world, with a share of 5.5% in global imports. See page 143 of https://www.wto.org/english/res_e/statis_e/wts2018_e/wts2018_e.pdf
[19] https://www.thehindu.com/business/Industry/fall-in-exports-to-china-worries-textile-industry/article24604352.ece.

Bangladesh is an LDC which results in duty free tariffs for its exports to most developed countries, including the EU.[20] Vietnam is part of ASEAN and thus gets better market access conditions than India. In addition, Vietnam has concluded FTAs with the EU and with ten other economies under the Comprehensive and Progressive Trans Pacific Partnership (CPTPP)[21], which will result in preferential tariff treatment for its exports to these economies. Similarly, as a member of ASEAN, it also benefits from the China-ASEAN Free Trade Agreement, under which it gets preferential access to the Chinese market compared to the situation for Indian exports to China. The tariff situation for different components for textiles, i.e. yarn, fabrics and made-ups are shown below.

Yarn

In the table below the rows show the top ten exporters of yarn and the columns show the top ten importers of yarn at the global level. China and Hong Kong are the largest importers of cotton yarn from India. However yarn exports from India have fallen continuously over the last three years year as shown above. A close look at the tariffs applied to exports of yarn from different economies shows that Vietnam's exports have no tariffs in a number of the major importing markets whereas exports from India pay higher tariffs in several markets such as 4.4 % tariff in China which is India's largest market for yarn. India faces higher tariffs than its competitors such as Korea, Mexico, Pakistan and Turkey in the EU markets. In the Australian market, which was the largest importer of yarn last year China, Indonesia, Korea, U.S.A and Vietnam get 0 tariffs while India has to pay 5% tariff. To understand the bias in tariffs against India, a different methodology involving trade weighted averages have been used below.[22]

Table 8: Trade Weighted Average of all HS 6 digit lines of Yarn Exports

	Importers									
Exporters	**Australia**	**China**	**Dominican Republic**	**Egypt**	**EU**	**Hong Kong**	**Japan**	**Korea**	**Russia**	**Turkey**
China	0.00		0.00	5.00	4.05	0.00	4.40	6.27	5.00	4.04
India	5.00	4.41	0.00	5.00	4.05	0.00	0.00	3.65	5.00	3.20
Indonesia	0.00	0.00	0.00	5.00	4.06	0.00	0.00	0.95	5.00	3.20
Korea	0.00	3.55	0.00	5.00	0.00	0.00	5.49		5.00	0.60
Mexico	5.00		0.00		0.00			8.00		
Pakistan	5.00	4.05		5.00	0.00	0.00	4.48	7.53	5.00	3.24
Turkey	5.00	5.20	0.00	0.00	0.00	0.00	4.29	3.43	5.00	
USA	0.00	5.13	0.00	5.00	4.07	0.00	5.17	0.00	5.00	4.00
Uzbekistan				5.00	3.20	0.00	4.48	7.07	0.00	3.27
Vietnam	0.00			5.00	3.26	0.00	0.00	0.00	2.50	3.20

[20] The EU is by far the largest importer of textiles, with its imports in 2017 being US$74 Billion (including intra-EU trade). Even excluding intra-EU trade, its imports of textiles were US$31 Billion. The second largest importer of textiles was the US, with US$28 Billion imports in 2017; China was third largest importer of textiles with US$17 Billion.

[21] Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru and Singapore.

[22] Trade weighted average tariffs are calculated by multiplying the tariff on a product line at the 6 digit level with exports in that particular tariff line and then averaging it with over all tariff lines. Thus for example for Yarn it would be $\sum Xij/\sum j$, where i=tariff on tariff line i, j=export of product X in tariff line i. Thus for yarn, fabric and made-ups all the tariff lines given in Annex 2 have been used as specified under yarn, fabrics and made-ups.

Source: Calculated from the **COMTRADE database.** Tariff lines used are given under Yarn in Annex 2.

FABRICS

As far as fabrics are concerned the largest export markets for India are US, South Korea, E.U, and Vietnam apart from the SAARC region where a uniform tariff prevails.

Table 9 : Trade Weighted Average tariff of all HS 6 digit lines of export of Fabrics

Exporters	EU	Vietnam	Bangladesh	USA	China	Hong Kong	Indonesia	Mexico	Turkey	Morocco
China	8.00	NA	NA	8.31		0.00	0.00	10.00	8.00	
Pakistan	0.00	NA	NA	8.17	0.00	0.00	10.63	10.00	6.40	8.89
EU		NA	NA	8.31	10.58	0.00	12.28	0.28	0.00	0.00
India	8.00	NA	NA	8.23	9.75	0.00	5.06	10.00	6.40	8.49
Turkey	0.00	NA	NA	8.24	10.51	0.00	12.08	10.00		0.00
Hong Kong	8.00	NA	NA	8.42	1.60		12.34	10.00	8.00	10.00
USA	8.00	NA	NA		10.27	0.00	12.18	0.29	8.00	
Japan	8.00	NA	NA	8.31	10.58	0.00	0.00	0.91	8.00	10.21
South Korea	0.00	NA	NA	0.04	5.17	0.00	0.00	10.00	1.30	10.00
Egypt	0.00	NA	NA	8.33		0.00	14.17	10.00	0.00	

Source: Calculated from **Comtrade data base.** Tariff lines used are shown under Fabrics in Annex 2.

In Table 9, the top ten exporters of fabric are shown as columns, while the top ten importers of fabric are shown as rows. The weighted average tariffs faced by India's exports in several of its major markets are very different from its competitors. For example while Pakistan exports at 0 tariffs to the EU and China two of the largest importers of fabric in the world, India's tariffs and 8% and nearly 11% in the EU and Chinese market respectively. South Korea has 0 tariff in all the major markets, Turkey also gets preferential market access in the EU. EU also has 0 tariffs in Morocco and Turkey and near 0 tariffs in Mexico. Hence it also enjoys preferential access in the USA through NAFTA. The same is true for Japan. India on the other hand does not have preferential access to any of the ten major importing countries.

MADE-UPS

India's exports to the U.S and E.U have fallen in the financial year 2017-2018. In Table 10, the top ten exporters of made-ups are shown as columns, while the rows show the top ten importers.

Table 10: Trade Weighted Average tariff of all HS 6-digit lines of export of Made-ups

	Importers									
Exporters	USA	EU	Japan	Canada	Australia	Saudi Arabia	Switzerland	Russia	UAE	China
China	4.67	7.46	3.06	10.40	0.23		0.00	5.56		
India	4.70	7.50	0.00	10.30	2.59	5.00		5.89	5.00	11.50

Turkey	4.23	0.00	4.61	11.44	2.63	5.00	0.00	5.78	5.00	13.24
Pakistan	4.19	0.00	3.82	10.74	2.42	5.00		4.17	5.00	7.94
EU	4.67		5.73	0.00	2.58	5.00	0.00	6.11	5.00	11.79
Bangladesh	4.92	0.00	0.00	0.25	0.00		0.00	0.00		
Egypt	3.97	0.00	5.14	10.77	3.02		0.00	5.00		
Vietnam	6.18	6.25	0.00	11.71	1.44			1.74		
USA		7.46	5.79	0.00	0.00	5.00		5.71	5.00	11.92
Iran	0.72	8.34	4.17	10.96	2.31			3.75		

Source: Calculated from **COMTRADE database.** All tariff lines used here are listed under Made-ups in Annex 2

As can be seen from Table 10, four of its major competitors like Turkey, Pakistan, Bangladesh and Egypt in the EU market get 0 tariffs while India has to pay a 7.5% tariff.

In general, Indian exporters are at a disadvantage as exports of its competitors like Bangladesh face zero tariff in several developed economies (including EU) because it is a Least Developed Country. Likewise, other significant textiles exporters like Turkey and Pakistan get preferential tariffs in the EU market.
Moreover, the largest importer of textiles in the world, EU (with a share of 23.3% in global textiles imports[23]) has negotiated an FTA with Vietnam. The global textiles export share of Vietnam has more than doubled since 2010.

China's Textile Strategy

While India is experiencing a stagnant scenario in garments exports in recent years, textiles exports of China have been rising. In 2017, China's textiles exports rose to US$ 110 Billion (37.1% of global exports), reaching a record high. China is losing competitiveness in apparel with its global export share declining from 38.8% in 2014 to 34.9% in 2017. China is actually playing an increasingly critical role as a textile supplier for many apparel-exporting countries in Asia. This is because while textiles is a relatively capital intensive industry, apparel is a labour intensive product. Hence while labour costs impact China's competitiveness in apparel they have less of an impact on textiles. Moreover, support provided to textiles by the government, especially with respect to innovation and new products makes this industry competitive. Measured by value, 47% of Bangladesh's textile imports came from China in 2017, up from 39% in 2005. A similar situation prevailed also for Cambodia (up from 30% to 65 %), Vietnam (up from 23 % to 50 %), Pakistan (up from 32 % to 71 %), Malaysia (up from 25 % to 54 %), Indonesia (up from 28 % to 46 %), Philippines (up from 19 % to 41 %) and Sri Lanka (up from 15 % to 39 %) over the same period.[24]

Investment in the textiles and apparel industry of China is difficult to segregate. Chinese foreign direct investment in the textiles and apparel sector of Asia increased by 63% in 2016 compared to the previous year. As China comes under threat in the major western markets and as labour costs increase, it will

[23] Page 143 of https://www.wto.org/english/res_e/statis_e/wts2018_e/wts2018_e.pdf
[24] https://www.just-style.com/analysis/changing-trends-in-world-textile-and-apparel-trade_id134353.aspx

continue to export to the major markets through its investment in other Asian countries. China also continues to be the biggest investor in textile machinery in the world.[25]

With China's cost competitiveness coming under pressure, other Southeast Asian countries have emerged as exporters, especially Vietnam. China is gradually adopting a shift from the policy of "Made in China" to "Made by China" by way of shifting textile manufacturing processes to other countries in the region: to Vietnam, Cambodia, Laos currently and at a later stage, perhaps Myanmar. This would make India additionally uncompetitive in third country markets because Chinese fabrics are both cheaper and perhaps more aligned to the changing consumer tastes in larger markets. Thus Indian industry not only needs support but in some cases it may need to be augmented.

US Sourcing Strategy [26]

When it comes to sourcing, diversification is key for many companies with 60.7 percent sourced in 2018 from 10+ different countries or regions, up from 57.6 percent in 2017. Most large companies have a sourcing strategy which comprises China plus one, which currently in most cases is India.[27]Larger US companies, in general, continue to be more diversified than smaller companies. Asia as a whole continues to take the lead as the dominant region for sourcing textile products by US companies. Meanwhile, with the growing importance of speed-to-market and flexibility, the Western Hemisphere, especially Mexico and EU, are becoming an indispensable sourcing base. Electronic and digital trade are gaining in importance and may become the main vehicle of trade in the future.[28]

Due to the trade war between China and the US, China now typically accounts for only 11-30 percent of companies' total sourcing value or volume, compared with 30-50 percent in the past. Although China's position as the top sourcing destination remains intact, companies are actively seeking alternatives to "Made in China." Benefiting from diversification away from China, Vietnam and Bangladesh are playing a bigger role as apparel suppliers to the US market.

An additional issue in the US sourcing strategy is the use of preferential trade agreements by its companies. The use of trade preferences depends on the rules of origin, and exceptions to the rules of origin. While FTAs and trade preference programs remain largely underutilized by U.S. fashion companies, more companies are using NAFTA (65 percent), CAFTA-DR (58 percent) and AGOA (50 percent) than in 2015-2016.[29] Still, US companies often do not claim duty-free benefits when sourcing from countries with FTAs or preference programs. Companies say this is primarily due to strict rules of origin in FTAs, which is based on yarn-forward criterion. FTA sourcing is higher if regional accumulation is allowed. Nonetheless, 48 percent of the companies reportedly import from countries that have preferential tariffs with the US. Companies also prepare short supply lists and commercial availability lists. This is then matched with US's FTAs. If a correct match is obtained then FTA countries may be

[25] https://www.just-style.com/analysis/machinery-trends-confirm-chinas-textile-leadership_id133704.aspx
[26] Lu, Sheng, July 2018, 2018 Fashion Industry Benchmarking Study, https://shenglufashion.wordpress.com/tag/apparel/?iframe=true&preview=true%2Ffeed%2F
[27] Interviews with exporters.
[28] https://shenglufashion.com/tag/western-hemisphere-supply-chain/
[29] Ibid

preferred.[30] Importing companies in the US predominantly support initiatives to eliminate trade barriers of all kinds, from high tariffs to overcomplicated documentation requirements, to restrictive rules of origin in NAFTA and other free trade agreements. Given these priorities in the sourcing program of the US, India will have to strive hard to retain and expand its position in the US markets.

Domestic Structural Issues

Indian producers face relatively high power and transportation costs compared to their competitors abroad. Furthermore, competing countries have a fairly efficient transport process in place with fewer delays and lower delivery times which makes the competitors more attractive to the buyers.

Transportation causes maximum inefficiency in exporting from India. Due to delays and poor connectivity, buyers turn to firms in competing countries where the cost of transportation is lower along with better connectivity to ports. Such inefficiency leads to poor business and signals a lack of professionalism which leads to the overall fall in demand by buyers. For example, on average it takes exporters 2-3 days to send their products by road from Panipat to Mumbai, the clearance process takes another 2 days, adding up to 5-6 days or more, in all. This is very inefficient as it takes 1-2 days in China for the entire process. Railways, which is most commonly used, has high freight costs and is fraught with delays. Airfares are very expensive as well. [31]

Apart from all these handicaps, raw materials are expensive. Cotton is grown in the western belt of India, whereas most of the spinning mills are in the south of India in Tamil Nadu. Hence raw materials have to travel quite some distance, thus increasing the transportation costs. Contamination of cotton is also rather high, thus leading to wastages.[32]

The Indian textile industry is highly fragmented and dominated by the unorganized sector and small and medium industries. However, there has been consolidation in some segments of the value chain, especially the spinning sector. Some products in the Made-ups sector such as towels are also made by large firms. Changing government policies at the state and central government levels have posed major challenges to the textile industry. Firms complained that the government was taking away through GST what it was giving as subsidies. Another important threat is rising interest rates and wages plus workers' salaries. There is a high level of attrition in the textile industry. In addition, investment in this industry, post-GST has not been high. The Indian textile industry has its own limitations such as access to the latest technology and failure to meet global standards in the highly competitive export market, especially in the small scale sector. There is fierce competition from China, Bangladesh and Sri Lanka in the low priced textile segment. In the global market, tariff and non-tariff barriers coupled with tariff rate quota is posing a major challenge to the Indian textile Industry. Environmental and social issues like child labor and personal safety norms are also some of the challenges for the textile industry in India. [33]

[30] Ibid

[31] Information obtained through interviews at Panipat.

[32] Information obtained through interviews

[33] Information obtained from brainstorming sessions in Delhi, Mumbai, Karur, Erode and Ludhiana.

Technology Issues in the Textiles Industry

Production of fibre

Changes from cotton to man-made fiber and from microfiber to nanofiber necessitate changes from traditional production machinery to latest machinery of production in spinning fibre and yarn.

Spinning

Since the eighties, the Indian spinning industry has utilised the 100% EOU scheme first and the TUFS scheme subsequently, to add significant spinning capacity. The expansion of spinning capacity has enabled India to benefit from the rapid expansion in cotton production and earn valuable foreign exchange. Currently about 27-30% of cotton yarn produced in the country is exported. However, there are certain segments of the industry, which still lag behind in terms of the technology used and require modernisation. This includes parts of spinning as well as other segments of the supply chain in textiles. Thus, the government needs to support processes that help continuously upgrade technology.

Weaving

Power looms still serve a large segment of the market where income per head is low. Even automatic looms are not able to sustain today's demands from the super textile market. In fact, the international market of technical textile cannot be exploited by many entrepreneurs as the technology required is not being used in India. Indian entrepreneurs need to extensively use shuttleless weaving technology to produce large volumes of fabric of world class quality. Some investment in technical textiles machinery will also be required.

Processing

Continuous technological developments are indispensable in textile processing to meet the demands of consumers and to compete in the global market. Innovative technologies such as electro-chemical technology, plasma technology, nanotechnology and sono-chemical technology are anticipated for better prospects with due regard to their eco-friendly nature, energy efficiency and best quality performance. Investment is really required in this part of the value chain also.

Information Technology

Latest technology and state-of-the-art machines with old type of information processing systems in the organisation has no future. But computer applications for design, manufacturing and each branch of management is tomorrow's requirement. Recently, it has been reported that US-based companies are doubling their profitability by using computers at every stage of production. India also needs to adopt IT based technological changes as per international demand and the market environment.

The potential major product lines in the Indian textile market are hoardings and signages, scaffolding nets, awnings and canopies, soft luggage material, fire resistance apparels, specialty fire resistance apparel for defence, fire resistance upholstery/furnishing (general public), tarpaulins and taffeta. To satisfy the need of this potential textile products market, Indian textile industry has to adopt state of the art technology.

Conclusion

Given all these requirements for the Indian textile industry to be competitive in global markets, it is imperative that the Government support this sector with a package that addresses their competitiveness constraints. The major constraints that the industry faces is a need for widespread modernisation, labour issues, power and investment. While the government has put in place a package of measures to support this industry, a number of them have been challenged at the WTO. These so-called subsidies will need to be removed if the WTO dispute settlement system rules that they are inconsistent with India's obligations at the WTO (this is the most likely scenario). The purpose of this report is to suggest alternate support measures which are WTO compatible and will support the competitiveness of the industry. In this context, Chapter 2 outlines the subsidies challenged by the US at the WTO and the impact of their removal. Chapter 3 looks at the cost structure of the industry and provides the rationale for government support through subsidies. Chapter 4 examines the support measures provided by competitor countries and Chapter 5 provides suggestions for alternative forms of support.

Chapter 2 – Export Subsidies challenged at the WTO

Introduction

The United States has challenged the Merchandise Exports from India Scheme and Export Oriented Units Scheme under the WTO Dispute Settlement process. In addition, schemes relevant to the export sector are Special Economic Zones, Export Promotion Capital Goods Scheme and Duty-Free Import Authorisation Scheme for exporters have also been challenged in this dispute brought by the US against India in the WTO.

Rationale for challenging these subsidies

Indian textile imports to the U.S. increased 11.4% in January 2018 to 455 million square meter equivalents (SME). The value of imports from India increased 2.69% to $649.76 million, taking it to a 6.96% U.S. market share in the sector. For all of 2017, India's exports to the U.S. rose 7 percent to 5.15 billion SME on top of a 5.7% hike in 2016. The value of India's imports increased 1.2% to $3.68 billion in 2017.

USTR claims that India provides exemptions from certain duties, taxes and fees; reduces import duty liability, and benefits numerous Indian exporters, including producers of textiles. In January, the US Commerce Department issued affirmative final determinations in the countervailing duty investigations of fine denier polyester staple fiber from India finding that exporters received unfair subsidies of 41.73% to 47.55%. The India investigation included Bombay Dyeing & Mfg. Co. and Reliance Industries Ltd. In 2016, imports of fine denier polyester staple fiber from India was valued at an estimated $14.8 million.

To recount the background in brief, the USTR had claimed in 2010 that in 2007 and 2008, India had crossed the WTO threshold of 3.25% of global trade in textiles and clothing and was required to remove export subsidies for textiles and clothing by 2016. However, India felt that the finding that this threshold was breached had been notified by the WTO only in 2010 and hence India was obliged to phase out its export subsidies for textiles and clothing by 2018.

The larger challenge from the US currently is based on the argument that India now has to remove its exports subsidies for all merchandise exports sectors under the Agreement on Subsidies and Countervailing Measures of the WTO because it had crossed the threshold of US $1000 per capita (according to 1991 prices) per annum for three consecutive years in 2016.

Regardless of dates, what is at stake is India's competitiveness in this sector with the removal of the export subsidies for textile and clothing exports. As mentioned above, India has already given a commitment in the WTO to remove all its export subsidies for textiles and clothing by 2018, thus the outcome of the current challenge by the US is, strictly speaking, not really relevant to the phasing out of textiles export subsidies.

Amount of subsidies currently under Challenge at the WTO

Table 11 below summarizes the content and the approximate value of these subsidies for the textiles sector.

Table 11: Subsidies challenged at the WTO

No.	Subsidy Policy	Amount in crores (INR)	Whether WTO Compatible	Remarks
1	MEIS	4% of f.o.b. exports for made ups and 2% of fabrics Amounting to roughly INR 1738.5cr[34](weighted shares show that it is roughly 1.6% of f.o.b value available to the sector)	No	Subsidies 1 to 4 will have to be phased out by end 2019.
2	EPCG	Roughly INR 3,100 cr, [35]	No	As above
3	SEZ	Roughly INR 691cr [36]	No	As above
4	EOU	Roughly INR 119cr[37]	No	As above
5	DFIA	Roughly INR 19cr [38]	Part of it is WTO compatible	Could be disputed at WTO

Source: Listed in the footnotes

In addition, under the Union Budget 2018-19, Government of India allocated around Rs 7,148 crore (US$ 1.1 billion) for the textile Industry.

♣ Rs 2,300 crore (US$ 355.27 million) have been allocated for the Technology Up-gradation Fund Scheme (TUFS).

[34] Derived on the basis of f.o.b. value of exports of cotton fabric and made-ups. See table 1. This figure was derived using an exchange rate of 1USD=INR70.

[35] Based on total issuance of EPCG of 3230 cr for textiles and garments as a whole. See Table 26. According to stakeholders of both textiles and garments industry 95% of the issuance of EPCG was to the textiles sector, which works out to roughly INR 3100cr.

[36] Of the 222 operational SEZs in India, according to TEXPROCIL < 5% are specified as textiles sector SEZs (not including multi-product SEZs). Total subsidies to all SEZs was INR 9,875 cr in 2016-2017. Exports from SEZs as a proportion of total exports in 2017-2018 was 7% (calculated from tables in Annex 1). Source: Annual Report, Ministry of Commerce and Industries, 2016-17. Hence that to textiles at 7% would be INR 691cr.

[37] According to the Annual Report of the Ministry of Commerce and Industries, there are 1,886 units in operation under the EOU Scheme with a total subsidy of INR 1700 cr. Assuming textiles exports from EOUs are also 7.0% of total textile exports from India the figure would be INR 119 cr. Source: Annual Report, Ministry of Commerce and Industries, 2016-17.

[38] 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 textile exports under DFIA: Rs. 84 crore. (0.11% of cotton total textile exports from Table 1 using an exchange rate of 1USD=70 INR). Duty credit under DFIA: Rs. 328 crore overall or 23.3% of FOB value under DFIA. Duty credit for textiles under DFIA: Rs. 19 crore, calculated as 23.3% of FOB value of Apparel exports under DFIA.

♣ The allocation for Rebate of State Levies (ROSL) is Rs 2,163.85 crore (US$ 334.24 million), which is expected to be beneficial for exporters of made-ups and apparels, as backlog will be cleared and working capital will be released.
♣ The government has also proposed to contribute 12 per cent of the new employees' wages towards Employee Provident Fund (EPF) over the next three years, which is expected to boost hiring in the apparel segment and has also extended fixed-term employment to all sectors.
♣ The government has allocated Rs 112.15 crore (US$ 17.32 million) towards schemes for powerloom units.
♣ The government has allocated Rs 30 crore (US$ 4.63 million) for the Scheme for Integrated Textile Parks, under which there are 47 ongoing projects.
♣ The handloom clusters under the National Handloom Development Programme will get Rs 396 crore (US$ 91.17 million) and the Integrated Processing Development Scheme will get Rs 3.8 crore (US$ 0.59 million).

While the subsidy schemes listed in Table 11 have been challenged by the US in WTO, the other schemes listed above are a priori WTO compatible and have not been challenged.

In the following section, the simulated results of removing the export subsidies has been provided. In order to maintain at least the current competitive position, alternative subsidy regimes would have to replace the WTO incompatible subsides. For a good assessment of the factors that need to be kept in mind to devise the alternative schemes, it would be useful to keep in mind a feedback from Indian textile exporters regarding the concerns they have had with respect to the present situation. A short discussion on that follows the section on simulated results of removing India's export subsidies challenged by the US in the WTO.

Simulation Results of Removing WTO incompatible subsidies

While the textiles industry is already experiencing a decline, a data based objective analysis using Computational General Equilibrium (CGE) models shows that there would be a decline in the industry when the export subsidies are removed. This decline would be over and above that related to the structural issues that afflict the industry. The assumption made is ceteris paribus, i.e. all other things remain unchanged, the removal of these subsidies would result in the changes listed below.

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 CGE analysis in this paper is based on the Global Trade Analysis Program-Environment (GTAP-E) model and data base, which is further augmented using country-specific data on textiles, from various national and international data sources. See Annex 2.

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. 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 new stationary position. The swing normally takes 3-5 years to correct itself. Of course, several assumptions like static technology, imported products are 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 (see Annex 2 for details).

The new situation assessed using the CGE model is the impact of the removal of different export subsidies which are prohibited in the WTO, listed in Table 11. The results are summarized below. It is to be noted that these changes only take account of the removal of subsidies. Any other changes because of a shift in market demand or raw material prices will be in addition to this. Hence, even if textile exports are already declining, the removal of export subsidies would result in an additional decline of the industry by 7%.

Thus, a removal of the WTO incompatible subsidies would lead to the following:
1. Exports from the Indian textile sector fall by 6.7%; the fall in exports ranges between 6.5% and 7.3% for different destination countries.
2. Output for the textile sector in India falls by 1.44%
3. Employment in the textile sector falls by 1.47% in unskilled labour and 1.38% in skilled labour. The fall in job work, home based work and temporary labour is likely to be much higher.
4. Cost of production of exported textile rises by: 1.03%
5. Prices of domestic and exported textiles fall by 0.07% (while a larger fall in prices is expected, it falls less because of the cost pressures shown in 4 that push it upwards).
6. GDP falls by 0.02%.
7. National employment of unskilled labour falls by 0.06% and skilled labour falls by 0.03%.

Feedback from Indian Exporters

Considerable feedback was received through meetings with Indian textiles exporters and through questionnaire responses from them. Most large firms supported the view that it was easy to access the Duty Drawback, MEIS and IGST refund schemes. They complained that EPCG was difficult to use because of average export liability and ATUFs value caps were too low to be of use to them. Some firms however said that they found advance authorization and EPCG easy to access.

Small firms in contrast complained that they encountered technical difficulties in availing themselves of MEIS. Most shipping bills do not get uploaded to the DGFT server on time. Also the electronic Bank Realization Certificates (EBRCs) for exporters were often not reflected on the DGFT server. The server was also frequently not working, which delayed uploading and errors once made in this process were

difficult to correct. They felt that there should be a single window clearance as the involvement of several agencies and government departments created problems for them.

On claiming GST, specific issues were raised regarding the GST portal. GST2 and GSTR 3 screens had yet to be developed. Though improvements in IGST refunds have now been made, the exporters still contended that IGST credits were difficult to obtain. Many also claimed that there had been delays in getting ROSL and duty drawback refunds. For the latter, significant problems were encountered in getting Export General Manifest (EGM) and making sure that the right details were entered at the different portals. Manual intervention was required often to obtain scrips/GST refunds and middlemen had to be engaged, at some cost, to get the disbursements. Simplifying the processes would help the industry immensely.

Table12: Textiles - General Observations according to Scale

SCHEMES/ AREAs THAT NEED SUPPORT	OBSERVATIONS
SMALL SCALE (<50 crores)	
Duty Drawback and ROSL	• Increase in Duty drawback and ROSL rates should be effected by factoring in all the non-rebated components of central and state levies.
EPCG (Beneficial for most firms as value is high)	• Subsidies should be extended.
MEIS (Beneficial for most firms as value is high)	• Documentation requirements should be simplified.
Infrastructure and others	• It would help if fluctuation in yarn costs could be dampened. • Polyester & Viscose yarns should be made available at international prices. • Lack of direct shipping vessels to major markets from South Indian Ports which increases freight cost and transit time compared to China and Turkey.

GST	• Uniform GST, preferably 12%, should be levied across the entire textile value chain i.e fibres to garments / made-ups. • Major issue is the requirement of manual intervention to obtain scrips/GST refunds
Interest subsidy	• The rate of interest should be reduced further to international rates to obtain bank credit
Tax Structure	• Taxes should be reduced and documentation should be made simpler.
MEDIUM SCALE (50-250 crores)	
Duty Drawback	• Easiest to claim. Not under challenge.
MEIS	• Benefits from this scheme should be replicated, once a decision is taken to discontinue MEIS.
Infrastructure	• Lower interest rates, Lower power costs, Housing for workers will make the industry competitive. • Funding for modernisation of plants should be provided.
LARGE SCALE (> 250 cr)	
Duty Drawback and ROSL	• Both are easy to claim
Marketing Development Assistance Scheme	• Not effective
EPCG (Beneficial for most firms as value is high)	• Firms benefit the most from this scheme. • Used by all firms • Procedure is the easiest compared to the rest of the schemes • Faced difficulty in using EPCG due to Average Export Liability

MEIS (Beneficial for most firms as value is high)	● In general, firms use this scheme and benefit from it ● Procedure is easy ● Some shipping bills are not reflected online ● Some EBRCs are not reflecting in DGFT server ● Sometimes DGFT server is not working
ATUFS	● Some do not use this scheme due to the Value Cap ● Non-filing of subsidies of M-TUFS cases post March 2017, on account of non-availability of commitment liabilities. ● Non-release of subsidies where short commitment liabilities were filed by the banker. The matter is under NABCONS study for a long period now and not released yet.
GST	● To avail the refund there should be an online platform ● First, at the time of clearance of goods importer pays duty on CIF value of material, which also includes ocean freight. Thereafter, importer again pays GST under RCM on ocean freight and deposits the tax with the Government. Thus, there is double taxation on Ocean Freight, which may be exempted from payment of GST under RCM.
Infrastructure and Others	● Fluctuation in yarn cost should be dampened. ● Power/Fuel subsidies required. ● Transport Subsidies required - both for goods and workers ● Need lower interest rates ● Need refund of embedded taxes

Source: **Primary Data from interviews by IKDHVAJ**

Conclusion

This chapter shows that by removing subsidies, all other things remaining constant, exports would reduce significantly. Output and employment would also suffer. Costs and Prices are likely to rise and given the importance of this sector in the Indian economy there is likely to be a minor fall in GDP and overall employment. While the government has a number of schemes to support the sector, by far the easiest to implement have been MEIS and EPCG, both of which will have to be removed if India loses the WTO dispute with USA. Even in these cases, small firms have had difficulties in accessing these schemes. The learning from the interviews with textiles exporters is that ease of implementation should be built into the alternative schemes devised to replace MEIS.

Chapter 3 - Average Cost structure along the value Chain and the Rationale for giving support

Introduction

While India has a presence in the entire value chain from cotton, yarn, fabrics, made-ups and apparel, it is not equally competitive in all these segments. The cost structure also differs along the supply chain for textiles but some common factors influence the costs and competitiveness along this supply chain.

The key factors impacting the business risk profiles of cotton textile units include:

- Revenue diversity in terms of product mix, customers and geography
- Quality and count range of cotton yarn
- Cotton procurement efficiencies
- Effective mechanisms to control labour and power costs
- Modernisation of manufacturing facilities
- Economies of scale

The relevance of these factors does not weigh equally across the value chain but would be more important at some stages than at others. The following section examines its relevance across the supply chain and is based on interviews, stakeholder meetings and factory visits of the consulting firm. The questionnaire used by the firm is attached as Annex 3.

Yarn

The cotton yarn spinning industry is capital intensive, cyclical, and fragmented, but is intensely competitive on account of the commoditised nature of the product. The fabric weaving and knitting sector have both large integrated players, and small operators.

Most profitable textile companies are distinguished by their **efficient cotton procurement strategies**. Raw cotton, the primary input for spinning units, is the single largest cost component, and has a significant impact on operational performance. As cotton is an agricultural commodity, it is exposed to factors such as cropped area, monsoons and pest control. All other conversion costs and realisations remaining constant, fluctuations in cotton prices will result in a corresponding swing in operating profits.

Power and labour form the second largest chunk of cost elements. The cotton spinning industry is more power intensive than the other parts of the value chain such as weaving, processing, and garmenting, which are more labour intensive.

Power: For spinning mills, power costs typically account for 11-12% of the operating costs; an uninterrupted supply of power is critical for consistent yarn quality. Power is a critical factor even for fabric manufacturers. Table 11 below gives the cost breakdown of the yarn sector according to scale. This has been derived from the questionnaire and interviews with exporters. The estimates roughly

correspond to other secondary studies, though the yarn industry has been consolidating over the last decade or so.

Table 13: Cost structure of the Yarn Industry

Scale and turnover	Raw Material	Labour Cost	Power Cost	Overhead Costs including transport	Other costs
Small <50cr	75%	7%	11%	11%	6%
Medium 50-250cr	72%	N.A	12%	16%	0%
Large > 250cr	55%	12%	N.A	13%	10%
Average	63.3%	9.5%	11.5	13.3%	5.3

Source: **Primary data from interviews by IKDHVAJ**

Labour: Unlike developed countries, India's yarn industry was only partly automated and employed a large workforce. However, due to the 100% EOU Scheme and higher government incentives for modernisation through the Technology Upgradation Fund Scheme, the labour intensity has gradually declined. This has had only a minimal impact on operating margins; several parts of the process chain, such as inter-process material transfer and packaging, remain labour intensive. New Investments have added value per unit of labour and in general have reduced the dependence on labour.

However, the overall cost-effectiveness of Indian spinning sector compares poorly with that of China and Southeast Asian countries, thus constraining global competitiveness. While companies in the spinning sector have constantly focused on modernisation as a strategy to retain global competitiveness (and have been successful in this context), logistics costs severely hamper Indian exports.

Integrated unit clusters, whether small or large which cover parts of the supply chain from yarn to made-ups have come up in some parts of India, for example Panipat and Ludhiana, though there are some integrated mills in other states too. While primarily exporting the end-product, these mills also export small quantities from different parts of the supply chain, including yarn. They tend to be very efficient and install the latest technology as well as keeping very good labour practices. The last row in Table 13 shows the cost structures in integrated mills.

Fabric

While power is not as large a cost item for fabrics as for yarn, it still is a significant part of fabric costs. Some large manufacturers have set up captive power plants, including windmills (mainly in the spinning mills of the south), to reduce their power costs. Factors such as efficiency in power consumption,

captive generation facilities, power cost-reduction measures, all have a significant impact on overall operations. Apart from captive generation, companies have also begun to explore other avenues to reduce power costs. Some textile units also enjoy concessional power from state governments, which helps them manage increases in per unit costs. The most important need of this part of the value chain is modernisation which could reduce costs and make this part of the value chain competitive.

Table 14: Average Cost Structure (Fabrics)

Scale and Turnover	Raw Material	Labour Cost	Power Cost	Overhead Costs Including transport
Medium 50-250 cr	66%	N.A	6%	28%
Large >250cr	58%	29%	7%	5%
Average	62%	14.5%	6.5%	16.5%

Source: **Primary data from interviews by IKDHVAJ**

Modernisation

Modernising a textile unit is fairly capital intensive, and in general, the industry has lagged behind other cotton exporting nations in this respect; only a few financially strong companies have undertaken continuous modernisation. The spinning sector is more modernised than the weaving sector—as mentioned earlier, capacity additions in the spinning sector were higher due to TUFS subsidy availed by spinning. Also, many states have provided attractive incentives to promote the modernization of plants and encourage setting up new capacities by offering various capital subsidy schemes.

Economies of scale

While scale of operations is a key factor in any industry, it assumes criticality in commodity industries such as cotton textiles, where profitability is dependent more on volumes than margins. Companies with higher capacities are likely to derive benefits of economies of scale. Large capacities also make future value additions economically viable. Furthermore, higher capacities in a single or near-by location can save costs. Large scale operations are also beneficial in fabric making as they help in costing and in gaining competitive advantage. Quicker turnaround is a key differentiator for facilities with large capacities.

Made-ups

In the made-ups sector labour costs is a key cost segment that may need to be subsidised.

Labour Scenario: India is focusing on the development of a pool of skilled workforce in the textile industry. The Ministry of Textiles under the Integrated Skill Development Scheme (ISDS) has undertaken the training of 15 lakh people between 2012-17. However through fact finding missions it was

discovered that there is still an enormous shortage of skills, and even untrained labour, especially in the Southern state of Tamil Nadu, which accounts for roughly 50% of the total exports from India, is sometimes difficult to find.[39] Moreover, the attrition rate of labour is very high in the southern states, especially in the Made-ups and Fabric sector. Most of the labour in Tamil Nadu is migrant labour from Bihar and UP, hence they go back to their states after working for some time.

Table 15: Cost of MADE-UPS

	Raw Material	**Labour Cost**	**Power Cost**	**Overhead Costs**	**Packing**
Medium Scale	60%	17%	4.25%	9.75%	
Large Scale	60%	23%	7.25%	9.5%	7.5%

Source: **Primary Data collection from Interviews**

Cross country comparisons of important factors of competitiveness

From the above analysis it is clear that the cost competitiveness of the textile sector crucially depends on wage costs, power, capital costs and the extent of modernisation. A cross country comparison of these crucial parameters would help to benchmark India's competitiveness. It would also highlight how subsidies to this sector should address these critical cost components.

Wage costs: The wage cost in India is higher than Bangladesh, but lower than China and Vietnam. China has the highest wage amongst the competing nations, but it has developed sufficient training infrastructure to meet industry requirements. On the other hand, there is limited availability of skilled labour in Bangladesh, India and Vietnam.

Power Supply: There is erratic and limited power supply in some parts of India and Bangladesh. Vietnam enjoys a lower power cost than India and a consistent supply. China has the highest power cost but its supplies are consistent and reliable.

Table 16: Cost comparisons across major Competitors

Country	Labour (USD/month)	Power US cents/KWH	Lending rate in Local currency (percent)
Bangladesh	110-120	9-12	13
China	550-600	13	5-6
India	150-160	10-12	12-13
Vietnam	170-190	8	5-8

Source: **http://shodhganga.inflibnet.ac.in/bitstream/10603/197972/8/08_%20chapter%201.pdf**

[39] Fact finding missions to Tirupur, Erode and Karur in Tamil Nadu from August 2018-October 2018.

Lending rates: The lending rate in India is very high in comparison to China and Vietnam, while it is comparable to that in Bangladesh. High lending rates affect the cost of production and hence competitiveness.

Scale and Level of Integration: China & India are the largest manufacturers and exporters of textile and apparel products in the world. Both the countries feature in the full value chain i.e. from fibre to finished products. Bangladesh and Vietnam have strong garment manufacturing capacity but currently have limited backward linkages to support the garment industry.

Conclusion

The most important constraint faced by the textile industry in India is lack of modernisation. While the spinning sector has modernised, the weaving and made-up manufacturing sectors are far behind. Hence support should be structured to help modernise the industry and become globally competitive in terms of both quality and costs.

Support to the industry should thus be targeted first of all at reducing power and transportation costs. Secondly support should be provided to meeting labour costs especially in the Made-ups segment which tends to be relatively labour intensive. Support to modernisation should target capital goods import through a replaced EPCG scheme, as well as brand building and support towards meeting international standards. Capital costs should also go down. Only then can this industry become cost competitive.

Chapter 4: Subsidies provided by Major Competitors[40]

Introduction

Before analysing the subsidies provided by other countries, it is important to benchmark where India stands vis a vis its main competitors. India is at number 3 position in terms of its global market share of textile exports, just behind the EU. Of the textile exporting countries, only China and Vietnam's policies have been examined here. Bangladesh, which is a recent textile producer, has also been included in this analysis. This is because China's policies have the maximum relevance for India as its cost structure is not very different, apart from labour costs as shown above in Table 16.

Table 17: Top Ten Exporters and Importers of Textiles in the World, 2017 (Percentage Share)

Exporters	Global Export Share	Importers	Global Import Share,
China	37.1	EU	23.3
EU	23.4	- Imports From Outside EU	9.7
- Exports To Outside EU Market	7.1	USA	8.9
India	5.8	China	5.5
USA	4.6	Vietnam	4.3
Turkey	3.9	Bangladesh	3.0
Republic of Korea	3.3	Japan	2.6
Taiwan	3.1	Hong Kong, China	2.2
Pakistan	2.7	Turkey	2.2
Hong Kong, China	2.7 (Re-exports)	Mexico	2.0
Vietnam	2.5	Indonesia	1.9

Source: **Page 143 of WTO, World Trade Statistical Review 2018.**

The top ten textiles exporters in the world include two major developed economies (EU and US) and developing economies. The top exporter is China, with a huge share of over 37% in global exports. Other main competing countries include Turkey, Republic of Korea, Taiwan, Pakistan and Vietnam. Of these, Vietnam is the one country whose export share is increasing rapidly; it increased from 0.2% in 2000 to 1.2% in 2010 and was 2.5% in 2015.[41]

Indian textiles exporters face six kinds of external factors which reduce their relative competitiveness. First, the differential tariffs faced by them and their main competitors. See tables 8-10. Second, is the

[40] The information given in this chapter was gathered by the consultants through fact finding missions to Vietnam and Bangladesh to source support policies for both textiles and apparel. The Information on China was largely culled from US fact finding studies on Chinese support.

[41] WTO, World Trade Statistical Review, various issues

subsidy regimes of the key competitors. Third, is the link between FDI and exports. Of particular relevance here is the 'Made by China' instead of 'Made in China' paradigm. Fourth, investment linked with FDI by foreign major buyers who build a large production base leading to cost-reduction for the capital-intensive technologies in yarn and fabric production. This kind of FDI has largely bypassed India so far. Fifth, the key importers in the Asian region (China, Vietnam and Bangladesh) are all emphasizing the domestic production of textiles in their recent policies, and this is a basis for providing special privileges to this sector. Sixth, the market for textile products is changing, with new forms of textile products emerging in the markets based on R&D and new uses of textile products.

In addition factors which reduce competitiveness are domestic constraints such as logistical constraints which raise costs and cause delays, as well as procedures which reduce the possibility of quick response and turn-around to take advantage of international supply chains. This is especially important in view of the fact that some significant supply chain opportunities are emerging in the Asian region, which has the highest expected growth for supply chains in world trade.

Textile strategy of the three countries

India's competitors with high potential growth and relatively favourable competitive conditions include LDCs like Bangladesh. All the three countries, China, Vietnam and Bangladesh have begun to focus on textile industry promotion, especially Bangladesh and Vietnam, which have a strategy to improve their domestic production of the inputs that go into the making of apparel. China is doing so both because textiles is a relatively capital-intensive sector compared to apparel, and its wages are rising, making textiles more attractive than apparel in its strategy to retain a foothold in the employment and trade generated by textiles, i.e. a product whose market will remain robust as incomes and populations increase in the world. Together with a domestic focus on textiles, China's strategy is to create both a market and growth prospects for the supply chain by investing in other countries such as Bangladesh and Vietnam for producing the more labour-intensive parts of the supply chain of textiles and apparel.[42] The competitive conditions faced by these three countries, i.e. Bangladesh, China and Vietnam, is used to illustrate the disadvantages faced by Indian textile exporters in global markets.

The textile sectors in Bangladesh and Vietnam are closely linked with apparel production and exports, with the two being considered as part of the supply chain for apparel. In China, however, the situation is shifting. While the country's overall focus is on textiles, apparel remains a priority for promotion of investment in Central and Western China. It is noteworthy that textile promotion is also a part of the emphasis on technology upgradation under the Make in China 2025 initiative. This is evident from China's Five-Year Development Plan for the textile industry (2016 to 2020); some of the relevant parts of the Development Plan are reproduced in Annex 4.

[42] An exception is the continued focus on apparel in its development programmes for central and western China, as well as in the Belt and Road Initiative (BRI), to maintain a foothold in the sector. The BRI investments link up with China's strategy to invest in low-wage countries for its apparel production, creating both more competitive export possibilities for its companies through this investment, and a demand for its textiles products by these companies which have invested in apparel production abroad.

Thus, while the focus in Bangladesh and Vietnam is on textiles in order to reduce the import dependence on important parts of the value chain of apparel exports, that in China is on the textiles industry itself as a growth sector with links to apparel domestically as well as to the FDI which takes place in other countries with relatively lower wages. In this background, each of these three countries have textiles as a priority sector for promotion.

Subsidies used by China, Vietnam and Bangladesh

The incentive system used comprises a number of support policies. In this context, a noteworthy feature is that Bangladesh and India have a more transparent subsidy regime. In China and Vietnam, negotiations with provincial or even local Governments can result in subsidies which are not transparent. This implies that the support to investment in these countries would exceed estimates based on the announced policy regime.

The support to the textiles industry in these three countries is provided through several different mechanisms, and covers the tax and charges regime, provision of cheap inputs and finance, financial support for improving export opportunities and building brands as well as quality, preferential treatment in supporting training, housing and technology upgradation, and very significantly through flexibilities and easier procedures and policy requirements for the promoted sectors. Table 18 shows the large number of ways in which support is provided to the textiles sector in Bangladesh, China and Vietnam.

Table 18. Examples of Incentives Provided To Textiles

Bangladesh	China	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

Source: **Fact finding Missions and Study by the U.S on China**

Bangladesh

Garments and textiles are among the five high priority industrial sectors identified by the Government of Bangladesh.[43] The Government states for the textile industry that: "Backward linkage is a significant trading opportunity and is supported by a government backed incentive: 15% cash subsidy of the fabric

[43] See http://bida.gov.bd/garments-textiles

cost to exporters sourcing fabrics locally. … The government is committed to fostering a strong spinning sector within the economy to support the robust textile and garment industry that has developed. The government is therefore supporting spinners by providing lower tariffs for machinery spares and raw materials, cash incentives, reduced tax rate, and low-cost funding etc."[44]

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. For instance, the Bangladesh Knitwear Manufacturers and Exporters Association (BKMEA) website states that 90% of the knitted fabric is produced domestically.[45] About 40% of cotton denim fabrics are also sourced from Bangladesh. There is also a move to diversify the base of other cotton fabric manufactures in Bangladesh. Thus, import dependence of Bangladesh garment exporters on foreign fabric manufacturers is likely to go down with each passing year.

The Free Trade Zone (FTZ) Regime of Bangladesh is the foundation of incentives provided for specific sectors and activities in specified economic zones (EZs). 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 the strategic sectors, as well as "significant suppliers, i.e. domestic producers who supply 40% of their sales to the FTZ companies."[46] In addition to "significant suppliers, FTZ covers for instance specified strategic sectors or companies, export Services Company (50% of services must be exported), and scientific Research Firms (either companies or organizations)."

The overall regime includes the incentives provided for producers in EPZ (export processing zones) and SEZ (special economic zones). The government has focused in particular on attracting foreign investment in the textiles and apparel sector, with higher incentives for large scale of production, investment in dis-advantaged regions, and improving domestic contribution to output by encouraging local value-added and value chains.

To promote geographical spread of investment, higher incentives are provided for enterprises setting up their operations outside the Greater Industrial Area (GIA) specified by the Government. Incentives are provided for both the developers[47] of FTZ and the enterprises operating within the FTZ.

Examples of recent initiatives include a Korean company called Youngone that has been given permission to set up a composite EPZ in Chittagong spread over 2492 acres. This will house textiles, garments, leather, pharma, IT and a few other industries. As yet, only about 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

[44] http://bida.gov.bd/garments-textiles

[45] http://www.bkmea.com/Strength-of-Knitwear-Sector-of-Bangladesh.html. It states that: "Knitwear is a self-sufficient sector in all respects; currently the sector is supplying 90% of the knit fabric requirements."

[46] http://bida.gov.bd/incentives

[47] 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

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 that has been allotted land near Chittagong Port for setting up an SEZ, has sub-allotted land to about 200 odd Chinese factories, which are going to come up within the next two years in the SEZ.

The Government provides a range of incentives, for example exemption/reduction of Corporate Income Tax (CIT), and exemption of:

- VAT or taxes for 10 years on electricity for use of or sale from the EZ;
- VAT or sales tax for all purchases (except petroleum products) from Domestic Tariff Area;
- customs or excise duties for development of EZs;
- stamp duty and registration fees for registration of EZ land but limited to first transaction only;
- stamp duty for registration of loan/credit document;
- dividend tax;
- income tax on service charges;
- and many more (see Table 19 below for a more complete list)

In addition to the above, support is also provided for meeting relevant standards required by major markets and building strategic activities important for the development of the nation. After the fire disaster in Rana Plaza in 2013, a more structured development of Bangladesh's textiles and apparel industry began involving a rigorous inspection of all garment factories, and concomitant conditions for the supplier factories[48]. 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). The high expenditure involved has been supported by the buyers jointly. By 1st September 2018, the remediation progress rate for ACCORD had reached 89 per cent, and for ALLIANCE this rate had reached 93 per cent.[49] The Bangladesh Government supported by the ILO has taken a third initiative to inspect all the factories not covered by either ACCORD or ALLIANCE inspections, called the National Initiative.

[48] For example: "The Accord requires the signatory brands to disclose who their supplier factories are. The Accord also requires independent building inspections on fire, electrical and structural safety, worker rights trainings, and a long-overdue review of safety standards." See, https://cleanclothes.org/safety/accord . Similarly, ALLIANCE states that: "Since the inception of the Alliance, members have been required to register all factories from which they are currently sourcing—and those factory names are released publicly each month on our website. Based on initial inspection reports, factories are then approved by the Alliance. Factory approval is subject to change after the initial inspection given that building safety is dependent on many factors, including the development and approval of an achievable Corrective Action Plan (CAP), follow-up on each CAP item with remediation, and final confirmation of non-compliance closure.". See http://www.bangladeshworkersafety.org/what-we-do/standards-inspections

[49] See, http://bangladeshaccord.org/progress/ and http://www.bangladeshworkersafety.org/progress-impact/alliance-statistics

Table 19: 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-OTHERS 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

A significant feature of the textile exports from Bangladesh is that they gain competitive ground not only based on the subsidies they receive, but also from the duty free or low tariffs faced by them in developed economies and most larger developing country markets. Furthermore, Bangladesh subsidy schemes suggest that they provide certain subsidies which are prohibited under the WTO (i.e. export

subsidies and domestic content subsidies), but have hitherto not been challenged perhaps on account of Bangladesh being an LDC. Also the market share of Bangladesh in the global clothing market is significantly above the threshold level of 3.25%, i.e. the basis on which India's exports subsidies for textiles and clothing have to be phased out under the WTO.

China[50]

China emphasises textiles and apparel for generating employment, especially because these sectors require relatively less training of rural migrants to improve their employment opportunities. Moreover, the global market for textiles and clothing is an attractive one, where one could begin with traditional products and go onwards with more complex products and technologies. As the Chinese wages have increased, China has focused more on textiles, though the focus on apparel has remained by moving them towards regions with lower wages and need for greater employment efforts. Thus, the Five-Year Development Plan for the sector focuses more on textiles in comparison to apparel (see Annex 4). This Plan covers the period 2016-2021, and shows the present and future policy orientation towards the sector. However, China's exports of textiles are about two-fifths of global exports and have reached this large share based inter alia on several support schemes over time. It would be instructive to consider these support schemes as well as those encompassed in the Five-Year Plan for textiles.

China's support to textiles has covered every part of the activities that led to the development of the sector and its increasing role in world markets. For over three decades, textiles and apparel have been an important part of China's overall development initiatives though exports. Textiles are a significant part of the schemes that provide jobs and propel regional, national and international presence of Chinese manufacturing sector.

The present focus is on textiles which embody new technologies or emphasise certain environmental and ecological concerns.[51] The focus of China's Catalogue of Industries for Guiding Foreign Investment is on value-addition including multi-functional industrial textiles and on dyeing and processing of high-end textiles and of special natural fibres. In addition, the list includes: "Development and manufacturing of new textile machinery, key parts and components, and textile testing and experimental apparatus".[52] While these activities are subject of specific scrutiny and even encouragement, other industries which are "permitted" or "encouraged" are provided various types of subsidies or other support. For example, the Catalogue of Priority Industries for Foreign Investments in the Central and Western Region has as a priority sector: "Labor-intensive industry: In the provinces with labor advantages, encouraged items such as export-oriented textile, clothing, and furniture businesses are added to promote new export-oriented industrial clusters."[53]

[50] 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 Chinese subsidies.

[51] See paragraphs 23 to 27 in http://www.fdi.gov.cn/1800000121_39_4851_0_7.html

[52] Paragraph 176 in http://www.fdi.gov.cn/1800000121_39_4851_0_7.html

[53] See, page 4 of https://www.ey.com/Publication/vwLUAssets/EY-ctin-2017002-en/$FILE/EY-ctin-2017002-en.pdf . These initiatives cover 20 provinces and autonomous regions in the central and western regions, namely Shanxi, Jilin, Heilongjiang,

Such a focus is explicit in China's 13th Five Year Plan which mentions textiles as one of sectors to promote both at home and as a globally oriented industry, in particular through the Belt and Road Initiative (BRI). The areas selected for specific support under the Five-Year Plan for Textiles include:

- 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 textiles sector through central government, regional, provincial, or local level government policies. These subsidies include:

- Government provision of inputs at low cost including certain raw materials, electricity, preferential rents, and waiver of land leasing fee for large investment projects (in some cases, constructed factories are provided at preferential prices)
- Income tax exemption or rebate, as well as other tax benefits subject to specified criteria (e.g. if domestic equipment is purchased, or for import of key spare parts)
- 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
- Export assistance grants under policies to establish famous or global brands
- Export credit assistance programmes
- Financial support for investment; Interest rate discount
- Financial support for trade promotion, overseas investment and operations.[54]

Anhui, Jiangxi, Henan, Hubei, Hunan, Chongqing, Sichuan, Guizhou, Yunnan, Tibet, Shaanxi, Gansu, Qinghai, Ningxia, Xinjiang, Inner Mongolia and Guangxi.

[54] 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".

- 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
- R&D subsidies
- Demonstration bases which provide common service platform

Particular emphasis under the Five-Year Plan for textiles is given in terms of key tasks such as:

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. ***Optimize 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
   - 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

This is a continuation of the long period of support[55] that China has provided to its textiles industry to go global through its Central and Provincial Government's subsidy programmes.[56] These programmes have

https://www.uscc.gov/sites/default/files/Research/TLAG%20Report%20-%20China%27s%20Support%20Program%20for%20Textiles%20and%20Apparel.pdf

[55] For more detail, see pages 38 to 46 of https://www.uscc.gov/sites/default/files/Research/TLAG%20Report%20-%20China%27s%20Support%20Program%20for%20Textiles%20and%20Apparel.pdf

covered a large range of different ways of supporting the textiles sector, including[57] exemptions/reductions in Corporate Income Tax (CIT)[58], duty exemption for import of equipment, priority land supply at cheaper prices, a Fund to restructure the textiles industry and support their initiatives to "Go Global", trade promotion Fund, monetary award for export performance, local textiles parks providing several subsidy and support incentives, monetary support for corporate development projects, support to intermediary and service companies servicing inter alia textiles industry, support for marketing and sales in global markets, support for training, logistics and technological upgradation,

Several of the textiles industry practices supported in China in the past two decades are relevant for the Indian textiles industry at this stage. Six aspects of the subsidy support provided by China are particularly worth noting. They are as below:

(a) The support provided through subsidies and other incentives include the whole range of activities which directly or indirectly affect the operations and competitiveness of textiles sector of China.

(b) Product development is an important activity which contributes to additional and new markets for textiles. Support for product development, needs technical knowledge and application, similar to R&D, though with a lower technical intensity. In this context, China had established a scheme in 2006 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'.[59] 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.

(c) Exemption or reduction in Corporate Income Tax (CIT), a support policy used by all the key competing economies, including China. Like most other developing exporting countries that encourage investment and exports, China has long relied on providing CIT exemption/remission (see for example Table 20 below for the policy during the previous decade).

This policy has changed as emphasis on more scientific activities has replaced the previous emphasis on jobs and technology-intensive activities, but it remains one of the methods of supporting and promoting the areas which are identified as relevant for meeting national objectives.

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[56] See for example "Circular on Relevant Policies to Promote Chinese Textiles Industry to Shift to New Ways of Growth in Foreign Trade and Support Chinese Textile Enterprises to Go Global" mentioned on pages 15-16 of https://www.researchgate.net/publication/46469651_The_Expansion_of_Textile_and_Clothing_Firms_of_China_to_Asian_Least_Developed_Countries_The_Case_of_Cambodia

[57] 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

[58] See for example, pages 29 to 34 of https://www.uscc.gov/sites/default/files/Research/TLAG%20Report%20-%20China%27s%20Support%20Program%20for%20Textiles%20and%20Apparel.pdf

[59] 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.

The present standard 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 textiles as discussed above)[60], 15% for new or high technology enterprises plus 50% super deduction for qualifying R&D expenditure[61], and certain advanced technology enterprises performing outsourcing services.[62] 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 per-
cent of equipment investment.[63] A number of these incentives can be used by textiles firms as well, e.g. as SMEs, encouraged industries, and R&D expenditure.

Table 20: Income Tax Exemption/Rebate Programmes Notified By China[64]

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".**

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

[61] 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.

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

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

[64] 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

(d)China's subsidy policy is not fully transparent and support is provided through Central, Provincial and Local policies. Moreover, the subsidies provided depend not only on the stated policy but also on the negotiations of specific investors with the Provincial and Local Governments. Therefore, the level of subsidies actually received are likely to be higher than those assessed based on stated policies.

(e) The coverage of several schemes is specified in a broad way and therefore even if they do not appear to pertain to textiles, the domestic producers of textiles can benefit from them because of extensive leeway available to public authorities to classify the beneficiaries as falling within the purview of the scheme. The lack of transparency of the mechanism makes it difficult to assess the validity of the coverage of the scheme.

(f) China conducts a periodic review of its subsidy policies, i.e. once every four to five years, which enables it to keep revising its schemes in a manner such that the previous information gained about the scheme becomes less relevant, and any challenge under the WTO Agreement can also be initially addressed with the view that the scheme under challenge is no longer in operation.

Vietnam

In 2014, Vietnam announced a Development Plan for its textiles and garment industry[65], for its development till 2020 and with a vision for 2030. The objectives include localisation levels of 55% in 2015, 65% by 2020 and 70% by 2030. Thus, it is evident that Vietnam is aiming to improve backward linkages of the clothing value chain within the country itself (i.e. producing fabrics s to convert into garments).

The incentives provided by Vietnam are for production activities identified in the list notified by the Government. The benefits are provided based on the location of investment, the level of investment or employment generated by the production unit, and investment in high tech or socially important sectors.[66]

It is interesting to note that Vietnam promotes not only the investment for producing textiles and garments domestically, but also the investment for manufacturing equipment and machines for textiles, garment and leather industries.[67]

The main incentives provided by Vietnam are as follows:

(1) Exemption or reduction in Corporate Income Tax (CIT).

(2) Exemption of import tax on raw materials, goods imported to create fixed assets, supplies, and parts used to implement for the project.

(3) Reduction or exemption of land costs/rents, and charges associated with land acquisition.

(4) Reduced costs for other inputs, including machinery, power, housing, training and technology.

[65] See http://investvietnam.gov.vn/FileUpload/Documents/EN.%20Quy%20hoach%20phat%20trien%20nganh%20det.pdf

[66] For more detail, see Decree No. 118/2015/ND-CP, and the list of supporting industries in Decree No. 111/2015/ND-CP, dated 3rd November 2015.

[67] See, for example, Article 17 (d), and paragraphs 17 and 39 of Appendix I of Decree No. 87/2010/ND-CP.

Investment projects in the business lines specified as encouraged industry get incentives based on the criteria:

(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
(d) High-tech companies, science and technology companies, and science and technology organizations.
(e) Financial support is provided for specified activities such as increasing or upgrading production capacity, changing to new technology or improving design capacity.[68]

It is noteworthy that the categories of activities covered under "supporting industries" that are eligible for financial support, cover a very wide range of activities because of the leeway provided by the specified activities, such as:

- 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.

The CIT exemption/remission is provided under a range of incentive schemes for investment linked to location, etc. These include:

The preferential rates and applicable period relevant for preferred rate vary. For example:

(a) **17%** (reduced from 20%):
    - **For the first 10 years**: areas with socio-economic difficulties; production of feed for poultry, livestock and fisheries; agricultural machinery, energy –saving products, high-grade steel; traditional trades

[68] 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."

- **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

(b) **10%** (preferential low CIT):

- **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 socialization sectors (education, training, health care, culture, sports and environment…), agriculture, social residential housing development etc.

Other incentives provided through zero or low CIT are as follows:

(a) 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)

(b) 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

(c) 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 advantageous socio-economic conditions);

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

(e) CIT incentive for investment expansion (subject to specified conditions).

Vietnam provides **import duty exemption** for several types of imports, including:

- 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.[69]

[69] 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

A number of incentives are provided through **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. Recognising the importance of improving quality and technological upgradation, the Government provides financial support for specified activities such as increasing or upgrading production capacity, changing to new technology or improving design capacity.[70] This support too is provided based on the preferred locations and activities that are emphasised by the Government. In these cases as well, additional benefits may be available following negotiations with the Provincial or local Government authorities.

Likewise, land rental is exempted based on graded benefits associated with specified locations and activities, as shown in table 21 below.

Table 21: Period for Exemption Provided for Land Rents

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

Source: **Fact finding Mission of IKDHVAJ**

For projects in sectors subject to investment incentives, such as projects 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. [71]

Conclusion

As is evident from the preceding discussion, countries have provided wide ranging support to the textiles sector in all the three countries. This form of support has not been available to the Indian industry. All the three countries have focused on direct and indirect tax exemptions, investment promotion, and development of backward regions. Hence textiles has often not been just stand alone support, but a small and important cog in the overall development of the nation. Technology and R&D have also played a major part in the export promotion schemes. Another observation from this chapter is that China in particular, has been very quick on its feet, with support policies evolving and changing

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."

[70] 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."

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

form constantly. While a number of the policies used in these countries may be actionable under the WTO, their ability to evolve and change has been a key to their success. Hence, while devising alternatives for India, the focus should not be on non-actionable schemes under the WTO but rather on schemes which will enhance national objectives and the competitiveness of the industry with a built-in periodic review mechanism.

Chapter 5: Replacing Export subsidies with WTO consistent schemes

Introduction

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 will address the issue of India's export subsidies in general. 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, i.e. 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. Without this, India's difficult competitive position will become even more onerous for Indian textiles exporters.

While removal of these subsidies is imminent, this situation also provides an opportunity to revamp support to this sector. Hence new schemes should be devised not just to replace the WTO inconsistent subsidies but to support which makes the sector competitive. This will require taking stock of the subsidies and support provided by India's competitors, and identifying the structural inadequacies of the textiles and clothing sector to get the relevant insights for designing smart WTO consistent subsidies for this sector.

India's Position vis a vis its competitors

While India has committed in the WTO that it would remove its export subsidies by end 2018, India's textiles industry is facing a crucial time due to a significant decline and stagnation in exports during the past few financial years. Several developments relating to its major competitor countries are likely to create even tougher competitive conditions for the industry in the near future. For example, Vietnam's Free Trade Agreement with the EU will begin phasing-in duty free access of Vietnam's exports to the EU

by end 2018.[72] China's outward FDI is continuing and the focus includes a restructuring of the textiles and clothing industry, with large domestic support to textiles while increasingly shifting clothing production to other countries with low wages.[73] A number of them such as Bangladesh, as a Least Developed Country, have duty free access to a number of international markets, including the EU, until at least late-2024. Moreover, FDI from China, Korea and developed countries into these countries usually involves a large scale of production, which provides inherent cost and quality related advantages for the enterprises established. In contrast, the Indian production facilities are on average much smaller and miss out on the gains of large-scale production and larger orders from major importers from abroad.

Taking account of the various factors which result in erosion of competitiveness for India's exporters, the information gathered through IKDHVAJ's fact finding missions suggest that if tariffs, subsidies and other operational factors of competing countries are aggregated, India's disadvantage may be as much as almost 18%.

Table 22: Estimated Average Advantage of Competitor Countries

Types of advantage	Percent Of F.O.B. Value of Exports
Total	17.7
Logistics and Trade Processes	2
Income tax exemption for foreign professionals	0.1
Lower VAT rate	1
R and D subsidies	0.5
Cash and other direct financial incentives	4
Land, Infrastructure and Power	1
Corporate Income tax	1.5
Tariff preference	7.6

Source: Calculations based on Fact finding Missions of IKDHVAJ

Note: Based on combination of upper range of support schemes in competitor countries, and average tariff advantage for textiles in EU, the largest import market in the world for textiles. This Table takes account of the discussion on subsidies provided by competitors in Chapter 4, as well as some others such as Turkey (http://www.invest.gov.tr/en-US/investmentguide/investorsguide/Pages/Incentives.aspx)

On the other hand, India has a big opportunity as China's global market share in textiles 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 textiles and clothing fell by 3% in US$ terms, while that of Bangladesh went up by about 10%, and of Vietnam by about 8%.[74] Though the 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 as shown in

[72] In contrast, India's FTA negotiations with the EU are not moving ahead for a considerable period of time.
[73] This would adversely affect the entire part of the textiles and clothing value chain for textiles and clothing.
[74] Information from WTO, Statistical update, November 2018.

Chapter 2 that need to be addressed to provide a positive momentum to India's textiles exports and production in general.

Some major factors that need to be addressed to improve competitiveness

Among the major issues faced by exporters, two significant ones are 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 for instance in Vietnam or Bangladesh (see chapter 3). As compared to its competitors like Bangladesh, the Indian industry is at a disadvantage in terms of absolute wage levels. Labour laws are seen by certain companies as barriers for export, especially to establish a large scale of production that enables better links with export markets.

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, textile importers in Vietnam informed the research team that it takes up to three weeks for yarn from India to reach them while the consignment from China takes two to four days only.[75]

Another barrier to the textiles 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 a 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.[76] 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 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.

[75] Primary data collected through interviews with firms by the consultants.
[76] http://www.citiindia.com/wp-content/uploads/2018/10/Anual-Report-17-18.pdf

Alternative support Programs to those Challenged at WTO

Among the support programs challenged by the WTO the following Schemes are proposed:

- Replace MEIS with a similar scheme which is based on a specified percentage 1.5% of eligible turnover instead of fob value of exports.

- Replace EPCG with duty free imports for capital goods currently being imported and those under the TUFs and ATUFs scheme. This would particularly apply to technologies currently not being produced in India, especially fabric machinery. For the fabric sector particularly, apart from some comparatively low technology looms manufactured in India, high output shuttle looms and shuttle less looms are not being manufactured in the country at present. In order to reduce the technological gap, it is proposed that advanced technology looms should be allowed to be imported duty free. The duty free import of above-mentioned machines could be reviewed after three to four years.

- Substitute WTO incompatible schemes in SEZs and EOUs with schemes which will be WTO compatible, while facilitation activities be continued to be available for investment in these places

- Review DFIA on a case by case basis as most of these subsidies such as Advance authorization and EPC are likely to be consistent with WTO.

While all the other schemes apart from MEIS can be revoked by a "stroke of the pen", it is the MEIS that requires more considered thought for replacement with a WTO compatible scheme. Two options are proposed below.

Two Support Schemes to replace MEIS

The first scheme to support manufacturing enterprises and the second is to support merchant exporters.

All the support measures suggested in this section are in addition to those proposed under ROSL, duty drawback, interest equalisation, refund of embedded taxes and any other taxes not classified as an export subsidy. The proposals made here are for support policies that would replace MEIS f it is phased out. This is because under WTO, financial support cannot be provided by linking it to exports. Therefore, the f.o.b. value of exports can no longer be used as a basis to provide support to the textiles industry.

First Scheme for Manufacturing Enterprises

The first issue that needs to be addressed in the current MEIS scheme which makes it WTO incompatible is that it must be delinked to exports. The support scheme can instead be linked to turnover. However if the total value of the MEIS subsidy is to be shared across all producers of textiles the amount of subsidy available to each would be so small as to provide no support at all. Hence it is necessary to introduce a

filter that would take account of the objectives of some national scheme of the Government of India, e.g. schemes which aim to promote employment and social equity. For instance, the Government has introduced schemes that provide Employers Provident Fund (EPF) benefits for new investment. The option suggested is to use EPF accounts as a filter to arrive at the figures for subsidy support. Thus, instead of using the entire turnover, it is suggested that a concept of "eligible turnover" be used based on the EPF employees of the firm.

Eligible Turnover and simple replacement of export subsidy schemes for textiles

Table 23 below shows the turnover of the cotton yarn and the cotton fabric sector. However support schemes as shown above will be based not on the total but eligible turnover, i.e. an adjusted value of the conventional concept of turnover.

	Filament yarns	Cotton yarn	Total spun yarn	Cotton fabric(est.)	Total fabric
Qty(mn kg/sqm in case of fabric)	1300	4064	5700	35432	64421
Value(Rs/ kg for yarn or Rs/meter for fabric	160	205	200	105	100

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.

Table 23: Textile Product value

Source: **Textile Commissioner's database, data provided by TEXPROCIL**

Eligible turnover is defined as follows:

Eligible Turnover = (Total Turnover/total employment), multiplied by number of EPF accounts.

$$= \text{Total Turnover} \times \frac{\text{No of EPF Accounts}}{\text{Total Employment}}$$

Implementing the subsidies based on this concept would involve a number of steps, which look separately at three parts of textiles value chain, i.e. yarn, fabrics and made-ups.

(a) Estimate total turnover of Yarn, Fabrics and Made-ups.

Total-Rs crore	20800	83312	114000	372031	644210	Data on turn over
USD BN (exchange rate USD1=70)	3	12	16	53	92	

of cotton yarn and fabrics is available from the Textiles Commissioner's office for the year 2017-2018 as INR 83,312 crore for cotton yarn and INR 3,72,031 crore for fabrics. See Table 23 above

Data on turnover for made-ups is not available from this source. Thus, information obtained during discussions with exporters and other stakeholders, including TEXPROCIL and SIMA, is used to give an operational assumption that the total output of cotton made-ups is roughly double of exports. This estimate has been tested for consistency with other linked estimates and in terms of robustness of the derived results. Based on this analysis, the turnover for made-ups is about INR 71,600cr for 2017-18.[77]

(b) Calculate Employment

Employment has been calculated on the basis of IBEF information which mentions textiles and apparel employment at 45 million in 2017-2018.[78] From the information provided in Chart 4 below, the employment estimates for made-ups can be deduced. Deducting the employment of apparel from the total employment estimate for textiles and clothing, the employment for the textiles industry as a whole is (32.7 million). Deducting the employment of yarn and fabric the residual employment is roughly 13.1 million. However about 3 million people are employed in the handicraft sector, which is also included in the textiles sector.[79] From this employment in the MMF sector has to be deducted which was nearly 1 million.[80]Direct employment extrapolated from 2010 data for jute and silk is likely to be around another 1 million.[81] By deduction employment in the Made-ups sector is likely to be between 7-8 million.

Chart 4

[77] Though the analysis is based on 2017-18 estimates for exports from Table 1 in Chapter 1 of the report. As the substitute for MEIS will be implemented in the future, probably in the financial year 1920-21, an exchange rate of 1 US$ = INR 70 is used.

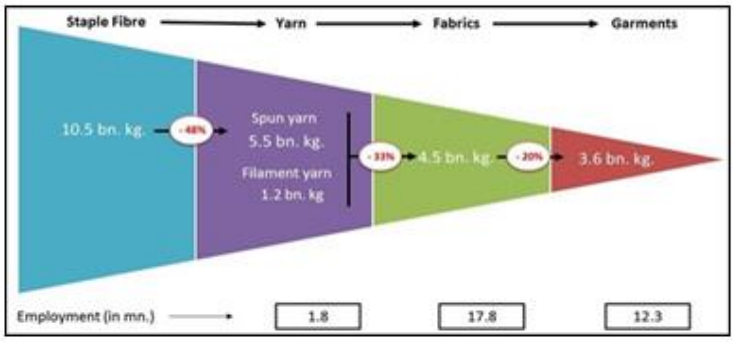
[78] https://www.ibef.org/industry/textiles.aspx. Last updated Nov 18, 2018.

[79] http://www.cepc.co.in/industry-at-a-glance. http://texmin.nic.in/sites/default/files/AnnualReport2017-18%28English%29.pdf. According to this source roughly 6.8 million people are employed in the handicrafts sector both directly and indirectly. IBEF gives the ratio of direct to indirect employment at 3:4. Hence around 3 million people would be employed in this sector directly.

[80] http://spandan.nmims.edu/2016/08/31/automation-in-man-made-fiber-world-textile-industry-is-focusing-towards-indias-most-growing-market/

[81] http://iamrindia.gov.in/writereaddata/UploadFile/report2_1135.pdf

Textile value chain: Employment generation



Source: Ministry of Textiles

This figure was also verified through interviews with made-ups manufacturers. They estimated the total employment in this sector to be around 7 million or so.[82]

(c) Calculate the ratio of EPF registered employees to the total employees for the textiles industry.

The total number of EPF accounts according to the Ministry of labour's website in the textiles sector is around 72 lakhs, and the total employment according to the IBEF is 327 lakhs.[83] Thus, dividing the total EPF account holders by total employment, the ratio of EPF accounts to the total is around 0.22. However as discussed below for yarn, fabric and made-ups, the actual percentage of EPF employees will differ according to the proportion of employment in the organised sector operating in the different parts of the value chain.

Table 24. Total Number of EPF Member Accounts as on 31.03.2018

Category	Number of EPF member accounts *
Establishments in Textiles Industry	7267189
Establishments in Apparel & Garments Industry	10257851
All Establishments	210811048

Source: **Ministry of Labour and Employment, Government of India**

[82] Interviews with consultants with major made-ups manufacturers.

[83] The data for March 2018 showed that there were around 72 lakhs EPF accounts in the textiles sector in India. https://epfindia.gov.in/site_en/index.php. The labour force in 2017-2018 according to the IBEF was around 32 million in this sector. http://datatopics.worldbank.org/jobs/country/india. Hence the percent of people registered under EPF is roughly 19%, though the share of each part of the supply chain varies.

(d) The Eligible Turnover for textiles industry

Eligible Turnover for the industry = Total turnover of the textiles industry multiplied by the ratio of employees registered under EPF for the industry.

Total Turnover of the cotton Textiles industry = INR 83,312 cr (Yarn) + INR 3,72,031cr (Fabric) + INR 71,600 cr (Made-ups) = INR 5,26,943cr.

Eligible Turnover of the textiles industry = INR 5,26, 943 x 0.22 = INR 115.928 cr

(e) Calculate the rate of subsidy to the textiles industry

Using eligible turnover of the industry derived from (d), it is proposed to get a percentage of this eligible turnover which would result in an overall amount of subsidy to the textiles industry equal to the amount of export subsidies currently allocated for textiles.

This estimate for subsidy level = Export subsidy allocated to the textiles sector divided by the eligible turnover of the textiles industry

Total Export subsidy = INR 1738.5 cr

Total Eligible Turnover = INR 115,928 cr

Subsidy rate =1.5% using the formula above.

This is very close to the earlier subsidy rate of 1.6% of f.o.b. value of exports under MEIS.

Thus, using the concept of eligible turnover appears to yield almost the same percentage of subsidy as MEIS. It does allow in addition a small increase in the eligible turnover based subsidy to be similar to the applicable MEIS at present. Revenue neutrality will be maintained on average. Moreover it has the added advantage of an inbuilt incentive for increasing the coverage of employees under EPF. As the sector is decentralized and the government wants to move towards formalising the economy, the scheme based on eligible turnover (derived from EPF) will be in line with national objectives.

(f) **Eligible turnover for the firm**.

For an individual firm, the information required for calculating the eligible turnover will be the turnover for the firm, and the proportion of EPF employees to its total employees. Since average turnover for each of the three parts of the textiles value chain would differ, the relevant number of EPF employees must be multiplied by the average turnover per employee for the firm for different parts of the value chain of the industry (i.e. yarn, fabrics and made-ups).

Each firm submitting its application for the subsidy would have to provide proof of the number of EPF registered employees. It will also have to add its audited accounts specifying its turnover and employees.

In the short term however, there may be a disruption felt by those who do not have a significant part of their workers registered under EPF. In general, this would involve the small-scale sector. To give a breathing space and time for adjustment especially to the small-scale sector, it would be relevant to consider options that take account of the present operational characteristics of the sector and the currently available subsidy programmes that need to be phased out. Information from interviews and

feedback from stakeholders, as well as consistency analysis of different data components for the industry suggest that most of the small-scale sector and the unorganised sector exports not directly but through merchant exporters. A closer look is taken at the activities of the merchant exporters, and a separate scheme has been devised for them (see below).

It is noteworthy that the estimate for turnover per employee is likely to change with time. Therefore, it is proposed that a review of the relevant estimates be conducted every three to four years to determine a new basis, if required. This will build upon and keep improving the insights into the current exercise which would begin with the industry wide average calculated for the previous financial year. It would also help build a database on turnover and employment in the industry which at the present moment are only estimated.

Proposed Subsidy Scheme For Each Part Of The Supply Chain

This section proposes the subsidy levels for supporting different parts of the cotton textiles value chain. These proposals take into account the components which should be a focus for improving the competitive position of domestic textiles industry. These proposals are also based on feedback from the industry on areas which need particular attention. In general, the subsidy proposed is in terms of a percentage applied to eligible turnover.

For cotton, the schemes should focus on raising awareness about contamination and crop insurance for hedging against price fluctuations are schemes. Such schemes are already being operated by the government.

For Yarn, it is proposed that a subsidy rate of 0.75% be applied to the eligible turnover for the firm.
This subsidy rate is proposed on the following basis:
0.25% of eligible turnover, towards transportation of raw material.
0.5% of eligible turnover, towards supporting power costs.

For the fabric sector, it is proposed that 2% of eligible turnover or the MEIS rate proposed from time to time be given as subsidy. This is based on the following considerations:
The fabric sector should get a power subsidy of 1% of eligible turnover.
In addition, financial support equal to 0.5% of eligible turnover be provided for product development, brand development and R and D subsidy to improve the competitiveness of this sector.
An additional subsidy of 0.5% of eligible turnover is proposed for enterprises meeting ISO 14000 standards and the concomitant environmental costs.

For the made up sector**,** a subsidy equal to 4% of eligible turnover is proposed.
For this sector, an employment subsidy of 2% is proposed for this segment, which is a significantly labour intensive part of the textiles industry.
In addition, a subsidy of 2% is proposed for brand development for made-ups, an activity which in its orientation is a form of R&D but has a far more immediate impact on improving market opportunities.

Calculating EPF percentages

It is to be noted that the proportion of EPF employees is likely to be higher for yarn than other parts of the supply chain as this is a highly mechanised part of the value chain. Since importers of textiles and clothing require that workers be registered for social schemes such as EPF, an approximate method of determining the proportion of EPF registered employees in each part of the value chain could be to link the estimate to the proportion of employees in the enterprises in the organised sector or those which export their products. Feedback from interviews and stakeholder discussions suggest that nearly 30% of the domestic output of yarn is exported, and nearly 80% of the employment from export units is covered by EPF. Based on this a reasonable working proposition is likely that about (0.3x0.8), i.e. 24% of the employees under this sector would be under EPF. Rounding this off to 25%, the initial eligible turnover will be determined for the yarn sector on this basis. This estimate would be examined in terms of its consistency with other information, to assess the validity of the results emerging from this analysis.

In the fabric sector, more than 95% of the production of grey cloth comes from small scale units in the unorganised sector. Also according to the latest data only 4.1% of the annual turnover is exported.[84] On the basis of the assumptions given in the footnote, the percentage of EPF employees is this part of the supply chain works out to roughly 5%

For the made-ups sector around 50% of the output is exported and around 90% EPF coverage is expected in the export oriented sector. Thus it is expected that around 45% of the employment in this sector is likely to be EPF covered.

Consistency Check of derived EPF estimates

While the analysis has used reasonable estimates, there is a need to carry out a consistency check of the estimates derived. The methods of distributing the EPF accounts results in around 0.45 million in the yarn sector, about 0.9 million in the fabric sector, and about 3.6 million in the made-ups sector. This adds up to 4.95 million EPF employees. This works out to around 68% of the total EPF registrations under textiles. As cotton textiles account for nearly 70% of total textiles, this figure of nearly 70% EPF registrations is roughly consistent with employment levels.[85]

Calculating the subsidy of different parts of the value chain

Over time, as the data is collected based on the implementation of the subsidy regime, more details on the actual number of EPF accounts and data on turnover and employment from firms will be known. The estimates used for the assessment of the proposed subsidy regime suggest that revenue neutrality will

[84] The total exports of cotton fabric was roughly INR 15,484 cr using an exchange rate of INR 70 to a USD. The total turnover of cotton textiles as shown above was INR 3,72,031cr. Hence only 4.1% of the total output is exported. Even assuming that large integrated mills have 100% employment under EPF even if they sell to domestic area the total EPF accounts would be (0 .04x100+1% of total employment in the domestic market) which is equivalent to roughly 5% of total employment. This is premised on the fact that nearly 95% of the total employment in the fabric industry is in the informal sector. Even when formal sector finishes products, grey cloth mostly comes from the informal sector.

[85] http://texmin.nic.in/sites/default/files/Report_NCAER_CITI_nmcc_20091001.pdf

broadly be maintained and the situation after implementation is likely be similar to the present situation for MEIS (see Table 25 below).

Table 25: Comparison of support to Manufacturers under the old and new scheme

Category	Total Turnover of Manufacturing Enterprises[86]	Percentage EPF employees[87]	Total Eligible Turnover	Subsidy percentage	Proposed Subsidy amount	MEIS[88]
Cotton Yarn	56,045	25	14,380	0.75	108	0
Cotton Fabrics	3,70,231	5	18,511	2.0	370	169
Made-ups	71,600[89]	40	26,230	4.0	1053	1149
Total					1531	1318

Source**: Textiles Commissioner's Office, and calculations using the methodology described above**

Calculation of subsidy to each firm

The analysis at firm level begins with the made-ups sector, as it presently is provided the largest percentage subsidy (4%) under the MEIS.

(a) Made-ups

For the eligible turnover based subsidy estimate, each firm's subsidy would be calculated on the following basis:

$$\frac{\text{Total Turnover}}{\text{Total Employment}} \times \text{Total number of EPF employees} \times 0.04 \leq \text{Current level of MEIS for one year}$$

The sign "≤ " above shows that in the proposed subsidy regime, the level of subsidy to be provided in place of MEIS would be capped for one year (or maximum two years) at the actual level of MEIS received by the firm. Without linking the subsidy to exports, the Government could put a cap or ceiling for the firm level subsidy at the level which the firm received its MEIS.

An exception would be made for yarn, for which a subsidy is proposed.

After one year of implementation, the new textiles firms established could also be part of the scheme, with "eligible turnover" used as a basis for their subsidy. This would create a possibility for the Government to stabilise the new subsidy regime. Subsequently, the Government could review the entire scheme every three to four years.

The example below is from a big firm. The data used is based on the actual performance: of the firm

[86] These figures are based on Textiles Commissioners figures for cotton yarn and textiles from Table 21. For the made-ups sector it is based on SIMA's figure of turnover for made-ups from Table 21. SIMA's figures have been divided by 2 to get cotton made-ups.

[87] These figures are based on the overall industry percentage adjusted for the share of formal and informal sector.

[88] Calculate on the basis of export figures made available by DGCIS and the assumption that 60% of the total exported for yarn and fabrics are from manufacturing enterprise whereas 80% of the made-ups exported are from manufacturing enterprises.

[89] Figures derived from Table 23 by multiplying the USD billion figures by 70 and dividing by 100 to get INR cr.

Total Turnover of Firm = INR 555cr
Total Employment = 3000
Total EPF accounts = 2700
Total Exports = INR 485 cr

Hence total subsidy under the new scheme based on eligible turnover would be:

555 ÷3000×2700×0.04=20

The MEIS subsidy entitlement for this firm was 485x0.04, i.e. INR 19.4 cr. This is very close to INR 20 cr, based on eligible turnover.

Fabrics

Each Firm's subsidy would be calculated on the following basis:

Total Turnover X Total number of EPF employees X 0.02 ≤ Current level of MEIS for one year
Total employment

The example below is from a small firm, based on its actual performance:

Total Turnover = INT 80cr
Total Employment = 500
Total EPF accounts = 10

Hence subsidy would be

80÷500×10×0.02= INR 3.2 lakhs

Subsidy received under MEIS for grey fabrics by the firm was INR 3.2 lakhs

In this case the two subsidy amounts are identical.

For fabrics too, the first year of implementation could focus only on the existing firms, and new firms could be included from the second year onwards.

Treatment of Merchant Exporters and addressing subsidies to small scale

There are three kinds of situations for merchant exporters. One, is those who provide all finance and inputs to the small-scale producers, but they own the product and sell them to the markets where they get buyers. The second is the situation where the small-scale producers sell their product to a merchant who distributes the product in export markets. The third is a situation where the small-scale producer seeks the service of a merchant exporter as an intermediary to distribute his product in export markets. Producers may take funds from the distributor, or even seek other services like expediting the processes for sales, but the product is owned by the producer and not the distributor. The latter provides only services and gets paid for them.

In the first case, the small-scale producers are the service providers. The service they provide is classified under the United Nations Central Product Classification (CPC) under code 88 as "Manufacturing services on physical inputs owned by others". The WTO has been guided by the CPC classification in the negotiation and scheduling of commitments under the General Agreement on Trade in Services (GATS). In the second case, the merchant or the distributor is a service provider. The category of services they provide is classified in the CPC under code 611 as "Wholesale trade services except on a fee or a contract basis[90]. The third case would fall within the CPC under code 612 as "Wholesale services on a fee or a contract basis"[91]

Under WTO, services are not subject to specific subsidy disciplines. However, the scope of the General Agreement on Trade in Services (GATS) covers any measure that affects trade in services, including subsidy measures. The implication being that any subsidy measure should be consistent with GATS rules on non-discrimination. That is MFN and national treatment. In the case of the latter, it applies only where a commitment is undertaken in the sector concerned. India has no commitments either in Manufacturing services or wholesale services. [92]Therefore, a subsidy to services or service suppliers that are oriented even towards exports markets would not be in consistent with India's obligations under the WTO, unless it is determined that the subsidy is passed on to the good, i.e. textiles. The key point is that the product is owned by the small-scale producer and the merchant is only a service supplier. In this case, a subsidy to the service or the service supplier could be determined based on the value added by the service. This information would be available through the GST database of the Government of India. As the number of small-scale producers is much larger than the number of wholesale trade services providers which are the distributors, it may be easier to provide subsidies under CPC classification 611 and 612.

In the other case where the merchant owns the product, subsidy could be provided to the merchants based on eligible turnover, taking account the EPF registered workers in the value chain. The subsidy could be shared between the merchant and the small-scale service provider based on the condition specified in Customs Notification No. 50/2017 dated 30.07.2017. This states that: "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

[90]**Section 611 Wholesale trade services, except on a fee or contract basis**

This group includes:

- services of wholesalers that purchase goods in large quantities and sell them to other businesses, sometimes after breaking bulk and repacking the product into smaller packages

[91]**Section 612 Wholesale trade services on a fee or contract basis**

This group includes:

- services of commission agents, commodity brokers and auctioneers and all other types of traders who negotiate wholesale commercial transactions between buyers and sellers for a fee or a commission
- services of electronic wholesale agents and brokers
- services of wholesale auctioning houses

[92] GATS/SC/42, dated 15 April 1994.

merchant exporter."[93] This data could be used to distribute subsidies between merchant exporters and manufacturers.

For subsidies under CPC classification 611 and 612, the value of the service would be determined on the value added by the merchant exporter. This information would be available through the GST database of the Government of India. Table 26 below calculates the subsidies under the new and old regime.

Table 26: Subsidies for Traders under old and new schemes

Product	F.o.b. value of exports by Traders[94] (INR cr)	Value Added percentage[95]	Total value added	Subsidy as percent[96]	Proposed Total subsidy	MEIS
Yarn	9590	3	288	15	43.2	0
Fabric	6055	5	303	35	106.	121
Made-ups	7301	7	511	50	255	292
Total					404.2	413

Source: **Calculations by IKDHVAJ**

Given the GST and the IGST data available with trading services agents it is now possible to net out their value added. Interviews with firms revealed that their value added could range from 3.5 to over 25% depending on the nature of the trading firm. Operational assumptions of 3, 5, and 7% of value added have been used in the calculation above.[97]

The total subsidies to the yarn sector for traders is proposed to be 15% of value added, for fabrics 35% and 50% for made-ups. While these numbers may appear to be high, it is to be noted that these subsidies are to be provided only on the service component of the exports and not on the f.o.b. value of exports. The differing percentage therefore is to maintain revenue neutrality and to ensure that the sector gets at least as much support as it got under MEIS.

Calculation of firm level subsidy for traders
Wholesale traders of Fabric

Subsidy to be given to merchant exporters

X% of value added in exports ≤ Existing MEIS for one year

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

[94] Stakeholder meetings organised by TEXPROCIL showed that 40% of the yarn and fabric were exported by traders and 20% of the made-ups were exported by traders.

[95] Ibid. This consensus on the value-added percentages, i.e 3,5, and 7 was arrived through discussions, including those at the stakeholder meetings organised by TEXPROCIL.

[96] These figures have been derived on the basis on the position of the product in the value chain. The lower the product in the value chain the lower is the requirement of the trader to provide services and vice versa.

[97] These figures were arrived at through stakeholder consultations where there was a consensus that this would be the value added through the supply chain by merchant exporters providing their services under CPC classification 611 and 612.

Let x = 35% as shown above in Table 26.

Average value added e.g. of Firm 1, a large firm was 6% through GST figures.

If x is 35% then 0.06x0.35 would be the eligible subsidy which would be 0.021 of f.o.b. value of the export of the firm. Thus the subsidy in this case is actually the same as earlier under MEIS.
If a firm's value added is much higher than 6%, it would nevertheless get a subsidy of only 0.02% of the f.o.b. value of the firm's exports.

EPCG Scheme	2014-15 (Total – All Sectors)	2014-15 (Textiles & Clothing Sector)	2015-16 (Total – All Sectors)	2015-16 (Textiles & Clothing Sector)	2016-17 (Total – All Sectors)	2016-17 (Textiles & Clothing Sector)

Wholesale traders of Made-ups

Subsidy to be given to Merchant Exporters:
X% of value added in exports ≤ Current level of MEIS

Let x be = 50%

Data on one firm that is available shows that the value added was around 7%.

Using this 0.5 x 0.07 would be 0.035 of the f.o.b. value of exports, which is still below 0.04 times f.o.b. value of exports currently.

By postulating percentages less than the MEIS and putting a cap of the amount of MEIS there is a built in incentive to increase the value added by traders. This would lead to an increase in markets, diversification of exports, and improvement in quality of products.

Replacing Export Promotion Capital Goods (EPCG)

The total subsidy under this scheme was roughly INR3100 cr. See table 27. Export Promotion Capital Goods (EPCG) Scheme of FTP allows import of capital goods at zero customs duty. These imports are subject to an export obligation of 6 times the duty saved to be fulfilled in 6 years' time. The export obligation is over and above the annual average exports made by the applicant in the past three years.

Table 27: Issuance of EPCG authorizations

Number of Authorization	20,331	8,742	22,544	10,542	23,101	10,206
Duty Saved Amount (Rs. Crore)	12,988	2,651 (20.40%)	12,619	3,198 (25.35%)	13,471	3,230 (24%)

Source**: DGFT**

India's EPCG scheme has been held to be an export subsidy by several trading partners including the USA and the EU in CVD investigations. This is due to the provisions of WTO Agreement on Subsidies and Countervailing Measures (ASCM) wherein capital goods are not included in the list of 'inputs consumed' for which a refund of indirect duties and levies would not be considered as an export subsidy. Further, since the exemption from customs duty is linked with export obligation under the EPCG scheme, it is contingent on exports and thus suffers from the vulnerability to be held as an export subsidy under the WTO Subsidies Agreement (see Annex 6).

With India having achieved export competitiveness in Textiles & Apparel under Article 27.5 of ASCM, it is not entitled under WTP provisions to provide export subsidies (see Annex 7). it is imperative that an alternative to EPCG scheme is considered for Textiles sector which is compliant with WTO's ASCM.

The EPCG replacement Scheme

Instead of linking duty free imports to an export obligation, a list should be prepared for the capital goods not currently produced in India but which are vital for modernisation of the sector. These products including those on the ATUFs list should be made duty free. The list should be revised every three years. If the domestic industry catches up the applied tariffs could be revised upwards.

At present, the yarn sector is a major beneficiary of EPCG scheme. It is proposed that the government continue this scheme. However instead of linking it to export performance as at present, it should just eliminate duties on machines important for modernization of this sector. This policy could also be reviewed after three to four years. For the processing sector, it is proposed that machinery for both in-house and stand-alone processing units, be allowed to be imported duty free. In general, machinery for this sector is not produced domestically.

Scheme for SEZs and EOUs

The thrust of the US's WTO challenge on SEZ units and EOUs is going to be primarily on two fronts. The first one is the income tax concessions granted to units operating under these two schemes. The second one is going to be the duty free import of capital goods. This is on the same footing as the challenge to the EPCG scheme. As matters stand today, there are very few textile units operating in SEZs or as EOUs. Also most of these have either fully utilized the benefits of income tax concession or are nearing the end of the concession period. Since India's commitment to phase out export subsidies from the textile sector, if given effect to, can only be prospective and not retrospective (as is the case in the WTO),

withdrawing the income tax benefits or announcing that duty free imports of capital goods will no longer be allowed, should not pose a problem for the existing units under the two schemes.

In addition, in place of the income tax reduction scheme for SEZ, a general income tax remission/reduction scheme be introduced for textiles industry in the country. This scheme should be for new or greenfield investment subject to at least 50 workers per new unit.[98] For new (greenfield) investment, based on the corporate income tax (CIT) remission or reduction scheme in some other competitor countries discussed in Chapter 4, the CIT tax reduction scheme could be as follows for the first ten years of new investment, from the year when the unit becomes profitable (i.e. liable for CIT).

Table 28 : Proposed Reduction in CIT Rate for Textiles Industry

Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
100%	90%	80%	70%	60%	50%	40%	30%	20%	10%

Impact on the sector of introducing new subsidies

Using the GTAP model described in Chapter 2, the subsidies proposed above were reinstated after having been removed in the exercise above. The following results were shown by the model.

1. Exports from the Indian textile sector rise by 20.4%; they range between 19.2% and 21.4% for different destination countries.
2. Output from the textile sector in India rises by 5.5%;
3. Employment in the textile sector rises by 5.62% in both unskilled labour and skilled labour.
4. Cost of production of textile that gets exported falls by: 3.07%
5. Prices of textiles rise by 0.42% (while we may expect a larger rise in price due to the huge surge in demand, it rises less because of the cost reductions shown in 4 that push it downwards).
6. GDP rises by 0.18%.
7. National employment of unskilled labour rises by 0.44% and skilled labour rises by 0.27%.

The dramatic increases in the macroeconomic scenario shown above is indicative of the fact that the support schemes proposed above would more accurately address the competitiveness issues in the textiles industry than the MEIS has done so far. Hence the schemes could be considered as smart subsidies.

Implementation mechanism

The documents and process of providing the subsidies to the merchant exporter could be as follows:

- The Merchant Exporter be asked to submit the Bank realisation certificate and the GST certificate which specifies the price at which Textiles were procured.
- The Merchant Exporter should self-certify the services as the difference between procurement price and bank realisation price. Random checks by the DGFT could be carried out.
- This document with proper proof be submitted to the DGFT as this is a case of export subsidies on services.

[98] The definition of new unit or greenfield unit could be similar to, for example, the definition under the support scheme in Jharkhand for VAT refunds to new investment in textiles, apparel and footwear. See http://momentumjharkhand.com/wp-content/uploads/2016/09/Jharkhand-Textiles-Policy-2016.pdf

- The Merchant Exporter then be given a certificate of the subsidy entitlement which he/she could use to pay his direct and indirect taxes. These certificates will not be transferrable.
  For the manufacturing enterprises (including the case where the merchant owns the product), the documents required would be the EPF registration of employees. In addition its audited accounts showing the number of employees and its wage bill, as well as turnover, would be required. The number of employees registered for the whole financial year preceding the subsidy would be required for this purpose. This would need to be verified by the EPF ministry by the Textiles Commissioner's office. Upon verification the Textile Commissioner would issue a certificate similar to that mentioned above. The Textile Commissioner could delegate this authority to agencies such as TEXPROCIL which could do the job of verification and issuing the certificate for a small fee. Once this certificate is obtained, the firm could use it to pay its direct and indirect taxes.

Conclusion

The proposals outlined here are premised on the conversations with exporters and enterprises. Two kinds of proposals have been forwarded, one for merchant exporters and the other for manufacturing enterprises. In both cases the distribution of outlays for the different sections of the textiles sector would differ slightly but not significantly. The overall subsidy outlays are more or less the same. The difference with MEIS is explained by the different exchange rates which was operative in March 2018 and is applied now. The rationale for different kinds of subsidies are explained above. However, to simplify implementation it is suggested that flat rates be applied to each part of the value chain of textiles, both for enterprises and traders.

Lack of availability of consistent data was a major handicap in conducting a robust analysis. This Report has also used interviews and questionnaires with stakeholders to obtain primary data. It is suggested that in the next review, comprehensive data collection for the textiles sector be done using a questionnaire as a guide. As the Textile Commissioner's office has offices in every textile producing district through-out the value chain, this exercise could be performed by these offices in co-ordination with the industry. That exercise would give more comprehensive clarity to the direction of support and its need for creating a competitive stimulus over time.

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Annex 1: Exports and Sales to DTA from SEZs

Source: Ministry of Commerce, Department on SEZs

Chapter Wise Financial Year Wise Export Value in Rs. Crs.				
Chapter No	2015-16	2016-17	2017-18	2018-19 (April to June)
50	5.84	3.37	5.05	1.25
51	0.87	0.03	0.04	0.28
52	58.03	52.27	78.78	20.71
53	197.83	202.1	202.01	33.43
54	61.74	80.61	68.67	16.22
55	102.25	111.24	86.72	16.56
56	328.9	453.74	550.06	152.85
57	77.18	164.99	112.63	19.03
58	47.85	60.45	63.27	17.35
59	36.98	44.55	55.66	15.41
60	119.51	114.45	171.15	57.46
61	906.72	792.95	804.56	248.88
62	1074.7	785.24	662.12	192.6
63	1777.78	1123.3	1297.09	334.81
Total	4796.18	3989.29	4157.81	1126.84

Chapter Wise Financial Year Wise DTA Sale Value in Rs. Crs.				
Chapter No	2015-16	2016-17	2017-18	2018-19(April to June)
50	98	151.02	40.89	1.89
51	0.17	0.14	0.13	
52	17.9	24.47	37.39	3.58
53	150.19	178.62	280.8	43.83
54	87.52	132.17	234.86	86.42
55	206.99	179.03	151.99	27.34
56	48.56	67.92	81.06	26.56
57	3.51	4.19	3.72	0.43
58	15.16	14.13	18.54	6.32
59	11.77	16.43	12.27	5.35
60	18.55	7.5	62.42	12.35
61	35.41	34.01	98.6	33.8
62	14.29	20.51	60.12	20.57
63	391.32	462.6	398.68	125.43
Total	1099.34	1292.74	1481.47	393.87

Annex 2: 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 textiles, GTAP framework captures several products at HS-code (Harmonized Systems) six digit level. These products span over the two-digit chapters of 52, 53, 56, 57 and 63. In addition to textiles 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 of the textiles 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 textiles sector where as yarn is a major supplier to textiles sector. Any shocks to the textiles sector affects both the suppliers and users. Thus, the model captures the forward and backward linkages of the textiles sector with the rest of the economy in a comprehensive manner.

The complete list of HS codes captured by the model are listed below.

MADE-UPS

HS CODE	PRODUCT
520411	Cot Sew Thrd N Retail 85% Or More Wgt Of Cotton
520419	Cot Sewing Thrd N Retail Under 85% Wgt Of Cotton
520420	Cotton Sewing Thread, Put Up For Retail Sale
550810	Sew Thd Syn Stpl Fiber, Retail Or Not
550820	Sew Thd Art Stpl Fiber, Retail Or Not
560121	Wadding; Other Articles Of Wadding Of Cotton

560819	Knot Net Of Twne Mde-Up Fish Net Tex Mat Mmf Nesoi
560129	Wadding; Other Articles Of Wadding, Nesoi
560900	Art O Yrn Like Of Head 5404/5405 Twine O Cable Nes
570110	Carpets&Oth Tex Floor Covr,Wool/Fine Anml Hr,Knotd
570190	Carpets&Oth Tex Floor Covr,Oth Tex Materials,Knotd
570410	Textile Carpets, Felt, No Tuft, Tiles Sur Nov .3M2
570241	Carpets,Etc Of Wool/Fine Animal Hair,Pile, Made-Up
570242	Carpets, Etc Of Mmf Textile Materialss,Pile,Made-U
570249	Carpets,Etc Othr Tex Matrl,Pile,Made-Up,Not Tufted
630130	Blankets (Nt Elec) & Traveling Rugs Of Cotton
630221	Bed Linen, Printed, Of Cotton, Not Knit Or Crochet
630231	Bed Linen Nesoi, Of Cotton, Not Knit Or Crocheted
630251	Table Linen Of Cotton, Not Knitted Or Crocheted
630291	Toilet & Kitchen Linen Of Cotton Fabric Exc Terry
630520	Sacks & Bags Kind Used For Packing Of Goods Cotton

YARN

HS CODE	PRODUCT
520511	Cot Yarn, 85% Cot, Not Retail, Not Over 14 Nm, Su
520512	Cot Yarn, 85% Cot, No Retail, Ov 14Nm Not Ov 43Nm
520513	Cot Yarn, 85% Cot, No Retail, Ov 43Nm Not Ov 52Nm
520514	Cot Yarn, 85% Cot, No Retail, Ov 52Nm Not Ov 80 Nm
520515	Cot Yarn, 85% Cot, Not Retail, Over 80 Nm
520521	Cot Yrn N Swg Thrd > 85% Wgt Cot Sngl Yrn Cmb <14N
520522	Cot Yrn N Swg Thd > 85% Wt Cot Sng Yr Cm >14Nm <43
520523	Cot Yrn N Swg Thd > 85% Wt Cot Sng Yr Cm >43Nm <52
520524	Cot Yrn N Swg Thd > 85% Wt Cot Sng Yr Cm >52Nm <80
520526	Cot Yrn,Sng,Comb,>=85%Cot,Nt Retail, >80Nm & <94Nm
520527	Cot Yrn,Sng,Comb,>=85%Cot,Nt Retl, >94Nm & < 120Nm
520528	Cot Yrn,Sng,Comb,>=85%Cot,Nt Retl, >120Nm
520531	Cot Yrn N Swg Thd > 85% Wgt Cot Mlt/Cbl Yrn N >14N
520532	Cot Yrn N Sw To > 85% Wt Ct Ml/Cb Yr N >14Nm <52Nm
520533	Cot Yrn N Sw Td > 85% Wt Ct Ml/Cb Yr >43Nm <52Nm
520534	Cot Yrn N Sw Td > 85% Wt Ct Ml/Cb Yr > 52Nm <80Nm
520535	Cot Yrn N Swg Thd > 85% Wt Cot Ml/Cb Yrn > 80Nm
520541	Cot Yrn N Swg Thd >85% Wt Ct Ml/Cb Yr Cm N > 14Nm

520542	Ct Yr N Sw Td > 85% Wt Ct Ml/Cb Cmb > 14Nm & N > 4
520543	Ct Yr N Sw Td > 85% Wt Ct Ml/Cb Cmb > 43Nm & N > 5
520544	Ct Yr N Sw Td > 85% Wt Ct Ml/Cb Cmb > 52Nm & N > 8
520546	Cot Yarn,Mult,Cmbd,>=85%Cot,Nt Retl,>80Nm & < 94Nm
520547	Cot Yrn,Mult,Cmbd,>=85%Cot,Nt Retl,>94Nm & < 120Nm
520548	Cot Yrn,Mult,Cmbd,>=85%Cot,Nt Retl,> 120Nm
520611	Cot Yrn N Swh Thd <=14Nm
520612	3Ot Yrn N Sg T < 85% Cot Nrs Sg Yrn U F >14Nm <=43
520613	Cot Yrn N Sg T 43Nm <=52
520614	Cot Yrn N Sg T 52Nm<=80
520615	Cot Yrn N Sg T 80Nm
520621	Cot Yrn N Sg T < 85% Cot Nrs Sg Yrn C F < 14Nm
520622	Cot Yrn N Sg T < 85% Cot Nrs Sg Yrn C F > 14Nm<=43
520623	Cot Yrn N Sg T < 85% Cot Nrs Sg Yrn C F <=52
520624	Cot Yrn N Sg T < 85% Cot Nrs Sg Yrn C F> 52Nm <=80
520625	Cot Yrn N Sg T < 85% Cot Nrs Sg Yrn C F > 80Nm
520631	Cot Yrn Sg T
520632	Cot Yrn N Sg T14Nm<=43
520633	3Ot Yrn N Sg T43Nm<=52
520634	Cot Yrn N Sg T52Nm<=80
520635	Cot Yrn N Sg T 80Nm
520641	Cot Yrn N Sg T
520642	Cot Yrn N Sg T 14Nm/S Y
520643	Cot Yrn N Sg T 43Nm<=52
520644	Cot Yrn N Sg T 52Nm<=80
520645	Cot Yrn N Sg T 80Nm
520710	Cotton Yarn (N Swg Thd) Retail Sale 85% Or > Wt Co
520790	Cot Yrn N Swg Thd Rtl Sale Oth 85% Or > Wgt Cotton

FABRICS

HS Code	Product
520811	Wov Cot Fab, Unbl Pl Wv Nun 85% Cot Nov 100 G/M2
520812	Wov Cot Fab, Unbl Pl Wv Nun 85%Cot Ov100Nov200G/M2
520813	Wov Fab Cot Con >85% Wgt
520819	Wov Cot Fab, Unbl Wea Nesoi Nun 85% Cot Nov200G/M2
520821	Wov Cot Fab, Bl Pl Wov Nun 85% Cot Nov 100 G/M2

520822	Wov Cot Fab, Bl Pl Nu 85% Cot Ov100G/M2 Nov200G/M2
520823	Wov Fab Cot Con >85% Wgt
520829	Wov Cot Fab, Bl Wea Nesoi Nu 85% Cot Nov 200 G/M2
520831	Wov Cot Fab, Dye Pl Wv Nun 85% Cot Nov 100 G/M2
520832	Wov Cot Fab, Dye Pl W Nun 85% Cot Ov100Nov200G/M2
520833	Wov Fab Cot Con >85% Wgt >100G/M2 3-4Twl Dyed
520839	Wov Cot Fab, Dye Wea Nesoi Nu 85% Cot Nov 200 G/M2
520841	Wov Cot Fab, D Col Yn Pl Wv Nun 85% Cot Nov100G/M2
520842	Wov Cot Fab, Dc Yn Pl Wv Nun85%Cot Ov100Nov200G/M2
520843	Wov Fab Cot Wgt <=200G/M2 Twill Nun 85% Cot Yn Dc
520849	Wov Cot Fab, Dcy Wea Nesoi Nu 85% Cot Nov 200 G/M2
520851	Wov Cot Fab, Pr Pl Wv Nun 85% Cot Nov 100 G/M2
520852	Wov Cot Fab, Pr Pl Wv Nun 85% Cot Ov100Nov200G/M2
520859	Wov Cot Fab, Pr Wea Nesoi Nun 85% Cot Nov 200 G/M2
520911	Wov Cot Fab, Unbl Pl Wv Nun 85% Cot Ov 200 G/M2
520912	Wov Cot Fab, 85% Cot, Unb 3-Or4-Th Twill Ov200G/M2
520919	Wov Cot Fab, Unbl Wea Nesoi Nu 85% Cot Ov 200 G/M2
520921	Wov Cot Fab, Bl Pl Wv Nun 85% Cot Ov 200 G/M2
520922	Wov Cot Fab, 85% Cot, Bl 3-Or4-Th Twill Ov 200G/M2
520929	Wov Cot Fab, Bl Wea Nesoi Nun 85% Cot Ov 200 G/M2
520931	Wov Cot Fab, Dye Pl Wv Nun 85% Cot Ov 200 G/M2
520932	Wov Cot Fab, 85% Cot, Dy 3-Or4-Th Twill Ov 200G/M2
520939	Wov Cot Fab, Dye Wea Nesoi Nun 85% Cot Ov 200 G/M2
520941	Wov Cot Fab, Dif Col Yn Pl Wv Nu 85% Cot Ov200G/M2
520942	Woven Cotton Fabrics, Denim, 85% Cot Over 200 G/M2
520943	Wov Cot Fab, 85% Cot, Yn Dy 3-04-Th Twil Ov200G/M2
520949	Wov Cot Fab >85% Cot Yn Dy >200 G/M2 Oth Fabrics
520951	Wov Cot Fab, Pr Pl Wv Nun 85% Cot Ov 200 G/M2
520952	Wov Cot Fab, 85% Cot, Pr 3-Or4-Th Twill Ov 200G/M2
520959	Wov Cot Fab, Pr Wea Nesoi Nun 85% Cot Ov 200 G/M2
521011	Wov Cot Fab, Unbl Pl Wv Un85%Cot Mmf Nov200G/M2
521019	Wov Cot Fab, Unbl Wea Nesoi Un85%Cot Mmf No200G/M2
521021	Wov Cot Fab, Bl Pl Wv Un85%Cot Mmf Nov200G/M2
521029	Wov Cot Fab, Bl Wea Nesoi Un85%Cot Mmf Nov200G/M2
521031	Wov Cot Fab, Dye Pl Wv Un85%Cot Mmf Nov200G/M2
521032	Wov Fab Cot Con
521039	Wov Cot Fab, Dy Wea Nesoi Un85%Cot Mmf Nov200G/M2
521041	Wov Cot Fab Un85% Cotmmf Yndyed Plwv Nov 200 G/M2

521049	Wov Cot Fab, Dc Wea Nesoi Un85%Cot Mmf Nov200G/M2
521051	Wov Cot Fab, Pr Pl Wv Un85%Cot Mmf Nov200G/M2
521059	Wov Cot Fab, Pr Wea Nesoi Un85%Cot Mmf Nov200G/M2
521111	Wov Cot Fab, Unbl Pl Wv Un85%Cot Mmf Ov200G/M2
521112	Wov Cot Fab Un85% Cotmmf Unb 3-Or4-Th Tw Ov200G/M2
521119	Wov Cot Fab, Unbl Wea Nesoi Un85%Cot Mmf Ov200G/M2
521120	Woven Fabs Cotton, Lt85% Wt Cottn, Bleach, Plan Wv
521131	Wov Cot Fab, Dye Pl Wv Un85%Cot Mmf Ov200G/M2
521132	Wov Cot Fab Un85% Cotmmf Dy 3-Or4-Th Tw Ov200G/M2
521139	Wov Cot Fab, Dye Wea Nesoi Un85%Cot Mmf Ov200G/M2
521141	Wov Cot Fab 200G/M2

521142	Wov Cot Fab, Denim, Un 85% Cot Mmf Over 200 G/M2
521143	Wov Cot Fab Un85% Cotmmf Yn Dy3-Or4-Thtw Ov200G/M2
521149	Wov Cot Fab 200G/M2 Ot Fabrics
521151	Wov Cot Fab, Pr Pl Wv Un85% Cot Mmf Ov200 G/M2
521152	Wov Cot Fab Un85% Cotmmf Pr 3-Or4-Th Tw Ov200G/M2
521159	Wov Cot Fab, Pr Wea Nesoi Un85% Cot Mmf Ov200G/M2
521211	Wov Cot Fab Un85% Cot Nesoi, Unbl Nov 200 G/M2
521212	Wov Cot Fab Un85% Cot Nesoi, Bl Nov 200 G/M2
521213	Wov Cot Fab Un85% Cot Nesoi, Dyed Nov 200 G/M2
521214	Wov Cot Fab Un85% Cot Nesoi, Yn Dy Nov 200 G/M2
521215	Wov Cot Fab Un85% Cot Nesoi, Print, Nov 200 G/M2
521221	Wov Cot Fab Un85% Cot Nesoi, Unbl Ov 200 G/M2
521222	Wov Cot Fab Un85% Cot Nesoi, Bl Ov 200 G/M2
521223	Wov Cot Fab Un85% Cot Nesoi, Dyed Ov 200 G/M2
521224	Wov Cot Fab Un85% Cot Nesoi, Yn Dy Ov 200 G/M2
521225	Wov Cot Fab Un85% Cot Nesoi, Print Ov 200 G/M2
600621	Knit/Croct Fabs, Cotton, Unbleached/Bleached, Neso
600624	Knitted/ Crochet Fabrics Of Cotton, Printed, Nesoi

Annex 3 : Questionnaire

1. What is your firm's turnover and employment?
2. What is the proportion of exports in your total output?
3. What is the breakdown of main items of costs in terms of percentages, e.g. raw materials, labour, power, and other costs?
4. What are the subsidies available to you IN ADDITION TO the duty drawback scheme?
5. What is the breakdown of the total subsidy disbursed under various schemes to you in the last year:
    (a) Subsidy disbursed under MEIS.
    (b) Subsidy disbursed under the Export Oriented Units Scheme.
    (c) Subsidy disbursed under the Export Promotion Capital Goods Scheme.
    (d) Subsidy disbursed under the Special Economic Zones.
    (e) Subsidy disbursed to apparel under duty-free imports for exporters program.
    (f) Any other.
6. What is the level of employment both direct and indirect in your firm. Would it be possible for you to give me the number of females-males, fixed terms, overtime etc.
7. What are the wages paid, regular and over time. Apart from wages what are the extra costs?
8. What is the Capital and interest cost that you incur annually?
9. What is the depreciation period of your machines?
10. What is the payoff period of your machines?
11. How do you feel you are disadvantaged vis a vis other competing countries?
12. What do you think will improve your competitiveness?
13. What are the major areas where you think you need government support?
14. What are the forms of government subsidies that you have found easiest to access? WHICH AVAILABLE SUBSIDIES DO YOU NOT USE? ARE THEY DIFFICULT TO USE?
15. What are the problems that you have encountered in claiming various subsidies.

Other questions will arise in the course of our interaction with the exporting firms.

Annex 4: Subsidies in China's Development Plan for the Textile Industry (2016 to 2020)[99]

(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.

[99] We are grateful to Mr. Roy Malmrose, a senior official of USTR, for this translated text and several other translated material from China.

(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 collaborate 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 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: Examples of Funds Established By China That Directly or Otherwise Provide Support to Textiles

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[100]
- 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[101],
- 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

[100] 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.

[101] 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.

- 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)[102]
- The Northeast Old Industrial Base Foreign Trade Development Fund in Liaoning Province (to accelerate the development of export-oriented economy in Liaoning).

Annex 6: Relevant Provisions From WTO'S Agreement on Subsidies and Countervailing Measures

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) [103];

(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;

[102] 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

[103] 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.

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**.

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[104] 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.[105]** 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**.

[104] 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.

[105] 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.

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

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[106], whether solely or as one of several other conditions, upon export performance, including those illustrated in Annex I**[107];

(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.

[106] 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.

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

(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[108], 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 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.

[108] 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.

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 (of WTO 'sASCM)

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[109] or social welfare charges paid or payable by industrial or commercial enterprises.[110]

[109] 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.

[110] 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

(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).[111]This item shall be interpreted in accordance with the guidelines on consumption of inputs in the production process contained in Annex II.[112]

(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 (of WTO's ASCM)

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:

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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.

[111] 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).

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

(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**[113]: 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.

Annex 7: 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

[113] 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 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[114] per capita in constant 1990 dollars covering the three most recent years for which data are available (2014-2016)[115]; 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

[114] 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.

[115] 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.

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
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."